chorus aviation inc.

# First Quarter 2016 Management's Discussion and Analysis of Results of Operations and Financial Condition

May 12, 2016

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## 1 OVERVIEW

The financial and operating highlights for Chorus are as follows:

| Unaudited | Three months ended March 31, 2016 | 2015 | Change |
|---|---|---|---|
| Operating revenue ($000) | 320,550 | 375,101 | (54,551) |
| Operating expenses ($000) | 293,765 | 359,249 | (65,484) |
| Operating income ($000) | 26,785 | 15,852 | 10,933 |
| Net income (loss) for the period ($000) | 55,398 | (24,756) | 80,154 |
| Adjusted EBITDA[(1)] ($000) | 45,432 | 27,991 | 17,441 |
| Adjusted EBITDA,[(1)] excluding other items ($000) | 50,932 | 40,070 | 10,862 |
| Adjusted net income[(1)] ($000) | 14,760 | 8,921 | 5,839 |
| Adjusted net income,[(1)] excluding other items ($000) | 20,260 | 21,000 | (740) |
| Net income (loss) per Share, basic ($) | 0.45 | (0.21) | 0.66 |
| Adjusted net income per Share, basic[(1)] ($) | 0.12 | 0.07 | 0.05 |
| Adjusted net income,[(1)] excluding other items per Share - basic ($) | 0.17 | 0.17 | — |

1) This is a non-GAAP measurement. Refer to Section 17 – Non-GAAP Financial Measures.

Operating income for the three months ended March 31, 2016, compared to the same period 2015, increased by $10.9 million. This increase was driven by a $1.0 million contribution from the Voyageur operation while aircraft leasing operations under the CPA contributed an additional $5.3 million as a result of the addition of new Q400s in the fourth quarter of 2015 and the first quarter of 2016, combined with a change in the US dollar exchange rate. The remaining net increase of $4.6 million in operating income was primarily attributable to a net decrease in signing bonuses of $4.5 million and other expense reductions. In 2015 Chorus incurred a $10.0 million one-time signing bonus for the ratified collective agreement with its pilots, and in 2016 a $5.5 million one-time signing bonus was recorded related to the newly ratified collective agreement with its maintenance and engineering employees.

The $17.4 million increase in Adjusted EBITDA resulted from the operating income increase previously described and a quarter-over-quarter $6.5 million increase in depreciation and amortization expense. The increase in depreciation and amortization expense was related to a $3.5 million increase in depreciation and amortization attributable to Voyageur, the purchase of additional aircraft during the second half of 2015 and the first quarter of 2016 which accounted for $1.9 million, new finance leases accounted for a $0.7 million increase and major maintenance overhauls accounted for $0.4 million.

## 2 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 unaudited interim condensed consolidated financial statements of Chorus and the notes therein for the three months ended March 31, 2016, the audited consolidated financial statements of Chorus for the year ended December 31, 2015, Chorus' annual MD&A dated February 18, 2016, and Chorus' Annual Information Form dated February 18, 2016. 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 May 12, 2016.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 18 – 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 18 - Risk Factors. Examples of forward-looking information in this MD&A include the discussion of the rates payable pursuant to the CPA in Section 12 - Critical Accounting Estimates, and the 2016 outlook discussion in Section 15 - 2016 Outlook. The forward-looking statements contained in this discussion represent Chorus’ expectations as of May 12, 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.

## 3 THE CHORUS BUSINESS

Chorus is a holding company incorporated on September 27, 2010 pursuant to the *CBCA*, with various aviation interests including Jazz and Voyageur. Chorus continues to focus on cost control and sustainable cost reduction and efficiencies under the CPA with Air Canada; diversification and growth of Adjusted EBITDA by leveraging Chorus' aviation expertise; and enhancing Shareholder value through improved liquidity and payment of dividends.

**Jazz**

In Canada, Jazz operates the largest regional airline and the third largest airline based on passengers carried. Jazz is party to the CPA with Air Canada, under which Air Canada purchases the capacity of certain specified aircraft operated by Jazz under the Air Canada Express brand on routes specified by Air Canada. Under this agreement, Jazz is required to provide Air Canada with the capacity of the specified aircraft, all crews and applicable personnel, aircraft maintenance, airport, flight operations and general overhead support for such flights. Air Canada determines routes and controls scheduling, sets ticket prices, determines seat inventories, and performs marketing and advertising for these flights. Air Canada bears all of the commercial risk, retains all revenue derived from the sale of seats to passengers and cargo services, and pays Jazz for the capacity provided. The CPA is in effect until December 31, 2025.

Through Jazz's operations, Chorus provides a significant part of Air Canada's domestic and transborder regional network to 56 destinations in Canada and 15 destinations in the United States, using 110 Covered Aircraft as at March 31, 2016. In addition, Jazz also provided airport services at 46 airports in Canada and the United States as at March 31, 2016.

Jazz earns revenue under the CPA in four ways:

1) Controllable Revenue
2) Fixed fees
3) Performance Incentives
4) Aircraft leasing

Under the CPA Chorus is paid Controllable Revenue rates, based on Controllable Costs, using variables such as Block Hours, Flight Hours, cycles and passengers carried, as well as certain variable and fixed aircraft ownership rates and fixed rates.

Chorus is compensated by the industry standard approach of fixed fees. There are two fixed fees which establish the minimum level of compensation under the CPA: Fixed Margin and 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.

Performance Incentives are available for achieving established performance targets 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. Annually these aircraft and engines currently generate a cash margin (after consideration of debt servicing charges) of approximately 20%.

Jazz incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

Controllable Costs include costs such as salaries,wages and benefits, general overhead and aircraft maintenance, materials and supplies. 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.

| Controllable Costs | Operating expense line | Rate Period |
|---|---|---|
| Crew wages & benefits[1] | Salaries, wages and benefits | 11 Years |
| All other salaries, wages and benefits[2] | Salaries, wages and benefits | Annually |
| Depreciation and amortization | Depreciation and amortization | 3 years |
| Aircraft maintenance, materials and supplies | Aircraft maintenance, materials and supplies | Annually |
| Chorus Q400s leased through CPA | Aircraft rent | Lease term |
| Third party operating leases | Aircraft rent | 3 years |
| Air Canada & subsidiary leases to Chorus | Aircraft rent | 3 years |
| All other terminal handling services | Terminal handling services | Annually |
| Other [3] | Other | Annually |
| **Pass-Through Costs [4]** | **Operating expense line** | |
| Third party food and beverage costs | Food, beverage and supplies | - |
| Airport and navigation fees | Airport and navigation fees | - |
| Third party ground handling | Terminal handling services | - |
| Aircraft parking | Other | - |
| Interrupted trips & baggage delivery | Other | - |
| Station supplies for processing passengers | Other | - |
| Third party facilities | Other | - |

(1) Adjusted for schedule efficiency, Block Hours, regulatory changes and pilot flow.
(2) Reset annually, subject to certain conditions.
(3) Including but not limited to such costs as crew variable expense, professional fees, travel, training, etc.
(4) Billed monthly to Air Canada.

## Value Drivers of the CPA

Chorus believes the CPA delivers Shareholder value by:

- Providing a long-term horizon of predictable compensation levels that are anticipated to support the current dividend and future investments;
- Aligning the interests of Chorus and Air Canada, and strengthening the relationship;
- Promoting Chorus' market competitiveness through cost reduction initiatives such as the modernization of the Jazz fleet and the ability to flow senior pilots to Air Canada;
- Securing long-term market competitive labour agreements with Jazz pilots, flight attendants, dispatch and maintenance employees until 2025;
- Reducing reliance on the Fixed Margin and Infrastructure Fees per Covered Aircraft through growth in the cash margin generated by aircraft leasing under the CPA; and
- Securing a solid foundation from which to grow and diversify Chorus' group of companies.

Outside of the CPA, Jazz has a dedicated, standalone charter fleet and has the ability to offer airline operator services such as ground handling, dispatching, maintenance, repair and overhaul services, flight load planning, training and consulting.

**Voyageur**

Based in North Bay, Ontario, Voyageur Aviation Corp. is the parent company of Voyageur Airways and Voyageur Aerotech.

Voyageur Airways is a Transport Canada approved air operator and provides specialized contract flying operations to Canadian and international customers in four primary segments: ad-hoc charter services; ACMI operations; aeromedical operations; and special flying missions. The ACMI contracts involve medical, logistical and humanitarian flights for customers comprised primarily of government entities and international non-governmental organizations. It also operates a parts sales division offering parts for regional aircraft.

Voyageur Aerotech is a maintenance, repair and overhaul provider that offers specialized engineering and maintenance services. As a Transport Canada approved maintenance organization and design approval organization, Voyageur Aerotech provides in-house engineering design and certification services for all levels of aircraft to international and Canadian clients. Voyageur Aerotech is also an approved maintenance organization with the United States Federal Aviation Administration and the European Aviation Safety Agency. Voyageur Aerotech activities are also supported by its Transport Canada approval for the maintenance certification of aeronautical products. Its engineering services include general technical support, facilities maintenance activities and custom design solutions including supplemental type certificate approvals.

**Recent Business Developments**

On February 3, 2016, Chorus purchased a King Air 200 from a third party. The purchase price, including modifications, was $2.8 million which was paid from cash on hand.

On each of February 11, 2016 and March 31, 2016, Chorus took delivery of one Q400 and drew EDC financing for 80% of the total purchase price. The term loans are repayable by Chorus to EDC in semi-annual instalments of approximately US$1.0 million each, mature in February and March 2028 and are each secured primarily by one Q400 and two PW150A engines.

On each of February 18, 2016, March 15, 2016 and May 10, 2016, Chorus began leasing one Q400 in connection with the agreement reached with Air Canada on September 28, 2015 to add ten incremental aircraft to the CPA fleet, five of which were Q400s. These Q400s have been acquired by Air Canada under operating leases from a third party, and are subleased to Chorus for CPA operations. Monthly lease payment amounts due to Air Canada are US$0.4 million.

On February 19, 2016, Chorus announced that Jazz's maintenance and engineering employees had ratified the tentative agreement reached on January 28, 2016. The term of the agreement expires on December 31, 2025.

On April 4, 2016, Chorus signed an agreement with EDC to provide a financing facility up to US$50.0 million. This new facility will allow Chorus to finance previously acquired aircraft, including one Dash 8-100, two Dash 8-300s, two King Air 200s, and three CRJ200s, which are not part of the CPA Covered Aircraft. This facility will also be used to finance any refurbishment work required on the aircraft to operationalize them for deployment. The initial draw down of the facility is expected to be approximately US$17.0 million in the second quarter of 2016. The facility may also be used for the purchase of future aircraft and engines, as commercial opportunities arise.

On April 26, 2016, Chorus announced that it had signed a firm purchase agreement for five CRJ900s with Bombardier. The order also includes purchase rights for an additional five CRJ900s. Once delivered, the five firm-ordered aircraft will be operated by Jazz under the Air Canada Express brand pursuant to the CPA. Based on the list price of the CRJ900s, the firm order is valued at approximately US$229.0 million and could increase to US$467.0 million should Chorus exercise all its purchase rights. Chorus has received commitments from EDC to finance up to 80% of the net purchase price for the five firm orders. The new CRJ900s will be Covered Aircraft and generate leasing revenue under the CPA with terms and economics similar to those of the Q400s currently generating leasing revenue under the CPA.

Additionally, with Bombardier's technical assistance, Jazz will reconfigure its current 16 CRJ705s into CRJ900s with 76 seats. Jazz will also reconfigure 21 Q400s currently in its fleet with an additional four seats to increase each aircraft's passenger capacity to 78. All 37 of the aircraft to be reconfigured are currently operated under the Air Canada Express brand pursuant to the CPA.

During the second quarter of 2016 Jazz will begin the transition of its heavy maintenance business to a separate division of Jazz, under a new Approved Maintenance Organization (AMO) certificate and a new business structure. The new division, to be named Jazz Technical Services, will focus on the heavy maintenance, repair and overhaul (MRO) of Bombardier aircraft. This division has secured its first new third-party heavy maintenance contract. This is a five-year agreement with Air Georgian to perform heavy MRO requirements for their fleet of CRJ100 and CRJ200 aircraft. The work will be accommodated within Jazz's existing three heavy maintenance lines and is expected to commence as early as this summer.

## 4 FIRST QUARTER ANALYSIS

**Revenue**

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Three months ended March 31,<br>2016<br>$ | <br>2015<br>$ | <br>Change<br>$ |
|---|---|---|---|
| Controllable Revenue | 189,593 | 197,970 | (8,377) |
| Aircraft leasing revenue under the CPA | 23,206 | 16,032 | 7,174 |
| Fixed Margin and Infrastructure Fee per Covered Aircraft | 27,418 | 27,405 | 13 |
| Incentive revenue | 5,700 | 5,643 | 57 |
| CPA Pass-Through Revenue | 56,867 | 123,362 | (66,495) |
| Charter and other contract flying revenue | 11,245 | 1,109 | 10,136 |
| Passenger revenue | 314,029 | 371,521 | (57,492) |
| Other revenue | 6,521 | 3,580 | 2,941 |
| | 320,550 | 375,101 | (54,551) |

Operating revenue decreased from $375.1 million to $320.6 million, representing a decrease of $54.6 million or 14.5%.

**Controllable Revenue**

Controllable Revenue decreased by $8.4 million or 4.2%. Rate decreases under the CPA, mainly related to lease returns and other cost reductions, such as flight and cabin crew, resulted in a $8.7 million decrease in the quarter. Decreased CPA Billable Block Hours accounted for a $6.5 million decline in Controllable Revenue. These decreases were offset by a change in the US dollar exchange rate which resulted in a $6.8 million increase in the quarter.

**Aircraft leasing revenue under the CPA**

Aircraft leasing revenue under the CPA increased by $7.2 million. The increase was related to a change in the US dollar exchange rate of $1.6 million and additional Q400s added in the fourth quarter of 2015 and in the first quarter of 2016 of $5.6 million. There were 28 Q400s in the fleet of Covered Aircraft as at March 31, 2016, compared to 21 Q400s as at March 31, 2015.

### Fixed Margin and Infrastructure Fee per Covered Aircraft

Based on the current Covered Aircraft as at March 31, 2016 compensation was $27.4 million for the first quarter of 2016.

### Incentive revenue

Incentives earned under the CPA increased $0.1 million or 1.0%. For the three months ended March 31, 2016, Chorus earned $5.7 million (2015 - $5.6 million) in performance incentives, or 96.7% (2015 - 96.7%) of the maximum available under the CPA.

### CPA Pass-Through Revenue

Pass-Through Revenue decreased by $66.5 million or 53.9%, from $123.4 million to $56.9 million. Effective November 1, 2015, compensation for aircraft fuel is no longer billed under the CPA. As well, effective January 1, 2016, Air Canada entered into a new commercial agreement with the YVR in connection with Jazz's CPA operations. YVR costs related to airport fees and certain terminal handling services, which are Pass-Through Costs under the CPA, are now paid directly by Air Canada pursuant to this new agreement. This change accounted for a $4.8 million decrease.

### Charter and other contract flying revenue

Charter and other contract flying revenue increased by $10.1 million. Contract revenue from the Voyageur operation accounted for $9.9 million of the increase.

### Other revenue

Other revenue increased by $2.9 million. Revenue from the Voyageur operation, which includes maintenance repair and overhaul and leasing accounted for $5.3 million; offset by decreased ancillary revenue and decreased sale of consignment inventory of $2.4 million.

### Expenses

| | Three months ended March 31, | | |
|---|---|---|---|
| (unaudited)<br>(expressed in thousands of Canadian dollars) | **2016**<br>**$** | **2015**<br>**$** | **Change**<br>**$** |
| Operating expenses | | | |
| Salaries, wages and benefits | 115,971 | 118,058 | (2,087) |
| Aircraft fuel | 819 | 63,222 | (62,403) |
| Depreciation and amortization | 18,647 | 12,139 | 6,508 |
| Food, beverage and supplies | 3,057 | 2,785 | 272 |
| Aircraft maintenance materials, supplies and services | 46,969 | 50,024 | (3,055) |
| Airport and navigation fees | 39,432 | 39,978 | (546) |
| Aircraft rent | 23,708 | 25,709 | (2,001) |
| Terminal handling services | 11,516 | 17,555 | (6,039) |
| Other | 33,646 | 29,779 | 3,867 |
| | 293,765 | 359,249 | (65,484) |

Operating expenses decreased from $359.2 million to $293.8 million, a decrease of $65.5 million. Under the CPA, effective November 1, 2015, aircraft fuel is no longer billed to Chorus. Additional information regarding operating expenses is provided below.

## Salaries, wages and benefits

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Three months ended March 31,<br>2016<br>$ | <br>2015<br>$ | <br>Change<br>$ |
|---|---|---|---|
| Adjusted salaries, wages and benefits | 107,528 | 103,230 | 4,298 |
| One-time signing bonuses | 5,500 | 10,000 | (4,500) |
| Stock-based compensation | 4,603 | 6,583 | (1,980) |
| Capitalized major maintenance overhaul labour | (1,660) | (1,755) | 95 |
| | 115,971 | 118,058 | (2,087) |

Salaries, wages and benefits decreased by $2.1 million from $118.1 million to $116.0 million. Adjusted salaries, wages and benefits increased $4.3 million primarily as a result of the Voyageur operation. In the first quarter of 2016, as part of the newly ratified collective agreement with its maintenance and engineering employees, Chorus incurred a $5.5 million one-time signing bonus, while in the first quarter of 2015 Chorus incurred a $10.0 million one-time signing bonus as part of the collective agreement ratified with its pilots. This accounted for a net decrease of $4.5 million. Stock-based compensation decreased primarily as a result of fluctuations in Chorus' share price.

## Aircraft fuel

Aircraft fuel cost decreased by $62.4 million from $63.2 million to $0.8 million. Costs for aircraft fuel incurred in CPA operations are no longer billed to Chorus effective November 1, 2015. Chorus still incurs fuel costs related to Jazz charters and Voyageur operations.

## Depreciation and amortization

Depreciation and amortization expense increased by $6.5 million from $12.1 million to $18.6 million. Depreciation expenses related to Voyageur were $3.5 million, and the purchase of additional aircraft during the second half of 2015 and the first quarter of 2016 accounted for $1.9 million. As well, depreciation associated with capitalized major maintenance overhauls increased depreciation expense by $0.4 million and new finance leases accounted for $0.7 million.

## Aircraft maintenance materials, supplies and services

Aircraft maintenance expense decreased by $3.1 million from $50.0 million to $47.0 million. Decreased Block Hours accounted for a $1.9 million decrease, fewer engine overhaul events accounted for a $1.2 million decrease, other maintenance costs decreased by $3.0 million and decreased cost of sales of consignment inventory accounted for $0.8 million. These decreases were offset by a change in the US dollar exchange rate on certain maintenance material purchases which accounted for a $2.2 million increase and the Voyageur operation accounted for a $1.6 million increase.

## Airport and navigation fees

Airport and navigation fees decreased by $0.5 million from $40.0 million to $39.4 million. Costs incurred at YVR by Chorus were $nil in the period compared to $2.3 million for the same period last year. This decrease was offset by rate changes as a result of changes in aircraft deployment of $1.8 million.

## Aircraft rent

Aircraft rent decreased by $2.0 million from $25.7 million to $23.7 million. The decrease was mainly due to the return of five CRJ200s in the second half of 2015 and four CRJ200s in the first quarter of 2016; offset by a change in the US dollar exchange rate.

## Terminal handling services

Terminal handling costs decreased by $6.0 million from $17.6 million to $11.5 million. Costs incurred at YVR by Chorus were $nil in the period compared to $2.5 million for the same period last year. In addition, deicing costs decreased by $2.2 million and decreased flying activity accounted for $1.3 million.

## Other

Other expenses increased by $3.9 million from $29.8 million to $33.6 million. The increase was due to increased costs from the Voyageur operation of $3.1 million and increased crew costs related to training and travel associated with the flow of pilots to Air Canada of $1.0 million. These increases were offset by general overhead decreases of $0.2 million.

## Non-operating income (expenses)

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Three months ended March 31,<br>2016<br>$ | <br>2015<br>$ | <br>Change<br>$ |
|---|---|---|---|
| Non-operating income (expenses) | | | |
| Net interest expense | (5,031) | (3,296) | (1,735) |
| Gain on disposal of property and equipment | 37 | 3 | 34 |
| Foreign exchange gain (loss) | 38,754 | (33,861) | 72,615 |
| | 33,760 | (37,154) | 70,914 |

Non-operating expenses decreased by $70.9 million from an expense of $37.2 million last year to a non-operating income of $33.8 million.

Net interest expense increased by $1.7 million. Interest expense related to long-term debt increased by $1.4 million due to a change in the US dollar exchange rate and new Q400 long-term debt, and $0.3 million related to interest on consideration payable.

The strengthening of the Canadian dollar for the three months ended March 31, 2016 contributed to a foreign exchange gain of $38.8 million, compared to a foreign exchange loss of $33.9 million in the same period of the previous year. The US dollar exchange rate at March 31, 2016 was $1.2987 while the US dollar exchange rate at December 31, 2015 was $1.3840. The US dollar exchange rate at March 31, 2015 was $1.2666 while the US dollar exchange rate at December 31, 2014 was $1.1601. These rates are based on the closing day rate from the Bank of Canada.

## 5 FLEET

The following table provides the total number of aircraft in Chorus' fleet as at March 31, 2016 and December 31, 2015.

| (unaudited)<br>**Aircraft** | **December 31, 2015** | **2016 Fleet Changes** | | **March 31, 2016** |
|---|---|---|---|---|
| | | **Additions** | **Removals** | |
| **Regional Jets** | | | | |
| CRJ200s | 28 | — | (4) | 24 |
| CRJ705s | 16 | — | — | 16 |
| **Turboprop Aircraft** | | | | |
| King Air 100s | 2 | — | (1) | 1 |
| King Air 200s | 1 | 1 | — | 2 |
| Dash 7-100s | 2 | — | — | 2 |
| Dash 8-100s | 34 | — | (1) | 33 |
| Dash 8-300s | 34 | — | — | 34 |
| Q400s | 27 | 4 | — | 31 |
| | 144 | 5 | (6) | 143 |

As at March 31, 2016, Chorus' fleet included 110 Covered Aircraft under the CPA (excludes three Q400s received during the first quarter of 2016 as these aircraft were not in operation as at March 31, 2016), 17 aircraft operated by Voyageur and five aircraft utilized for Jazz charter services.

On April 8, 2016, Chorus sold one King Air 100 that was not in service to a third party. In addition, during the second quarter of 2016, one additional King Air 200 was placed into service. On April 15, 2016, Chorus returned a CRJ200 to the lessor, this aircraft is included in the table above. As at March 31, 2016, Chorus had eight aircraft not in operation. These are included in the table above.

## 6 SUMMARY OF FINANCIAL RESULTS

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

| Unaudited | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 |
|---|---|---|---|---|---|---|---|---|
| **Chorus** | | | | | | | | |
| Total revenue ($000) | 320,550 | 357,368 | 412,157 | 400,055 | 375,101 | 401,298 | 432,576 | 417,836 |
| Net income (loss) ($000) | 55,398 | 12,512 | 6,320 | 31,411 | (24,756) | 11,338 | 11,252 | 36,498 |
| Adjusted net income(1) ($000) | 14,760 | 32,137 | 31,443 | 23,834 | 8,921 | 23,697 | 29,004 | 22,197 |
| Adjusted net income(1), excluding other items ($000) | 20,260 | 33,715 | 35,199 | 25.454 | 21,000 | 25,022 | 32,281 | 26,698 |
| Adjusted EBITDA(1) ($000) | 45,432 | 64,108 | 65,079 | 52,064 | 27,991 | 49,823 | 56,153 | 50,663 |
| Adjusted EBITDA(1), excluding other items ($000) | 50,932 | 65,686 | 68,835 | 53,684 | 40,070 | 51,148 | 59,430 | 55,164 |
| Net income (loss) per Share, basic ($) | 0.45 | 0.10 | 0.05 | 0.26 | (0.21) | 0.09 | 0.09 | 0.30 |
| Net income (loss) per Share, diluted ($) | 0.44 | 0.10 | 0.05 | 0.25 | (0.21) | 0.09 | 0.09 | 0.29 |
| Adjusted net income(1) per Share, basic ($) | 0.12 | 0.26 | 0.26 | 0.20 | 0.07 | 0.20 | 0.24 | 0.18 |
| Adjusted net income(1), excluding other items per Share - basic ($) | 0.17 | 0.28 | 0.29 | 0.21 | 0.17 | 0.21 | 0.27 | 0.22 |
| FTE employees (end of period)(2) | 4,412 | 4,445 | 4,473 | 4,467 | 4,132 | 4,130 | 4,216 | 4,320 |
| Number of Aircraft (end of period)(3) | 143 | 144 | 143 | 141 | 125 | 125 | 125 | 125 |
| **Jazz** | | | | | | | | |
| Departures | 56,601 | 61,650 | 68,842 | 65,190 | 59,983 | 62,535 | 68,532 | 65,539 |
| Block Hours | 81,517 | 87,617 | 97,135 | 90,362 | 85,691 | 87,957 | 96,168 | 91,032 |
| Billable Block Hours | 84,375 | 89,365 | 98,209 | 91,559 | 89,104 | 89,674 | 96,776 | 91,770 |
| Number of Covered Aircraft (end of period) | 110 | 116 | 120 | 120 | 122 | 122 | 122 | 122 |

(1) This is a non-GAAP measurement. Refer to Section 17 – Non-GAAP Financial Measures.
(2) Includes FTEs for Voyageur as follows: Q1 2016 - 268; Q4 2015 - 266; Q3 2015 - 273 and Q2 2015 - 283.
(3) In Q1 2016, Q4, Q3 and Q2 2015, number includes 17 aircraft for Voyageur 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 affected by seasonality. Seasonality also has little effect on the other lines of business operated by Chorus. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term.

## 7 LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations before net changes in non-cash balances, producing $41.6 million in the first quarter of 2016 compared to $20.6 million in the same period last year. At March 31, 2016, Chorus had $13.9 million in cash and $1.8 million of restricted cash (letters of credit), for a total of $15.7 million, a decrease of $18.8 million from December 31, 2015. During the first quarter of 2016, Chorus purchased two new Q400s and made deposits on Q400s of $48.2 million and drew EDC financing. Chorus also purchased a King Air 200 and made modifications to an existing Dash 8-100 for $3.7 million using cash on hand. At quarter end, Chorus had a commodity tax receivable of $15.7 million related to aircraft purchases, $9.5 million of which related to 2015. Chorus has subsequently received all of the $15.7 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 2 - Introduction, "Caution regarding forward-looking information" and Section 18 - 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. As of January 1, 2015 some expenses became Pass-Through Costs that were previously Controllable Costs, and some costs are now borne directly by Air Canada. As a result, there was an impact on timing of payments by Air Canada. Controllable Revenue is paid in advance on the first business day of the month. Pass-Through Revenue is paid on the 23rd of the month or the business day prior, if the 23rd is a non-business day. Effective November 1, 2015, revenue associated with fuel was eliminated with Air Canada paying for all CPA fuel directly. This change in fuel does not adversely impact Chorus' cash flow or minimum cash position. The reconciliation of Controllable Revenue is 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.

## Sources and uses of cash

The following table provides information on Chorus' cash flows for the three months ended March 31, 2016 and March 31, 2015.

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Three months ended March 31,<br>2016<br>$ | <br>2015<br>$ | <br>Change<br>$ |
|---|---|---|---|
| **Sources of Cash:** | | | |
| Cash provided by operating activities before net changes in non-cash balances related to operations | 41,648 | 20,643 | 21,005 |
| Net changes in non-cash balances related to operations | — | 3,741 | (3,741) |
| Long-term borrowings | 48,464 | — | 48,464 |
| Other | 141 | — | 141 |
| **Total sources** | **90,253** | **24,384** | **65,869** |
| **Uses of Cash:** | | | |
| Net changes in non-cash balances related to operations | (20,891) | — | (20,891) |
| Repayment of long-term debt and obligations under finance leases | (12,222) | (9,893) | (2,329) |
| Dividends | (14,667) | (13,548) | (1,119) |
| Additions to property and equipment | (60,547) | (10,443) | (50,104) |
| Other | — | (61) | 61 |
| **Total usage** | **(108,327)** | **(33,945)** | **(74,382)** |
| **Effect of foreign exchange on cash** | **(717)** | **3,101** | **(3,818)** |
| **Net change in cash during the periods** | **(18,791)** | **(6,460)** | **(12,331)** |
| **Cash – Beginning of periods** | **32,677** | **114,578** | **(81,901)** |
| **Cash – End of periods** | **13,886** | **108,118** | **(94,232)** |

### Sources of cash

Sources of cash for the three months ended March 31, 2016 were $90.3 million, an increase of $65.9 million. The increase was the result of long-term borrowings related to the acquisition of Q400s and a higher cash flow from operating activities.

### Uses of cash

Uses of cash for the three months ended March 31, 2016 were $108.3 million, an increase of $74.4 million. Capital expenditures were $60.5 million, compared to $10.4 million in the same period of 2015. The increase related to the purchase of aircraft (which consisted of two Q400s and one King Air 200), and increased expenditures for ongoing spare part replacements for the fleet, equipment and leasehold improvements. Additional uses of cash consisted of negative changes in non-cash working capital and increased payments of $2.3 million related to long-term debt and obligations under finance leases.

## Contractual obligations and other commitments

Please refer to Chorus' annual MD&A dated February 18, 2016 for information regarding Chorus' contractual obligations and other commitments. Except as noted below, there have been no material changes to debt during the three months ended March 31, 2016.

On February 11, 2016 and March 31, 2016, pursuant to its Q400 purchase agreement with Bombardier Inc., Chorus took delivery of two new Q400s and drew EDC financing in the amount of $48.5 million.

The majority of the following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at $1.2987. This exchange rate is the March 31, 2016 closing day rate from the Bank of Canada.

| *(in thousands of Canadian dollars)* | $ |
|---|---|
| No later than one year | 55,165 |
| Later than one year and no later than five years | 239,705 |
| Later than five years | 291,057 |
| | 585,927 |

Under its financing agreement with EDC (for both Q400s and related engines), the "Jazz Group" (comprised of Jazz, Jazz Aircraft Financing Inc. and Jazz Leasing Inc.) 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 March 31, 2016, 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 March 31, 2016, Jazz was in compliance with this covenant.

As additional security under the EDC financing agreements, the Q400 and related 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.

## Capital commitments

In connection with the CPA, 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 acquired eight Q400s as of March 31, 2016. Chorus is committed to spend an additional $123.9 million in 2016 related to the remaining five Q400s (US dollar amounts were converted to Canadian dollars at $1.2987. This exchange rate was the March 31, 2016 closing day rate from the Bank of Canada). Chorus has received commitments from EDC to finance up to 80% of the net purchase price for all firm 13 orders.

On each of May 5, 2016 and May 11, 2016, Chorus took delivery of one Q400 and drew EDC financing. The term loans are repayable by Chorus to EDC in quarterly instalments of approximately US$0.5 million each, mature in May 2028 and are each secured primarily by one Q400 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 $1.3 million, $18.6 million, $27.9 million and $13.3 million, respectively (US dollar amounts were converted to Canadian dollars at $1.2987. This exchange rate was the March 31, 2016 closing day rate from the Bank of Canada). Chorus has received a commitment from Air Canada to finance up to 80% of this anticipated cost.

**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 basis.

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Three months ended March 31,<br>2016<br>$ | <br>2015<br>$ | <br>Change<br>$ |
|---|---|---|---|
| Capital expenditures, excluding finance leases, aircraft acquisitions and ESP | 5,191 | 4,040 | 1,151 |
| Capitalized major maintenance overhauls | 4,389 | 3,046 | 1,343 |
| Aircraft acquisitions and ESP | 50,967 | 3,357 | 47,610 |
| Total capital expenditures | 60,547 | 10,443 | 50,104 |

**Shares**

At May 6, 2016, the issued and outstanding Shares of Chorus were as follows:

| (unaudited) | May 6, 2016 | December 31, 2015 |
|---|---|---|
| **Issued and outstanding Shares** | | |
| Class A Variable Voting Shares | 7,857,387 | 8,228,804 |
| Class B Voting Shares | 114,375,010 | 114,003,593 |
| **Total issued and outstanding Shares** | 122,232,397 | 122,232,397 |
| **Shares potentially issuable**<br>**Stock-based compensation plans** | 3,317,406 | 3,317,406 |
| **Total outstanding and potentially dilutive shares** | 125,549,803 | 125,549,803 |

On May 12, 2016, Chorus announced that its Class A variable voting shares and Class B voting shares will trade under a single stock symbol, CHR, on the Toronto Stock Exchange ("TSX") effective as of May 24, 2016. The Class A variable voting shares currently trade on the TSX under the stock symbol CHR.A. The Class B voting shares currently trade on the TSX under the stock symbol CHR.B.

**Dividends**

For the three months ended March 31, 2016, Chorus declared dividends of $14.7 million (2015 - $13.9 million). For the three months ended March 31, 2016, Chorus paid dividends of $14.7 million (2015 - $13.5 million).

## 8 OFF-BALANCE SHEET ARRANGEMENTS

Information regarding Chorus' off-balance sheet arrangements is disclosed in Section 11 of Chorus' annual MD&A dated February 18, 2016. There have been no material changes to Chorus' off-balance sheet arrangements from what was disclosed at that time.

## 9 RELATED PARTY TRANSACTIONS

As at March 31, 2016, 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.

## 10 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Chorus has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management monitors risk levels and reviews risk management activities as they determine to be necessary. Please refer to Section 13 of Chorus' annual MD&A dated February 18, 2016 for further discussion on interest rate risk, credit risk, liquidity risk and currency risk.

## 11 ECONOMIC DEPENDENCE

For a detailed description of the CPA with Air Canada please refer to Section 2 and Section 14 of Chorus' annual MD&A dated February 18, 2016.

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. 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 18 - Risk Factors).

## 12 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 2 – 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. Information regarding Chorus' critical accounting estimates is disclosed in Section 15 of Chorus' annual MD&A dated February 18, 2016. There are no changes regarding critical accounting estimates for the three months ended March 31, 2016, with the exception of those described below:

### Operating revenue

Under the CPA, Chorus and Air Canada are to re-set certain rates applicable to the year ending December 31, 2016. The new rates will be retroactive to January 1, 2016. The negotiation of these rates has not been completed. As a result, Chorus used interim rates for certain Controllable Costs to estimate CPA operating revenues during the three-month period ended March 31, 2016. Once the new rates are established, Chorus and Air Canada will reconcile amounts already recorded to those rates now under negotiation. Any upward or downward adjustment to CPA operating revenue will be made in the quarter in which the negotiations conclude. As such, Chorus' revenue is subject to judgement and estimate uncertainty. If the negotiated rates were to differ 1% from the current estimate being used, the amount of operating revenue recognized under the CPA in the quarter would change by approximately $1.7 million.

## 13 ACCOUNTING POLICIES

The significant accounting policies of Chorus are described in note 3 of the December 31, 2015 consolidated financial statements of Chorus. Please refer to note 3 of Chorus' consolidated financial statements for the year ended December 31, 2015 for information on new accounting standards and amendments not yet effective.

## 14 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 $14.4 million (2015 - nil) and Adjusted EBITDA of $4.5 million (2015 - nil) for the three months ended March 31, 2016.

An evaluation of the design and effectiveness of Chorus' DC&P and ICFR has been conducted by management, under the supervision of the President and Chief Executive Officer (CEO) and Executive Vice President and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO have concluded that, as of March 31, 2016, 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 designed appropriately.

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 first quarter of 2016 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 March 31, 2016, and Chorus' Board of Directors approved these documents prior to their release.

## 15 2016 OUTLOOK

The discussion that follows represents forward-looking information (refer to Section 2 - 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 345,000 and 355,000 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 18 - 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.

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Planned 2016<br>$ | Actual<br>Year to date<br>2016<br>$ | <br>Year ended<br>December 31, 2015<br>$ |
|---|---|---|---|
| Capital expenditures, excluding finance leases, aircraft acquisitions and ESP | 19,000 to 22,000 | 5,191 | 13,035 |
| Capitalized major maintenance overhauls | 16,000 to 19,000 | 4,389 | 24,029 |
| Finance leases | — | — | 19,479 |
| Aircraft acquisitions and ESP(1) | 344,000 to 360,000 | 50,967 | 199,877 |
| | 379,000 to 401,000 | 60,547 | 256,420 |

(1) Planned 2016 includes the acquisition of one King Air 200, seven Q400s, five CRJ900s and ongoing deposits for the Q400s and ESP. Planned 2016 aircraft acquisitions have been converted using a foreign exchange rate of $1.2987.

## 16 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.

## 17 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 and CPA advisory fees have been included within our definition of adjusted EBITDA, it is shown separately below to facilitate transparency and comparability.

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Three months ended March 31,<br>2016<br>$ | <br>2015<br>$ | <br>Change<br>$ |
|---|---|---|---|
| Net income | 55,398 | (24,756) | 80,154 |
| Add: | | | |
| Net interest expense | 5,031 | 3,296 | 1,735 |
| Income tax expense | 5,147 | 3,454 | 1,693 |
| Depreciation and amortization | 18,647 | 12,139 | 6,508 |
| **EBITDA** | **84,223** | **(5,867)** | **90,090** |
| Gain on disposal of property and equipment | (37) | (3) | (34) |
| Foreign exchange (gain) loss | (38,754) | 33,861 | (72,615) |
| **Adjusted EBITDA** | **45,432** | **27,991** | **17,441** |
| *Other items:* | | | |
| One-time signing bonuses | 5,500 | 10,000 | (4,500) |
| CPA advisory fees | — | 2,079 | (2,079) |
| *Adjusted EBITDA, excluding other items* | *50,932* | *40,070* | *10,862* |

## 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 and CPA advisory fees have been included within our definition of adjusted net income, it is shown separately to facilitate transparency and comparability.

| (unaudited)<br>(expressed in thousands of Canadian dollars, except per Share amounts) | Three months ended March 31,<br>2016<br>$ | <br>2015<br>$ | <br>Change<br>$ |
|---|---|---|---|
| Net income (loss) for the periods | 55,398 | (24,756) | 80,154 |
| Unrealized foreign exchange (gain) loss | (40,638) | 33,677 | (74,315) |
| **Adjusted net income** | **14,760** | **8,921** | **5,839** |
| **Adjusted net income per Share - basic** | **0.12** | **0.07** | **0.05** |
| *Other items:* | | | |
| One-time signing bonuses | 5,500 | 10,000 | (4,500) |
| CPA advisory fees | — | 2,079 | (2,079) |
| *Adjusted net income, excluding other items* | *20,260* | *21,000* | *(740)* |
| *Adjusted net income, excluding other items per Share - basic* | *0.17* | *0.17* | — |

## Adjusted Cash Provided by Operating Activities

Adjusted Cash Provided by Operating Activities is defined as cash provided by operating activities before net changes in non-cash balances related to operations less capital expenditures excluding finance leases, aircraft acquisitions and ESP. Management believes that this metric reflects the focus on strengthening Chorus' financial position for growth.

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Three months ended March 31,<br>2016<br>$ | <br>2015<br>$ | <br>Change<br>$ |
|---|---|---|---|
| Adjusted Cash Provided by Operating Activities before net changes in non-cash balance related to operations | 41,648 | 20,643 | 21,005 |
| Less: | | | |
| Capital expenditures, excluding finance leases, aircraft acquisitions and ESP | (5,191) | (4,040) | (1,151) |
| Capitalized major maintenance overhauls | (4,389) | (3,046) | (1,343) |
| | (9,580) | (7,086) | (2,494) |
| **Adjusted Cash Provided by Operating Activities** | **32,068** | **13,557** | **18,511** |

## 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.

| (unaudited)<br>(expressed in thousands of Canadian dollars) | Trailing twelve months ended<br>March 31,<br>2016<br>$ | <br>December 31,<br>2015<br>$ | <br><br>Change<br>$ |
|---|---|---|---|
| **Income before income taxes** | 142,938 | 61,091 | 81,847 |
| **Unrealized foreign exchange (gain) loss** | (3,467) | 70,848 | (74,315) |
| **Income before income taxes (and unrealized foreign exchange (gain) loss)** | 139,471 | 131,939 | 7,532 |
| Add: | | | |
| Finance costs | 18,981 | 17,457 | 1,524 |
| Implicit interest in operating leases(1) | 4,585 | 4,657 | (72) |
| | 163,037 | 154,053 | 8,984 |
| **Invested capital:** | | | |
| Average long-term debt(2) | 508,485 | 494,658 | 13,827 |
| Average obligations under finance leases(3) | 9,816 | 11,418 | (1,602) |
| Average consideration payable(4) | 15,214 | 15,084 | 130 |
| Average Shareholders' equity | 108,607 | 120,428 | (11,821) |
| Off-balance sheet aircraft leases(5) | 65,503 | 66,529 | (1,026) |
| | 707,625 | 708,117 | (492) |
| **Return on invested capital(6)** | 23.0% | 21.8% | 1.2% |

(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 March 31, 2016 and December 31, 2015, these aircraft lease expenses totaled $8.7 million and $8.9 million respectively.
(6) Aircraft rent was $101.3 million and $103.3 million for the trailing twelve months ended March 31, 2016 and December 31, 2015 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 $92.6 million and $94.5 million for the trailing twelve months ended March 31, 2016 and December 31, 2015 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 15.1% and 14.1% respectively.

### Adjusted net debt

The following table reflects Chorus' adjusted net debt balances as at March 31, 2016 and as at December 31, 2015:

| (unaudited)<br>(expressed in thousands of Canadian dollars) | March 31, 2016<br>$ | December 31, 2015<br>$ | Change<br>$ |
|---|---|---|---|
| Long-term debt, finance leases | 602,954 | 604,741 | (1,787) |
| Consideration payable | 30,428 | 30,168 | 260 |
| Total long-term debt and finance leases (including current portion) | 633,382 | 634,909 | (1,527) |
| Less: Cash | (13,886) | (32,677) | 18,791 |
| Net debt | 619,496 | 602,232 | 17,264 |
| Capitalized operating leases | 65,503 | 66,529 | (1,026) |
| Adjusted net debt | 684,999 | 668,761 | 16,238 |

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 $101.3 million and $103.3 million for the trailing twelve months ended March 31, 2016 and December 31, 2015 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 $92.6 million and $94.5 million for the trailing twelve months ended March 31, 2016 and December 31, 2015 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 $1,379.3 million and $1,377.0 million respectively.

As at March 31, 2016, adjusted net debt increased from $668.8 million to $685.0 million, representing an increase of $16.2 million or 2.4% from December 31, 2015. This increase was a result of new debt of $48.5 million and decreased cash as discussed previously. These increases were offset by a lower US dollar exchange rate which decreased long-term debt by approximately $40.0 million and debt repayments of $10.9 million.

## 18 RISK FACTORS

For a detailed description of the possible risk factors associated with Chorus, Air Canada, the industry, the structure of Chorus and current legal proceedings refer to the Section entitled “Risk Factors” in Chorus' 2015 Annual MD&A dated February 18, 2016, and Chorus’ Annual Information Form dated February 18, 2016. Chorus is not aware of any significant changes to its risk factors from those disclosed at that time.

## 19 GLOSSARY OF TERMS

"**ACMI**" means aircraft, crew, maintenance and insurance operations;

"**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, under the CPA;

"**Block Hours**" mean the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60;

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

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

"**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**", "**CRJ705**" and **"CRJ900"** means Bombardier CRJ 200, CRJ 705, and CRJ 900 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;

"**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;

"**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. The Fixed Margin per Covered Aircraft does not vary regardless of network size or complexity or hours flown;

"**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;

"**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;

"**Performance Incentives**" mean compensation to Chorus, under the CPA, for achieving established performance targets, being: controllable on-time performance, controllable flight completion, passengers arriving without luggage and customer service;

"**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;

"**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;

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

"**YVR**" means Vancouver International Airport Authority.