chorus aviation inc.

Fourth Quarter and Year-End 2016 Management's Discussion & Analysis of Results of Operations and Financial Condition

February 15, 2017

TABLE OF CONTENTS

1	OVERVIEW	2
2	INTRODUCTION	6
3	THE CHORUS BUSINESS	8
4	FOURTH QUARTER ANALYSIS	14
5	ANNUAL ANALYSIS	17
6	CAPITAL STRUCTURE	21
7	LIQUIDITY	25
8	2017 OUTLOOK	29
9	RISK FACTORS	30
10	ECONOMIC DEPENDENCE	31
11	CRITICAL ACCOUNTING ESTIMATES	31
12	CHANGES IN ACCOUNTING STANDARDS	34
13	FAIR VALUE OF FINANCIAL INSTRUMENTS	35
14	PENSION PLANS	36
15	RELATED PARTY TRANSACTIONS	37
16	CONTROLS AND PROCEDURES	37
17	NON-GAAP FINANCIAL MEASURES	37
18	SUMMARY OF QUARTERLY FINANCIAL RESULTS	43
19	SELECTED ANNUAL INFORMATION	44
20	ADDITIONAL INFORMATION	45
21	GLOSSARY OF TERMS	45

1 OVERVIEW

The financial and operating highlights for Chorus are as follows:

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2016 $	2015 $	Change $	Year ended December 31, 2016 $	2015 $	Change $
Operating revenue	315,103	357,368	(42,265)	1,276,854	1,544,681	(267,827)
Adjusted EBITDA,[1] excluding other items	69,348	65,686	3,662	248,060	228,275	19,785
Adjusted net income,[1] excluding other items	31,187	33,715	(2,528)	101,999	115,368	(13,369)
Net income	12,656	12,512	144	111,766	25,487	86,279
Adjusted net income,[1] excluding other items per Share - basic ($)	0.26	0.28	(0.02)	0.83	0.95	(0.12)

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

2016 Business Highlights

- Growth in Adjusted EBITDA[1], excluding other items of 8.7% in 2016 and 5.6% in Q4 2016.
- Increased aircraft leasing revenue under the CPA to $99.0 million or by 44.0% year-over-year; bringing the total number of leased Q400s under the CPA to 34.
- Continued execution on growth and diversification strategy by announcing the establishment of Chorus Aviation Capital Corp., $200.0 million in financing with Fairfax Financial and leasing agreements with Air Nostrum for two new CRJ1000s with two more expected in 2017.
- Executed on the fleet modernization strategy by adding 12 larger, more efficient Q400s, and retiring 16 older smaller gauge Dash 8-100s and CRJ200s.
- Improved market competitiveness under the CPA through fleet modernization, flowing more than 300 pilots (since January 2015) to Air Canada through the pilot mobility program, and achieving a new, long-term collective agreement with maintenance and engineering employees until 2025.
- Invested $6.0 million in employee separation programs to change workforce demographic and reduce ongoing costs.
- Transitioned Jazz Technical Services to a separate division of Jazz and secured two multi-year third party maintenance contracts, as well as a contract to refurbish the interior of Jazz's Dash 8-300s.
- Strengthened Voyageur's focus on its core competencies of contract flying, maintenance, repair and overhaul, and aircraft part sales through a new corporate structure and re-branding that included the establishment of Voyageur Avparts and Voyageur Aerotech.
- Redeployed former CPA Dash 8-100s via third party leases, new flying contracts and disassembly/part-out.

Fourth Quarter summary

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2016 $	2015 $	Change $	Change %
Operating revenue	315,103	357,368	(42,265)	(11.8)
Operating expenses	273,363	310,907	(37,544)	(12.1)
Operating income	41,740	46,461	(4,721)	(10.2)
Non-operating income (expenses)	(21,532)	(22,797)	1,265	(5.5)
Income before income taxes	20,208	23,664	(3,456)	(14.6)
Income tax expense	(7,552)	(11,152)	3,600	(32.3)
Net income	**12,656**	**12,512**	**144**	**1.2**
Add (Deduct) items to get to Adjusted Net Income, excluding other items(1)				
Unrealized foreign exchange loss	12,510	19,625	(7,115)	(36.3)
Strategic Advisory fees	3,786	—	3,786	100.1
Employee separation program	2,235	1,578	657	41.6
	18,531	21,203	(2,672)	(12.6)
Adjusted net income,(2) excluding other items	**31,187**	**33,715**	**(2,528)**	**(7.5)**
Add (Deduct) items to get to Adjusted EBITDA, excluding other items(1)				
Net interest expense	6,099	4,442	1,657	37.3
Income tax expense	7,552	11,152	(3,600)	(32.3)
Depreciation and amortization	21,587	17,647	3,940	22.3
Foreign exchange loss (gain)	2,939	(1,008)	3,947	(391.6)
Gain on disposal of property and equipment	(16)	(4)	(12)	300.0
Other	—	(258)	258	(100.0)
	38,161	31,971	6,190	(0.2)
Adjusted EBITDA,(2) excluding other items	**69,348**	**65,686**	**3,662**	**5.6**

(1) 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. The strategic advisory fees are associated with the leasing diversification strategy.

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

In the fourth quarter of 2016, Chorus reported revenue and Adjusted EBITDA, excluding other items, of $315.1 million, and $69.3 million, respectively, versus 2015 comparative figures of $357.4 million and $65.7 million, respectively. This represents an 11.8% decline in revenue and a 5.6% increase in Adjusted EBITDA, excluding other items.

- Approximately $29.0 million of the reduction in revenue was due to the fact that, under the CPA, Jazz ceased purchasing and billing Air Canada for fuel and certain other costs. Operating expenses were also lower by the same amount.

- An additional $20.8 million reduction in revenue was largely due to lower Controllable Revenue which was generally driven by lower CPA Billable Block Hours and cost efficiencies.
- Excluding these two items, operating revenue increased by $7.6 million, due primarily to an increase in aircraft leasing under the CPA of $7.2 million and higher charter and other contract flying revenue of $1.6 million, partially offset by lower other revenue of $1.3 million.

Adjusted EBITDA, excluding other items was $69.3 million in the fourth quarter of 2016 and increased $3.7 million, or 5.6%, compared to the same period of 2015, at $65.7 million. The increase was primarily driven by the $7.6 million increase in revenue, explained above, partially offset by:

- increased operating costs related to a $2.0 million reduction in capitalized labour and maintenance costs on owned aircraft for major maintenance overhauls;
- increased stock-based compensation of $1.8 million, resulting from fluctuations in Chorus' stock price; and
- an increase in other expenses of $0.1 million.

Adjusted net income, excluding other items of $31.2 million, declined quarter over quarter by $2.5 million, or 7.5%. The $3.7 million increase in Adjusted EBITDA, excluding other items, explained above, was primarily offset by:

- $3.9 million in additional depreciation expense primarily related to new aircraft; and
- $1.7 million of additional net interest expense on long-term debt.

Net income was $12.7 million consistent with 2015.

Annual Summary

(expressed in thousands of Canadian dollars)	Year ended December 31, 2016 $	2015 $	Change $	Change %
Operating revenue	1,276,854	1,544,681	(267,827)	(17.3)
Operating expenses	1,125,376	1,395,184	(269,808)	(19.3)
Operating income	151,478	149,497	1,981	1.3
Non-operating income (expenses)	(7,051)	(88,406)	81,355	(92.0)
Income before income taxes	144,427	61,091	83,336	136.4
Income tax expense	(32,661)	(35,604)	2,943	(8.3)
Net income	**111,766**	**25,487**	**86,279**	**338.5**
Add (Deduct) items to get to Adjusted Net Income, excluding other items(1)				
Unrealized foreign exchange (gain) loss	(25,015)	70,848	(95,863)	(135.3)
Strategic Advisory fees	3,786	—	3,786	100.0
Employee separation program	5,962	3,454	2,508	72.6
Signing bonuses	5,500	13,500	(8,000)	(59.3)
CPA Advisory fees	—	2,079	(2,079)	(100.0)
	(9,767)	89,881	(99,648)	(110.9)
Adjusted net income,(2) excluding other items	**101,999**	**115,368**	**(13,369)**	**(11.6)**
Add (Deduct) items to get to Adjusted EBITDA, excluding other items(1)				
Net interest expense	22,089	15,014	7,075	47.1
Income tax expense	32,661	35,604	(2,943)	(8.3)
Depreciation and amortization	81,334	59,745	21,589	36.1
Foreign exchange loss	10,684	3,488	7,196	206.3
Gain on disposal of property and equipment	(394)	(186)	(208)	111.8
Other	(313)	(758)	445	(58.7)
	146,061	112,907	33,154	29.4
Adjusted EBITDA,(2) excluding other items	**248,060**	**228,275**	**19,785**	**8.7**

(1) 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. The strategic advisory fees are associated with the leasing diversification strategy.
(2) This is a non-GAAP measurement. Refer to Section 17 – Non-GAAP Financial Measures.

For the year ended December 31, 2016, Chorus reported revenue and Adjusted EBITDA, excluding other items, of $1,276.9 million and $248.1 million, respectively, versus 2015 comparative figures of $1,544.7 million and $228.3 million, respectively. This represents a 17.3% decline in revenue and a 8.7% increase in adjusted EBITDA, excluding other items.

- Approximately $251.8 million of the reduction in revenue was due to the fact that, under the CPA, Jazz ceased purchasing and billing Air Canada for fuel and certain other costs. Operating expenses were also lower by the same amount.
- An additional $56.5 million reduction in revenue was largely due to lower Controllable Revenue which was generally driven by lower CPA Billable Block Hours and cost efficiencies.
- Excluding these two items, operating revenue increased by $40.4 million due primarily to increases in aircraft leasing under the CPA of $30.3 million, and increased charter, contract flying and other revenue of $9.5 million, primarily related to an additional four months of revenue for Voyageur. Chorus acquired Voyageur on May 1, 2015, and therefore the 2016 results include an additional four months of activity for the Voyageur operation.

Adjusted EBITDA, excluding other items was $248.1 million for the year ended December 31, 2016 and increased $19.8 million or 8.7%, compared to the same period of 2015 at $228.3 million. The increase was primarily driven by the $40.4 million increase in revenue, explained above, offset by:

- increased operating costs related to a $6.7 million reduction in capitalized labour and maintenance costs on owned aircraft for major maintenance overhauls;
- the absence of the $2.8 million curtailment gain under the pilot pension plan recorded in 2015 as a result of the flow of Jazz pilots to Air Canada;
- increased expenses related to business development and financing activities outside the CPA of $6.0 million;
- costs associated with fleet transition of $1.7 million; and
- an increase in other expenses of $3.4 million, including those related to the Voyageur operation.

Adjusted net income, excluding other items of $102.0 million declined year over year by $13.4 million, or 11.6%. The $19.8 million increase in Adjusted EBITDA, excluding other items, explained above, was offset by:

- $21.6 million in additional depreciation expense primarily related to new aircraft and Voyageur;
- $7.1 million of additional net interest expense on long-term debt;
- lower net income tax of $2.9 million; and
- higher net foreign exchange loss of $7.2 million, which excludes unrealized foreign exchange.

Net income was $111.8 million, an increase of $86.2 million over 2015. The increase was due primarily to a $95.9 million decline in unrealized foreign exchange losses on long-term debt and a $8.0 million decline in signing bonuses, partially offset by the previously noted $13.5 million decline in adjusted net income, excluding other items and a decline in interest revenue and other of $3.2 million.

Operational performance

Jazz earned $5.6 million (2015 - $5.6 million) in Performance Incentives, or 95.0% (2015 - 96.7%) of the maximum available under the CPA for the three months ended December 31, 2016. For the year ended December 31, 2016, Jazz earned $21.7 million (2015 - $21.7 million) in Performance Incentives, or 92.1% (2015 - 93.0%) of the maximum available under the CPA.

Jazz continued to have strong operational performance during the fourth quarter of 2016 and ranked among the top Canadian carriers for on-time performance and flight completion, as reported by FlightView, a leading global flight and airport information service.

2 INTRODUCTION

In this MD&A, references to Chorus 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. Please refer to the Glossary of Terms for definition of capitalized terms and acronyms used in this MD&A.

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, 2016 and 2015. 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 15, 2017.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 9 – Risk Factors.

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

Caution regarding forward-looking information

Forward-looking information is included in this MD&A. Forward-looking information is 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 information may involve but is not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking information relates 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 information, by its nature, is based on assumptions, including those described below, and is subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, among other things, external events, changing market conditions and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from those expressed in the forward-looking information. Results indicated in forward-looking information may differ materially from actual results for a number of reasons, including without limitation, risks relating to Chorus’ economic dependence on and relationship with Air Canada; risks relating to the airline industry (including the international operation of aircraft in developing countries and areas of unrest); aircraft leasing (including the financial condition of lessees, availability of aircraft, access to capital, fluctuations in aircraft market values, competition and political risks); the failure of Chorus or any other party to satisfy the conditions precedent to closing future aircraft deliveries to Air Nostrum and/or the private placement of convertible debt units; 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); increased competition affecting Chorus and/or Air Canada; insurance issues and costs; supply issues and costs; the risk of war, terrorist attacks, aircraft incidents and accidents; fraud, cybersecurity attacks or other criminal behaviour by internal or external parties; epidemic diseases, environmental factors or acts of God; changes in demand due to the seasonal nature of Chorus' business or general economic conditions; the ability to reduce operating costs and employee counts; the ability of Chorus to secure financing; the ability of Chorus to attract and retain the talent required for its existing operations and future growth; the ability of Chorus to remain in good standing under and to renew and/or replace the CPA and other important contracts; employee relations, labour negotiations or disputes; pension issues and costs; currency exchange and interest rates; leverage and restrictive covenants contained in debt facilities; 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; the risks referred to in Section 9 - Risk Factors of this MD&A as well as the factors identified throughout this MD&A. Examples of forward-looking information in this MD&A include the projections of contractual obligations and other commitments in Section 7 - Liquidity, the 2017 outlook discussion in Section 8 - 2017 Outlook and projections for Chorus' pension funding obligations from 2017 to 2021 in Section 14 - Pension Plans. The statements containing forward-looking information in this MD&A represent Chorus’ expectations as of February 15, 2017 and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

3 THE CHORUS BUSINESS

Chorus was incorporated on September 27, 2010 pursuant to the CBCA, and its Class A Variable Voting Shares and Class B Voting Shares trade on the Toronto Stock Exchange under the stock symbol 'CHR'. Chorus' current monthly dividend is $0.04 per share. Chorus' vision is to deliver regional aviation to the world and is focused on continuing to drive financial performance, managing for the future and leveraging the significant expertise inherent in its businesses: Jazz Aviation LP (Jazz), Voyageur Aviation Corp. (Voyageur) and Chorus Aviation Capital Corp. (CACC).

Jazz

Jazz is the largest regional airline in Canada, and operates more flights into more airports in Canada than any other airline. There are three divisions operated by Jazz:

1. Air Canada Express: Pursuant to a capacity purchase agreement (CPA) with Air Canada, Jazz provides service using the Air Canada Express brand to and from lower-density markets as well as higher-density markets at off-peak times throughout North America, with a fleet of 113 Canadian-made Bombardier aircraft.

2. Jazz Technical Services: Established in May 2016 as a separate division, Jazz Technical Services (JTS) is dedicated to heavy maintenance, repair and overhaul (MRO) of Bombardier aircraft. JTS provides MRO services to third parties while maintaining the dedication and commitment to its primary customer, Air Canada.

3. Jazz: Under the Jazz brand, the airline offers charters throughout North America with a dedicated fleet of three Bombardier aircraft for corporate clients, governments, other organizations and individuals seeking the convenience of a customized flight schedule. Jazz also has the ability to offer airline operators services such as ground handling, dispatching, flight load planning, training and consulting.

Voyageur

Voyageur currently provides services to customers throughout the international and Canadian regional aviation marketplace, and offers a wide range of products and services through a single source. Voyageur's current operations are structured as follows:

As the parent company of Voyageur Airways, Voyageur Aerotech, and Voyageur Avparts, Voyageur Aviation provides common support services to its group of companies including: administrative support services, finance and accounting, human resources, payroll, commercial services, facilities, and materials management. Voyageur Aviation also operates a fixed base operation at the North Bay Airport which provides aircraft fueling and ground handling services. Voyageur Aviation owns the head office and maintenance, repair and overhaul facility in North Bay, Ontario.

<u>Voyageur Airways</u>

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

<u>Voyageur Aerotech</u>

Voyageur Aerotech is an Approved Maintenance Organization (AMO) and Design Approval Organization, specializing in comprehensive regional aircraft maintenance, repair and overhaul (MRO) activities, and aircraft design engineering. Its AMO approvals are designed to satisfy a worldwide client base and include Transport Canada Civil Aviation, the United States Federal Aviation Administration, and the European Aviation Safety Agency. Voyageur Aerotech specializes in client-dedicated solutions for all levels of aircraft inspections, heavy checks, modifications, installations, and repairs. AMO activities are also supported by Voyageur Aerotech's Transport Canada Approval for the Manufacture Certification of Aeronautical Products.

Voyageur Avparts

Voyageur Avparts is a global aviation supply chain company specializing in aeronautical product support for regional aircraft. It serves airlines, maintenance organizations, leasing companies, and other aviation-related companies in the provisioning of aircraft parts, inventory management, inventory consignment services, component repair and overhaul, and aircraft disassembly management.

Chorus Aviation Capital

Chorus Aviation Capital was established on January 4, 2017 with the objective of developing Chorus' regional aircraft leasing company into a global business with a diverse customer base and fleet of regional jet and turbo-prop aircraft in the 70 to 135 seat range.

Chorus' Diversification and Growth Strategy

Chorus' primary objectives are to diversify and grow its business while continuing to successfully deliver on its foundational contract with Air Canada, the CPA. By leveraging its expertise in regional aviation and adhering to its core values of listening, collaborating, and improving, Chorus believes its Shareholders can anticipate positive returns for the long-term.

Chorus is focused on three primary lines of business, all of which build on its expertise in regional aviation:

1. Contracted flying operations;
2. MRO; and
3. Regional aircraft leasing.

Chorus is committed to ensuring it delivers a cost effective service of superior quality to its main customer, Air Canada. The CPA, which has a term of January 1, 2015 to December 31, 2025, provides predictable compensation levels that is enabling reinvestment for future growth while supporting the current dividend. The CPA facilitated the launch of a cost transformation plan that included fleet modernization, and provided a pathway to meaningfully shift the concentration of earnings from contract flying to aircraft leasing. Since the January 1, 2015 Amendment, Chorus has successfully executed under the CPA, delivering two years of strong financial and operational results.

Chorus currently provides approximately 70% of the Air Canada Express network capacity. Chorus' improving cost competitiveness, significant relevance to the Air Canada network, and its increasing number of owned aircraft operating under the CPA, are all factors that Chorus believes support the continuation of this line of business beyond 2025. (See Section 2 - Introduction "Caution regarding forward-looking information")

Chorus will deliver on its primary objectives of diversification, growth and continued execution under the CPA, by focusing on its core competencies:

- Providing a consistently high level of operational excellence and superior customer service.
- Ensuring an ongoing focus on efficiency, cost reduction and continuous improvement.
- Capitalizing on the technical expertise and the proven execution ability of its employees.
- Leveraging its industry knowledge, credibility and relationships.
- Exercising a disciplined and informed decision making approach to mitigate risk.

Chorus commenced its diversification plan with the acquisition of Voyageur in May 2015. In December 2016, Chorus announced its intention to launch a new regional aircraft leasing subsidiary, Chorus Aviation Capital, and on January 4, 2017 established that entity as the platform for the future development of its aircraft leasing diversification strategy.

Chorus is targeting the regional aircraft leasing sector because:

- there is strong demand for regional aircraft due to accelerating global passenger growth and positive economic fundamentals amongst airlines;
- the regional aircraft leasing sector currently has few competitors providing a significant opportunity for growth;
- the regional aircraft sector currently enjoys strong yields and sector margins with adequate access to capital; and
- the regional aircraft market is characterized by historically stable aircraft deliveries with limited technical obsolescence risk.

Each of Chorus' three lines of business brings unique expertise and capabilities in regional aviation. Their combined capabilities afford Chorus the opportunity to deliver a full suite of flight, maintenance, repair, overhaul, modification and leasing solutions to regional aircraft owners and operators around the globe. It is for this reason that Chorus' mission is to deliver regional aviation to the world.

2016 Strategic Accomplishments

In 2016, Chorus executed on its diversification and growth objective by:

- Announcing the establishment of Chorus Aviation Capital Corp., with a view to building a global regional aircraft leasing business.
- Securing $200.0 million in capital through a private placement of convertible debt units with Fairfax Financial; closing expected by March 31, 2017.
- Executing on its first significant non-CPA aircraft leasing agreement with Air Nostrum for four new CRJ1000s with two already delivered in 2016.
- Growing aircraft leasing revenue under the CPA to $99.0 million or by 44.0%; bringing the total Q400s under lease to 34 aircraft by year end.
- Strengthening Voyageur through a new corporate structure and re-branding, including the establishment of Voyageur Avparts and Voyageur Aerotech.
- Redeploying former CPA Dash 8-100s via third party leases and new Voyageur contract flying activity.
- Building inventory for the Voyageur Avparts business with three Dash 8-100s for disassembly/ part out thereby maximizing the end of life value of the fleet.
- Doubling the hangar floor capacity at the Voyageur facility in North Bay to enable growth in the specialty MRO market.
- Establishing Jazz Technical Services and securing two third party maintenance contracts.

In 2016, Jazz delivered on its commitment under the CPA of providing Air Canada with operational and service excellence, while continuing to transform its cost structure to be more competitive. Jazz delivered on its objective by:

- Modernizing the fleet by adding 12 larger, more efficient Q400s, and retiring 16 older smaller gauge Dash 8-100s and CRJ200s.
- Taking delivery of five new CRJ900s for deployment under the CPA in 2017.
- Announcing the plan to add incremental seats to its Q400s and CRJ705s to lower the overall cost per seat.
- Preparing to induct, in early 2017, an additional five Q400s from Sky Regional and to take over the Air Canada Express operation at Billy Bishop Toronto City Airport.
- Flowing more than 300 pilots (since January 2015) to Air Canada through the pilot mobility program.
- Replacing exiting pilots with new hires at a new industry competitive wage scale and a defined contribution benefit pension plan.
- Ensuring an ongoing strong supply of pilots through partnerships with 10 flight aviation schools and industry partners across Canada.

- Reaching a new, long-term collective agreement with Jazz maintenance and engineering employees that has a term consistent with collective agreements in place with pilots, flight attendants, and dispatchers expiring December 31, 2025.
- Investing $6.0 million in 2016 in employee separation programs to change workforce demographic and reduce ongoing costs.
- Earning $21.7 million in operational performance incentives; representing 92.1% of the maximum available under the CPA.
- Winning three Bombardier Airline Reliability Performance awards.
- Ranking amongst Canada's top airlines for on-time performance as published by FlightView.

Jazz's CPA with Air Canada

Jazz is party to the CPA with Air Canada, under which Air Canada purchases the capacity of Covered Aircraft operated by Jazz under the Air Canada Express brand on routes determined by Air Canada. Under the CPA, Jazz is required to provide Air Canada with the capacity of Covered Aircraft, all crews and applicable personnel, aircraft maintenance, some 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.

Jazz provides a significant part of Air Canada's domestic and transborder regional network to 58 destinations in Canada and 12 destinations in the United States, using 113 Covered Aircraft as at December 31, 2016. In addition, Jazz also provided airport services at 36 airports in Canada as at December 31, 2016.

Jazz earns revenue under the CPA in five ways:

1) Controllable Revenue
2) Fixed Fees
3) Performance Incentives
4) Aircraft leasing
5) Pass-Through Revenue

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 also 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 per Covered Aircraft 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. Combined, these Fixed Fees based on the Covered Aircraft were set at approximately $109.7 million for 2015, and once all incremental aircraft 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.

Performance incentives are available for achieving established performance targets under the CPA. 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. Please refer to Section 2 - Introduction, "Caution regarding forward-looking information.

Jazz Leasing leases owned Q400s and Q400 engines into the Jazz operation under the CPA. Jazz earns aircraft leasing revenue under the CPA from the aircraft and spare engines owned by it and Jazz Leasing. For the year ended December 31, 2016, Jazz earned aircraft leasing revenue under the CPA of $99.0 million.

Jazz incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

Controllable Costs	**Operating expense line**	**Rate Period**
Crew wages & benefits[(1)]	Salaries, wages and benefits	Fixed
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 and 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 maintenance materials, supplies	Aircraft maintenance materials, supplies	-
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. Rates are in effect until December 31, 2025 (expiry of CPA).
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.

Fleet

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

	December 31, 2015	2016 Fleet Changes			December 31, 2016
		Additions	Removals	Transfers	
Covered Aircraft					
CRJ200s	20	—	(7)	—	13
CRJ705s	16	—	—	—	16
Dash 8-100s	28	—	—	(9)	19
Dash 8-300s	26	—	—	—	26
Q400s (leased from third parties)	—	5	—	—	5
Q400s (owned and leased under the CPA)	26	7	—	1	34
Total Covered Aircraft	116	12	(7)	(8)	113
Jazz Charter Aircraft					
CRJ200s	1	—	—	—	1
Dash 8-300s	2	—	—	—	2
Charter Aircraft	3	—	—	—	3
Voyageur Operational Aircraft					
CRJ200s	7	—	—	—	7
King Air 100s	2	—	(2)	—	—
King Air 200s	—	1	—	1	2
Dash 8-100s	1	—	—	—	1
Dash 8-300s	5	—	—	—	5
Total Voyageur Operational Aircraft	15	1	(2)	1	15
Leased to a third party					
CRJ1000s	—	2	—	—	2
Dash 8-100s	—	—	—	1	1
Dash 8-300s	1	—	—	—	1
Total Leased to a third party	1	2	—	1	4
Non-Operational Aircraft					
CRJ900s(1)	—	5	—	—	5
King Air 200s	1	—	—	(1)	—
Dash 7-100s	2	—	—	—	2
Dash 8-100s(2)	5	—	(3)	8	10
Q400s (owned and leased under the CPA)	1	—	—	(1)	—
Total Non-Operational Aircraft	9	5	(3)	6	17
Total Aircraft	144	20	(12)	—	152

(1) These aircraft are expected to enter service in the first half of 2017.
(2) Two of these aircraft will be leased to a third party in the first half of 2017.

4 FOURTH QUARTER ANALYSIS

Revenue

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2016 $	2015 $	Change $
Controllable Revenue	181,124	201,957	(20,833)
Aircraft leasing revenue under the CPA	27,067	19,881	7,186
Fixed Margin and Infrastructure Fee per Covered Aircraft	27,668	27,417	251
Incentive revenue	5,601	5,642	(41)
CPA Pass-Through Revenue	55,680	84,688	(29,008)
Charter and other contract flying revenue	11,531	9,970	1,561
Passenger revenue	308,671	349,555	(40,884)
Other revenue	6,432	7,813	(1,381)
	315,103	357,368	(42,265)

Operating revenue decreased $42.3 million or 11.8% compared with the same period in 2015, due largely to the fact that Jazz ceased billing Air Canada for fuel under the CPA starting November 1, 2015 and lower Controllable Revenue under the CPA.

Controllable Revenue

Controllable Revenue decreased by $20.8 million or 10.3%. The decrease was mainly attributable to decreases under the CPA, related to cost reductions, such as flight crew salaries, wages and benefits and fleet transitions. This reduction in revenue is consistent with the decreased CPA Billable Block Hours and cost efficiencies.

Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $7.2 million. The increase was attributable to 13 additional Q400s added in the fourth quarter of 2015 and in the first nine months of 2016 and is consistent with Chorus' revenue diversification strategy. There were 34 Q400s in the fleet of Covered Aircraft as at December 31, 2016, compared to 26 Q400s as at December 31, 2015.

CPA Pass-Through Revenue

CPA Pass-Through Revenue decreased by $29.0 million or 34.3%, primarily because Jazz ceased billing for aircraft fuel under the CPA effective November 1, 2015. In addition, effective January 1, 2016, Air Canada entered into a new commercial agreement with YVR and certain other airports in connection with Jazz's CPA operations. Costs incurred at YVR and certain other airports 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. Together, these two changes accounted for $27.1 million of the $29.0 million decrease in CPA Pass-Through Revenue.

Charter and other contract flying revenue

Charter and other contract flying revenue increased by $1.6 million. The increase was a result of an increase in other contract flying.

Other revenue

Other revenue decreased by $1.4 million.

Expenses

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2016 $	2015 $	Change $
Operating expenses			
Salaries, wages and benefits	106,694	107,199	(505)
Aircraft fuel	623	22,782	(22,159)
Depreciation and amortization	21,587	17,647	3,940
Food, beverage and supplies	3,646	2,977	669
Aircraft maintenance materials, supplies and services	30,926	43,420	(12,494)
Airport and navigation fees	38,886	43,543	(4,657)
Aircraft rent	22,721	25,391	(2,670)
Terminal handling services	10,642	14,045	(3,403)
Other	37,638	33,903	3,735
	273,363	310,907	(37,544)

Operating expenses decreased by $37.5 million or 12.1%, compared with the same period in 2015, due primarily to the fact that aircraft fuel used in CPA operations ceased being invoiced to Jazz effective November 1, 2015. In addition, costs incurred at YVR and certain other airports related to airport fees and certain terminal handling services are now paid directly by Air Canada pursuant to this new agreement. Together, these two changes accounted for $27.1 million of the $37.5 million decrease. Additional information regarding operating expenses is provided below.

Salaries, wages and benefits

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2016 $	2015 $	Change $
Adjusted salaries, wages and benefits	101,119	106,093	(4,974)
Stock-based compensation	4,231	2,450	1,781
Employee separation program costs	2,235	1,578	657
Capitalized major maintenance overhaul labour	(891)	(2,922)	2,031
	106,694	107,199	(505)

Adjusted salaries, wages and benefits decreased $5.0 million related primarily to a reduction of flight crew costs and wages and salaries mostly attributable to a reduction in Block Hours and lower labour costs due to increased efficiencies. Stock-based compensation increased by $1.8 million as compared to the same period in 2015 primarily as a result of an increase in Chorus' share price. Employee separation program costs incurred during the quarter increased by $0.7 million. Salaries and wages were also affected by fewer labour costs being capitalized on owned aircraft for major maintenance overhauls of $2.0 million.

Aircraft fuel

Aircraft fuel cost decreased by $22.2 million from $22.8 million to $0.6 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 some Voyageur operations.

Depreciation and amortization

Depreciation and amortization expense increased by $3.9 million from $17.6 million to $21.6 million. The purchase of additional aircraft during the second half of 2015 and the year 2016 accounted for $2.9 million. As well, depreciation associated with capitalized major maintenance overhauls increased $0.7 million and new finance leases accounted for a $0.3 million increase.

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense decreased by $12.5 million from $43.4 million to $30.9 million. Decreased Block Hours accounted for $2.7 million and fewer engine overhaul events accounted for $13.1 million and decreasing maintenance costs in the Jazz operation is consistent with the fleet modernization initiative. These decreases were partially offset by an increase in the Voyageur operation of $1.2 million, other maintenance costs increased by $1.1 million, increased cost of sales of consignment inventory accounted for $0.9 million and a change in the US dollar exchange rate on certain maintenance material purchases which accounted for a $0.1 million increase.

Airport and navigation fees

Airport and navigation fees decreased by $4.7 million from $43.5 million to $38.9 million. Costs incurred at YVR and certain other airports by Chorus were $nil in the period compared to $2.3 million for the same period last year. Costs incurred at YVR and certain other airports related to airport fees are now paid directly by Air Canada. Also, changes in aircraft deployment accounted for a $2.4 million decrease.

Aircraft rent

Aircraft rent decreased by $2.7 million from $25.4 million to $22.7 million, consistent with Chorus' planned fleet modernization initiative. The decrease was mainly due to the return of five CRJ200s in the second half of 2015 and seven CRJ200s in the first half of 2016.

Terminal handling services

Terminal handling costs decreased by $3.4 million from $14.0 million to $10.6 million. Costs incurred at YVR and certain other airports by Chorus were $nil in the period compared to $2.8 million for the same period last year. Costs incurred at YVR and certain other airports related to certain terminal handling services are now paid directly by Air Canada. In addition, decreased flying activity and changes in aircraft deployment accounted for $0.6 million.

Other

Other expenses increased by $3.7 million from $33.9 million to $37.6 million. The increase was related to increased general overhead such as business development, financing activities, travel and training.

Non-operating income (expenses)

(expressed in thousands of Canadian dollars)	Three months ended December 31, 2016 $	2015 $	Change $
Non-operating income (expenses)			
Net interest expense	(6,099)	(4,442)	(1,657)
Gain on disposal of property and equipment	16	4	12
Foreign exchange loss	(15,449)	(18,617)	3,168
Other	—	258	(258)
	(21,532)	(22,797)	1,265

Non-operating expenses decreased by $1.3 million from $22.8 million to $21.5 million.

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

The weakening of the Canadian dollar for the three months ended December 31, 2016 contributed to a foreign exchange loss of $15.4 million, compared to a foreign exchange loss of $18.6 million in the same period of the previous year. The US dollar exchange rate at December 31, 2016 was $1.3427 while the US dollar exchange rate at September 30, 2016 was $1.3117. 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. These rates are based on the closing day rate from the Bank of Canada. Chorus manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. As a result, due to the nature of the underlying associated revenue stream provided by the CPA, the unrealized foreign exchange gains/losses on long-term debt and finance leases do not affect current or future cash flows.

5 ANNUAL ANALYSIS

The results of operations include revenue and expenses for Voyageur since May 1, 2015.

Revenue

(expressed in thousands of Canadian dollars)	Year ended December 31, 2016 $	2015 $	Change $
Controllable Revenue	749,414	805,886	(56,472)
Aircraft leasing under the CPA	99,031	68,750	30,281
Fixed Margin and Infrastructure Fee per Covered Aircraft	110,256	109,657	599
Incentive revenue	21,725	21,704	21
CPA Pass-Through Revenue	224,865	476,666	(251,801)
Charter and other contract flying revenue	46,565	34,702	11,863
Passenger revenue	1,251,856	1,517,365	(265,509)
Other revenue	24,998	27,316	(2,318)
	1,276,854	1,544,681	(267,827)

Operating revenue decreased from $1,544.7 million to $1,276.9 million, representing a decrease of $267.8 million or 17.3%, due primarily to the fact that Jazz ceased billing Air Canada for fuel costs under the CPA starting November 1, 2015 and lower Controllable Revenue under the CPA.

Controllable Revenue

Controllable Revenue decreased by $56.5 million or 7.0%. The decrease was mainly attributable to decreases under the CPA, related to cost reductions, such as flight crew salaries, wages and benefits and fleet transitions. This reduction in revenue is consistent with the decreased CPA Billable Block Hours and cost efficiencies. These decreases were offset by a change in the US dollar exchange rate which increased Controllable Revenue.

Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $30.3 million. Of this increase, $27.2 million was attributable to revenue generated from the leasing of 13 additional Q400s in the fourth quarter of 2015 and first nine months of 2016 and is consistent with Chorus' revenue diversification strategy, and $3.1 million was attributable to a change in the US dollar exchange rate. There were 34 Q400s in the fleet of Covered Aircraft as at December 31, 2016, compared to 26 Q400s as at December 31, 2015.

CPA Pass-Through Revenue

CPA Pass-Through Revenue decreased by $251.8 million or 52.8%, from $476.7 million to $224.9 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 YVR and certain other airports in connection with Jazz's CPA operations. Costs incurred at YVR and certain other airports 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. Together, these two changes accounted for $247.5 million of the $251.8 million decrease in CPA Pass-Through Revenue.

Charter and other contract flying revenue

Charter and other contract flying revenue increased $11.9 million. Since Chorus acquired Voyageur on May 1, 2015, 2016 includes an additional four months of contract flying for the Voyageur operation.

Other revenue

Other revenue decreased by $2.3 million. Decreased ancillary revenue and decreased sale of consignment inventory accounted for $4.0 million. This was offset primarily by incremental MRO of $1.7 million from the Voyageur operation.

Expenses

(expressed in thousands of Canadian dollars)	Year ended December 31, 2016 $	2015 $	Change $
Operating expenses			
Salaries, wages and benefits	432,921	435,521	(2,600)
Aircraft fuel	3,122	228,557	(225,435)
Depreciation and amortization	81,334	59,745	21,589
Food, beverage and supplies	13,075	12,082	993
Aircraft maintenance materials, supplies and services	167,547	197,258	(29,711)
Airport and navigation fees	160,612	174,371	(13,759)
Aircraft rent	91,047	103,308	(12,261)
Terminal handling services	39,319	57,018	(17,699)
Other	136,399	127,324	9,075
	1,125,376	1,395,184	(269,808)

Operating expenses decreased $269.8 million or 19.3% from $1,395.2 million to $1,125.4 million. Under the CPA, effective November 1, 2015, aircraft fuel is no longer billed to Chorus. In addition, costs incurred at YVR and certain other airports related to airport fees and certain terminal handling services are now paid directly by Air Canada pursuant to this new agreement. Together, these two changes accounted for $247.5 million of the $269.8 million decrease. Additional information regarding operating expenses is provided below.

Salaries, wages and benefits

(expressed in thousands of Canadian dollars)	Year ended December 31, 2016 $	2015 $	Change $
Adjusted salaries, wages and benefits	416,307	421,096	(4,789)
Curtailment gain	—	(2,848)	2,848
Signing bonuses	5,500	13,500	(8,000)
Stock-based compensation	11,845	11,241	604
Employee separation program costs	5,962	3,454	2,508
Capitalized major maintenance overhaul labour	(6,693)	(10,922)	4,229
	432,921	435,521	(2,600)

Salaries, wages and benefits decreased by $2.6 million from $435.5 million to $432.9 million. Adjusted salaries, wages and benefits decreased by $4.8 million related primarily to a reduction of flight crew costs and wages and salaries attributable mostly to a reduction in Block Hours and lower labour costs due to increased efficiencies. In 2015 Chorus recorded a curtailment gain of $2.8 million under its pilot pension plan related to the flow of pilots to Air Canada. 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 signing bonus, while in 2015 Chorus incurred a $13.5 million signing bonus as part of the collective agreement ratified with its pilots and flight attendants. This accounted for a net decrease of $8.0 million. Stock-based compensation increased $0.6 million primarily as a result of an increase in Chorus' share price. Employee separation program costs incurred during the period were $6.0 million compared to $3.5 million for the same period of 2015. Salaries and wages were also affected by fewer labour costs being capitalized on owned aircraft for major maintenance overhauls of $4.2 million.

Aircraft fuel

Aircraft fuel costs decreased by $225.4 million from $228.6 million to $3.1 million. Costs for aircraft fuel incurred in CPA operations are no longer billed to Jazz effective November 1, 2015. Chorus still incurs fuel costs related to Jazz charters and some Voyageur operations.

Depreciation and amortization

Depreciation and amortization expense increased by $21.6 million from $59.7 million to $81.3 million. The purchase of additional aircraft during the second half of 2015 and 2016 accounted for $12.4 million. As well, depreciation associated with capitalized major maintenance overhauls increased depreciation expense by $3.4 million, increased depreciation expense related to Voyageur was $2.7 million, new finance leases accounted for a $2.3 million increase and other depreciation expense increased $0.8 million

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense decreased by $29.7 million. Decreased Block Hours accounted for a $13.3 million decrease, fewer engine overhaul events accounted for a $19.4 million decrease, other maintenance costs decreased by $6.5 million, and decreased cost of sales of consignment inventory accounted for $1.1 million. Decreasing maintenance costs in the Jazz operation is consistent with the fleet modernization initiative. These decreases were offset by a change in the US dollar exchange rate on certain maintenance material purchases which accounted for a $6.6 million increase and the Voyageur operation accounted for a $4.0 million increase.

Airport and navigation fees

Airport and navigation fees decreased by $13.8 million from $174.4 million to $160.6 million. Costs incurred at YVR and certain other airports by Chorus were $nil in the period compared to $9.6 million for the same period last year. Costs incurred at YVR and certain other airports related to airport fees are now paid directly by Air Canada. Also, rate changes as a result of changes in aircraft deployment accounted for a $4.2 million decrease.

Aircraft rent

Aircraft rent decreased by $12.3 million from $103.3 million to $91.0 million, consistent with Chorus' planned fleet modernization initiative. The decrease was mainly due to the return of five CRJ200s in the second half of 2015 and seven CRJ200s in the first half of 2016, offset by a change in the US dollar exchange rate.

Terminal handling services

Terminal handling costs decreased by $17.7 million from $57.0 million to $39.3 million. Costs incurred at YVR and certain other airports by Chorus were $nil in the period compared to $12.3 million for the same period last year. Costs incurred at YVR and certain other airports related to certain terminal handling services are now paid directly by Air Canada. In addition, deicing costs decreased by $2.8 million and decreased flying activity and aircraft deployment accounted for $2.6 million.

Other

Other expenses increased by $9.1 million from $127.3 million to $136.4 million. The increase was due to costs from the Voyageur operation of $4.4 million (in 2016 there was an additional four months) and general overhead increases, such as business development, financing activities, travel and training.

Non-operating income (expenses)

(expressed in thousands of Canadian dollars)	Year ended December 31, 2016 $	2015 $	Change $
Non-operating income (expenses)			
Net interest expense	(22,089)	(15,014)	(7,075)
Gain on disposal of property and equipment	394	186	208
Foreign exchange gain (loss)	14,331	(74,336)	88,667
Other	313	758	(445)
	(7,051)	(88,406)	81,355

Non-operating expense decreased by $81.4 million from $88.4 million to $7.1 million.

Net interest expense increased by $7.1 million. Interest expense related to long-term debt increased by $6.7 million due to new Q400 long-term debt and a change in the US dollar exchange rate and decreased interest revenue of $0.4 million.

The strengthening of the Canadian dollar for the year ended December 31, 2016 contributed to a foreign exchange gain of $14.3 million, compared to a foreign exchange loss of $74.3 million in the previous year. The US dollar exchange rate at December 31, 2016 was $1.3427 while the US dollar exchange rate at December 31, 2015 was $1.3840. 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. These rates are based on the closing day rate from the Bank of Canada. Chorus manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. As a result, due to the nature of the underlying associated revenue stream provided by the CPA, the unrealized foreign exchange gains/losses on long-term debt and finance leases do not affect current or future cash flows.

In 2016 and 2015, Chorus met certain employment conditions required in order to obtain the annual forgiveness of a portion of a forgivable loan from the province of Nova Scotia. For each year, $0.3 million and $0.5 million was recorded in other income, respectively.

6 CAPITAL STRUCTURE

Chorus' capital structure includes a combination of equity, finance leases, amortizing debt facilities and consideration payable related to an acquisition.

Chorus' objective when managing its capital structure is to maintain adequate liquidity and flexibility, while obtaining the lowest cost of capital available and managing both exchange and interest rate risk by borrowing when appropriate in currencies other than the Canadian dollar to align with underlying revenue streams and fixing interest rates on its debt.

Chorus uses leverage to lower its cost of capital. The amount of debt available to Chorus is a function of adjusted EBITDAR, excluding other items (refer to Section 17 - Non-GAAP Financial Measures). Adjusted EBITDAR, excluding other items can be impacted by known and unknown risks, uncertainties, and other factors outside Chorus' control (refer to Section 9 - Risk Factors).

Chorus maintains flexibility in its capital structure by regularly reviewing forecasts, multi-year business plans and making any required changes to its debt and equity facilities on a proactive basis. These changes can include early repayment of debt, issuing or repurchasing shares, issuing new debt or equity, extending the term of existing debt facilities, utilizing surplus cash, and selling surplus assets to repay debt.

Chorus' capital structure was as follows as at December 31, 2016 and 2015:

(expressed in thousands of Canadian dollars)	2016 $	2015 $	Change $
Equity			
Capital	16,819	16,819	—
Contributed surplus	1,041,345	1,040,470	875
Deficit	(919,201)	(946,493)	27,292
	138,963	110,796	28,167
Finance leases	13,633	19,484	(5,851)
Long-term debt	888,497	585,257	303,240
Consideration payable	18,533	30,168	(11,635)
Total capital	1,059,626	745,705	313,921

As at February 10, 2017 and December 31, 2016, the issued and outstanding Shares of Chorus were as follows:

	February 10, 2017	December 31, 2016
Total issued and outstanding Shares	122,182,168	122,182,168
Shares potentially issuable		
Stock-based compensation plans	3,275,113	3,275,113
Total outstanding and potentially dilutive shares	125,457,281	125,457,281

Effective May 24, 2016, Chorus' Class A variable voting shares and Class B voting shares began trading under a single stock symbol, CHR, on the Toronto Stock Exchange.

Long-term debt

Long-term debt consists of the following:

(expressed in thousands of Canadian dollars)	December 31, 2016 $	December 31, 2015 $
Term loans - secured by aircraft(1)	866,141	564,222
Term loans - secured by engines(2)	11,356	9,035
Term loan - Office building(3)	11,000	12,000
	888,497	585,257
Less: Current portion	84,543	54,867
	803,954	530,390

(1) 49 individual term loans, repayable in semi-annual or quarterly instalments, ranging from $0.1 million to $1.4 million, bearing fixed and floating interest at a weighted average rate of 3.518%, maturing between June 2021 and December 2028, each secured primarily by its respective aircraft and engines. At December 31, 2016, the total payable under these term loans in US dollars and Euros was US$604.0 million and €39.0 million, respectively (December 31, 2015 - US$407.7 million and €nil, respectively), and the net book value of property and equipment pledged as collateral under these term loans was $970.2 million (December 31, 2015 - $548.2 million).

(2) Five individual term loans, repayable in quarterly instalments of approximately $0.1 million, including fixed interest at a weighted average rate of 4.420%, maturing between December 2024 and May 2028, each secured primarily by one PW150A engine. At December 31, 2016, the total Q400 engine financing payable in US dollars was US$8.5 million (December 31, 2015 - US$6.5 million) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $11.5 million (December 31, 2015 - $7.9 million).

(3) Nova Scotia Jobs Fund loan, repayable in annual instalments of $1.0 million, bearing interest at a fixed rate of 3.33%, maturing 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.

Chorus is bound by specific covenants contained in the financing obtained from EDC for both aircraft and engine purchases. These covenants apply separately to the "Jazz Group" (comprising Jazz, Jazz Aircraft Financing and Jazz Leasing) and the “North Bay Leasing Group” (comprising North Bay Leasing, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts).

The Jazz Group is required to maintain a maximum adjusted leverage ratio of 3.25:1 (which changes to 2.75:1 for the fiscal quarter ending March 31, 2018) and a minimum adjusted interest debt coverage ratio of 1.25:1. 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. As at December 31, 2016, the Jazz Group was in compliance with these covenants. The financing agreement with EDC also contains a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Q400s, Q400 spare engines, and CRJ900s. As at December 31, 2016, the Jazz Group was in compliance with this covenant.

On June 29, 2016, Chorus entered into an additional financing agreement with EDC. Terms of this agreement require the North Bay Leasing Group to maintain prescribed liquidity levels, a minimum lease coverage ratio of 1:1, and a minimum EBITDAR level, measured annually prior to the payment of consideration payable to the former owner of Voyageur. Once the consideration payable amount has been paid in full (end of fiscal 2018), the EBITDAR convent is no longer applicable. Failure by the North Bay Leasing 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. As at December 31, 2016, the North Bay Leasing Group was in compliance with these covenants. Also, Voyageur, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts have each provided a full recourse guarantee to EDC, and Chorus Aviation Holdings II Inc. has pledged the issued shares of North Bay Leasing Inc. to EDC.

As additional security under all EDC financing agreements, leases in respect of the financed assets have been assigned to EDC.

Convertible Units

On December 19, 2016, Chorus announced that it had entered into an agreement pursuant to which Fairfax would invest $200.0 million in Chorus through a private placement of Convertible Units for gross proceeds of approximately $200.0 million. Chorus intends to use the proceeds of the Convertible Units primarily to fund the growth of its regional aircraft leasing business, as well as for working capital requirements and general corporate purposes.

Each Convertible Unit comprises a $1,000 secured debenture (the “Debenture”) and 121.21212121 warrants (the “Warrants”). These Debentures will bear interest at a rate of 6.00% per annum, are secured by certain Dash 8-100s and Dash 8-300s and real estate property owned by Chorus (the “Collateral Security”), mature on December 31, 2024 (the “Maturity Date”) and will be redeemable at par at any time after December 31, 2021, except in the event of the satisfaction of certain conditions after a change of control (in which case Chorus may be required to make an offer to repurchase all of the Debentures) or the exercise of the Warrants. The Collateral Security will be released in the event that Fairfax sells or otherwise disposes of any of the Convertible Units.

Each Warrant will be exercisable by the holder thereof to acquire one Voting Share or one Variable Voting Share, as applicable, at an exercise price equal to $8.25 per Share payable in cash or by tendering the Debentures. Except in certain circumstances relating to a change of control of Chorus, the Warrants may only be exercised after December 31, 2019 up to and including the earlier of the redemption of the Debentures by Chorus and the business day immediately preceding the Maturity Date. The Warrants will include customary anti-dilution provisions.

Chorus has the ability (subject to meeting conditions precedent to each Convertible Unit issuance) to issue Convertible Units in up to four tranches by no later than March 31, 2017. All of the Warrants will be issued to Fairfax upon the issuance of the initial tranche, however, any Warrants relating to Debentures that are not ultimately issued will not be exercisable by the holder thereof.

Assuming the exercise of all of the Warrants, Fairfax, through its subsidiaries, will beneficially own 24,242,424 of the issued and outstanding Shares of Chorus, representing approximately 16.5% of all issued and outstanding Shares after the exercise of all of the Warrants (assuming no other issuances of Shares by Chorus or any adjustments to the Shares issuable upon the exercise of the Warrants pursuant to the applicable anti-dilution provisions).

Fairfax has agreed to hold the Convertible Units until at least December 31, 2019 after which time it may dispose of all or part of the Convertible Units.

A copy of the subscription agreement containing the terms and conditions on which Fairfax has agreed to subscribe for the Convertible Units is available on SEDAR at www.sedar.com. In addition to including certain representations, warranties and covenants made by Chorus in connection with the issuance of the Debentures and Warrants (see Section 7 - Liquidity - Capital Commitments), it attaches the forms of indenture for the Debentures and Warrants.

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.

Credit Facilities

As at December 31, 2016, Chorus' subsidiaries had a combined total of $40.0 million in undrawn secured credit facilities and an additional US$8.0 million secured facility specifically for letters of credit. Under these facilities, Chorus has provided letters of credit totaling $4.5 million to third parties, to indemnify them, in the event that Chorus does not perform its contractual obligations. The letters of credit mature at various dates ranging from March 2017 to March 2018.

Interest rate risk

Forty-six term loans with EDC and the Nova Scotia Jobs Fund loan bear fixed interest rates and the consideration payable (as described above) does not bear interest. These debts are not subject to interest rate volatility. Eight term loans with EDC bear floating interest rates. This debt is therefore subject to interest rate volatility. The allocation of fixed rate debt to floating rate debt at December 31, 2016 is 97.5% fixed and 2.5% floating.

Chorus manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize potential for changes in interest rates to cause adverse changes in cash flows to Chorus.

A 1% change in the interest rate would not have had a material impact on net income for the year ended December 31, 2016.

7 LIQUIDITY

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

Chorus has a number of treasury management practices to promote strong liquidity and continued access to capital to fund its diversification and growth. These include monitoring liquidity, leverage, cash flows and dividends.

Liquidity

As of December 31, 2016 Chorus had $23.5 million in cash, and $40.0 million in revolving loans, all of which were available. The cash balance, together with available credit on the revolving loan, is used to manage working capital demands, capital expenditures, and other commitments. Chorus is satisfied that it has ample liquidity to execute its business plan.

Leverage

Chorus has reviewed market-acceptable ranges for leverage in the airline and aircraft leasing industries, and intends to stay within those ranges, with changes for relatively short periods of time, to allow for accretive investments.

The issuance of the Debentures forming part of the Convertible Units will have the effect of increasing Chorus' overall debt leverage until they mature or are redeemed by Chorus in connection with an exercise of the Warrants or as otherwise set out in the indentures governing the Debentures and Warrants (copies of which are available on SEDAR at www.sedar.com). However, scheduled payments under term debt facilities are expected to steadily decrease Chorus' debt leverage with each passing year.

Chorus' leverage ratio (adjusted net debt to trailing 12-month EBITDAR) was 3.7 as of December 31, 2016 (2015 - 2.8). Refer to Section 17 - Non-GAAP Financial Measures.

Cash Flows

Chorus continues to generate positive operating income and cash flows from operations before net changes in non-cash balances, producing $211.9 million in 2016 compared to $183.7 million in 2015.

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

	Three months ended December 31,			Year ended December 31,		
	2016	2015	Change	2016	2015	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	64,928	57,711	7,217	211,891	183,744	28,147
Restricted cash related to aircraft financing	—	1,262	(1,262)	—	7,192	(7,192)
Long-term borrowings	188,631	119,054	69,577	377,367	142,779	234,588
Other	—	—	—	—	1,634	(1,634)
Total sources	**253,559**	**178,027**	**75,532**	**589,258**	**335,349**	**253,909**
Uses of Cash:						
Net changes in non-cash balances related to operations	(13,041)	(25,212)	12,171	(21,390)	(44,830)	23,440
Repayment of long-term debt and obligations under finance leases	(19,848)	(12,186)	(7,662)	(64,712)	(43,635)	(21,077)
Repayment of consideration payable	—	—	—	(12,438)	—	(12,438)
Dividends	(14,667)	(14,667)	—	(58,668)	(57,432)	(1,236)
Business acquisition, net of cash acquired	—	—	—	—	(45,474)	45,474
Additions to property and equipment	(221,715)	(144,997)	(76,718)	(437,314)	(230,941)	(206,373)
Other	(3,378)	(7)	(3,371)	(3,345)	—	(3,345)
Total usage	**(272,649)**	**(197,069)**	**(75,580)**	**(597,867)**	**(422,312)**	**(175,555)**
Effect of foreign exchange on cash	**431**	**1,314**	**(883)**	**(577)**	**5,062**	**(5,639)**
Net change in cash during the periods	**(18,659)**	**(17,728)**	**(931)**	**(9,186)**	**(81,901)**	**72,715**
Cash – Beginning of periods	**42,150**	**50,405**	**(8,255)**	**32,677**	**114,578**	**(81,901)**
Cash – End of periods	**23,491**	**32,677**	**(9,186)**	**23,491**	**32,677**	**(9,186)**

Sources of cash

Sources of cash for the three months ended December 31, 2016 totalled $253.6 million, an increase of $75.5 million. The increase was the result of long-term borrowings for the acquisition of five CRJ900s and two CRJ1000s and higher cash flow from operating activities.

Sources of cash for the year ended December 31, 2016 totalled $589.3 million, an increase of $253.9 million. The increase was the result of long-term borrowings for the acquisition of seven Q400s, five CRJ900s, two CRJ1000s, one Q400 engine and one King Air 200 purchased in 2016, as well as three CRJ200s, two Dash 8-300s, one Dash 8-100, and one King Air 200 purchased in 2015, and financed in 2016 and higher cash flow from operating activities.

Uses of cash

Uses of cash for the three months ended December 31, 2016 totalled $272.6 million, an increase of $75.6 million. Capital expenditures were $221.7 million, compared to $145.0 million in the same period of 2015. The increase related to the purchase of aircraft (which consisted of five CRJ900s and two CRJ1000s), and increased expenditures for ongoing spare part replacements for the fleet, equipment and leasehold improvements. Additional uses of cash consisted of increased payments of $7.7 million related to long-term debt and obligations under finance leases. These increases of use of cash were offset by a positive change in non-cash working capital.

Uses of cash for the year ended December 31, 2016 totalled $597.9 million, an increase of $175.6 million. Capital expenditures were $437.3 million, compared to $230.9 million in the same period of 2015. The increase related to the purchase of aircraft (which consisted of seven Q400s, five CRJ900s, two CRJ1000s, one engine 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 payment of consideration payable of $12.4 million and increased payments of $21.1 million related to long-term debt and obligations under finance leases. These increases of use of cash were offset by positive changes in non-cash working capital. In 2015, uses of cash included the acquisition of Voyageur.

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)	2016 $	2015 $	Change $	2016 $	2015 $	Change $
Capital expenditures, excluding finance leases, aircraft acquisitions and ESP	7,540	4,389	3,151	22,986	13,035	9,951
Capitalized major maintenance overhauls	4,479	7,443	(2,964)	21,627	24,029	(2,402)
Finance leases	—	12,288	(12,288)	—	19,479	(19,479)
Aircraft acquisitions and ESP	210,999	137,965	73,034	394,004	199,877	194,127
Total capital expenditures(1)	223,018	162,085	60,933	438,617	256,420	182,197

(1) 2016 includes non-cash transactions of $1.3 million related to a Q400 engine moved from inventory to property and equipment in Q4 2016. 2015 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.

During the year ended December 31, 2016, pursuant to its Q400 purchase agreement with Bombardier Inc., Chorus took delivery of seven new Q400s and drew additional EDC financing in the amount of $167.4 million. These aircraft are CPA Covered Aircraft. On May 18, 2016, Chorus took delivery of one spare PW150A engine and drew EDC financing in the amount of $3.3 million.

On June 29, 2016 Chorus drew EDC financing in the amount of $21.9 million in relation to previously acquired aircraft, including one Dash 8-100, two Dash 8-300s, two King Air 200s, and three CRJ200s. These aircraft are not Covered Aircraft.

On November 17, 2016 and December 14, 2016, Chorus took delivery of two new CRJ1000s and drew additional financing in the amount of $55.2 million. These aircraft are leased to Air Nostrum.

On December 29, 2016, Chorus took delivery of five new CRJ900s and drew additional financing in the amount of $132.2 million. These aircraft are Covered Aircraft.

Dividends

Chorus pays a monthly dividend of $0.04 per share. In March 2015, the monthly dividend was increased from $0.0375 per share to the current level of $0.04 per share.

For the three months and year ended December 31, 2016, Chorus declared dividends of $14.5 million and $58.5 million respectively (2015 - $14.7 million and $57.8 million). For the three months and year ended December 31, 2016, Chorus paid dividends of $14.7 million and $58.7 million respectively (2015 - $14.7 million and $57.4 million respectively).

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 2017 through to 2021 and thereafter.

(expressed in thousands of Canadian dollars)	Payments Due by Period						
	Total $	**2017 $**	**2018 $**	**2019 $**	**2020 $**	**2021 $**	**After 5 years $**
Long-term debt	1,057,093	115,136	115,088	115,038	114,987	112,493	484,351
Finance leases(1)	14,507	5,511	3,222	3,222	2,552	—	—
Consideration payable	19,000	13,000	6,000	—	—	—	—
Operating leases(1)							
Air Canada and its subsidiary(2)	445,258	73,665	70,661	70,661	70,661	62,550	97,060
Other	32,011	5,900	5,419	4,876	4,193	3,479	8,144
	1,567,869	213,212	200,390	193,797	192,393	178,522	589,555

(1) A significant portion of lease payments are payable in US dollars and have been converted using a foreign exchange rate of $1.3427.
(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".

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 2 - Introduction "Caution regarding forward-looking information" and Section 9 - 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 and a change in the foreign exchange rate, among other things.

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

Chorus has entered into an agreement with Bombardier to be the launch customer for the ESP, which 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 program includes the Bombardier service bulletin and parts and anticipated labour costs to complete the service bulletin. The anticipated cost for the years 2017, 2018 and 2019 is expected to be approximately $14.6 million, $25.3 million and $6.4 million, respectively (US dollar amounts were converted to Canadian dollars at $1.3427, the December 31, 2016 closing day rate from the Bank of Canada). In connection with the issuance of the Convertible Units and the granting of certain aircraft security to the holders thereof, Chorus is required to complete the ESP for 17 Dash 8-300s by no later than December 31, 2019 and a further two Dash 8-300s by no later than December 31, 2022 for a total investment commitment of at least $60.0 million.

8 2017 OUTLOOK

The discussion that follows includes 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 2017. This information may not be appropriate for other purposes.

Chorus' subsidiaries continue to deliver results within management's expectations, supporting positive operating income and cash flows from operations. This reporting period marks two years of strong operational and financial performance under the CPA with Air Canada, and demonstrates the continued long-term value of this strong, stable revenue source.

The actions taken in 2016 position Chorus for a future of stable, long-term growth and profitability. The progress made in advancing the diversification strategy through growth in aircraft leasing is expected to continue with the addition of five new CRJ900s under the CPA and with the establishment of Chorus Aviation Capital ('CACC'). Further, Chorus expects to acquire and lease two new CRJ1000s to Air Nostrum by the end of October 2017, bringing the total number of CRJ1000s leased under this arrangement to four.

Chorus intends to grow its regional aircraft leasing business through CACC by leveraging the $200.0 million private placement of convertible debt units announced on December 19, 2016 ('the Private Placement') to acquire aircraft for lease to regional aircraft operators. CACC intends to deploy the capital in a manner consistent with prevailing market returns on leases for new and mid-life aircraft.

Chorus believes it has the opportunity to become one of the world's largest regional aircraft lessors offering a full suite of services to operators around the globe.

Chorus is determined to create additional long-term shareholder value by strengthening the foundational business with Jazz, growing and diversifying aircraft leasing revenues, and pursuing growth opportunities in the Voyageur operation.

Based on the 2016-2017 winter schedule, the 2017 summer schedule and updated planning assumptions received from Air Canada, Billable Block Hours for 2017 are expected to be between 360,000 and 374,000 hours based on 117 Covered Aircraft as at December 31, 2017. The actual number of Billable Block Hours for 2017 may vary from this anticipated range due to a number of factors, see Section 9 - Risk Factors. However, the CPA fleet transition to larger aircraft will generate approximately 10% more available seat miles in fiscal 2017 over the same period in 2016.

Capital expenditures for 2017, excluding those for the acquisition of aircraft and the ESP, and including capitalized major maintenance overhauls, are expected to be between $45.0 million and $55.0 million.

		Actual	
(expressed in thousands of Canadian dollars)	Planned 2017 $	Year ended December 31, 2016 $	Year ended December 31, 2015 $
Capital expenditures, excluding finance leases, aircraft acquisitions and ESP	19,000 to 24,000	22,986	13,035
Capitalized major maintenance overhauls	26,000 to 31,000	21,627	24,029
Finance leases	—	—	19,479
Aircraft acquisitions and ESP(1)	80,000 to 85,000	394,004	199,877
	125,000 to 140,000	438,617	256,420

(1) Planned 2017 includes the acquisition of two CRJ1000s and ESP. Planned 2017 aircraft acquisitions have been converted using a foreign exchange rate of $1.3427. Excludes any additional capital for CACC.

9 RISK FACTORS

For a detailed description of the possible risk factors associated with Chorus' business, including its dependence on the CPA, the air transportation industry, the aircraft leasing business and the Voyageur business refer to the Section entitled "Risk Factors" in Chorus' Annual Information Form dated February 15, 2017.

10 ECONOMIC DEPENDENCE

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. (Refer to Section 3 - The Chorus Business - Jazz's CPA 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 94.0% of Chorus' operating revenues for the year ended December 31, 2016 (95.4% for the year ended December 31, 2015). Approximately 7.3% and 6.8% of Chorus' operating expenses for the years ended December 31, 2016 and 2015 respectively were incurred with Air Canada and one of its subsidiaries.

11 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 years ended December 31, 2016 and 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 2016 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, 2016	2015
Weighted average assumptions used to determine accrued benefit obligation		
- Discount rate	3.2% - 3.7%	3.4% - 3.9%
- Rate of compensation increase	2.0% - 4.5%	2.0% - 4.5%
- Health care inflation - Select	6.0%	6.0%
- 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	3.4% - 3.9%	3.5% - 3.8%
- Rate of compensation increase	2.0% - 4.5%	2.0% - 4.5%
- Health care inflation - Select	6.1%	6.1%
- 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 $9.1 million to annual depreciation expense.

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.

12 CHANGES IN ACCOUNTING STANDARDS

The significant accounting policies of Chorus are described in note 3 of the December 31, 2016 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" ("IAS 17"). 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" ("IAS 12") 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 determined that these amendments have no impact at this time.The IASB issued amendments to IFRS 2, "Share-based Payment" ("IFRS 2"), to clarify the classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018. Chorus is currently evaluating the impact of these amendments on its consolidated financial statements.

The IASB issued amendments to IFRS 2, "Share-based Payment" ("IFRS 2"), to clarify the classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018. Chorus is currently evaluating the impact of these amendments on its consolidated financial statements.

The IASB issued amendments to IAS 7, "Statement of Cash Flows" ("IAS 7") to improve financial information provided to users of financial statements about an entity's financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. Chorus has determined that these amendments have no impact at this time.

13 FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

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, 2016, a valuation gain of $nil (2015 - $0.3 million) was recorded.

- Long-term debt

  At December 31, 2016, the fixed rate term loans had a fair value of $875.1 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, 2016, 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 interest rates used at the inception of the leases were, on average, not materially different from the year-end interest rate.

- Consideration payable

  At December 31, 2016, consideration payable had a fair value of $18.5 million. The fair value was calculated by discounting the payable at the relevant market interest rates applicable at year-end.

14 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)	2017 $	2018 $	2019 $	2020 $	2021 $
Defined benefit pension plans, current service	25,800	25,100	24,900	24,600	23,200
Defined benefit pension plan, past service	7,000	7,000	7,000	7,000	7,000
Defined contribution pension plans	13,000	13,500	13,900	14,200	14,800
Projected pension funding obligations	45,800	45,600	45,800	45,800	45,000

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. On January 1, 2015, and February 19, 2014, the Pilot DB Plan and SERP DB Plan, respectively were closed to new entrants. 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, 2016 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, 2016 financial position of the plan for funding purposes.

The solvency deficiency for the Pilot DB Plan as at January 1, 2016 was $66.1 million compared with $50.3 million as at January 1, 2015.

The January 1, 2016 financial position of the Pilot DB Plan for funding purposes applies an average of the solvency ratio over a three year period.

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 2 - Introduction, "Caution regarding forward-looking information", Section 11 - Critical Accounting Estimates, and Section 9 - 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.

15 RELATED PARTY TRANSACTIONS

As at December 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 or otherwise immaterial to Chorus and the personnel involved.

16 CONTROLS AND PROCEDURES

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").

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, 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 operating effectively.

Due to 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, 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 December 31, 2016, and approved these documents prior to their release.

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 signing bonuses, strategic advisory fees, CPA advisory fees, and employee separation program costs have been included within the calculation of adjusted EBITDA, it is shown separately below to facilitate transparency and comparability.

	Three months ended December 31,			Year ended December 31,		
	2016	**2015**	**Change**	**2016**	**2015**	**Change**
(expressed in thousands of Canadian dollars)	**$**	**$**	**$**	**$**	**$**	**$**
Net income	12,656	12,512	144	111,766	25,487	86,279
Add:						
Net interest expense	6,099	4,442	1,657	22,089	15,014	7,075
Income tax expense	7,552	11,152	(3,600)	32,661	35,604	(2,943)
Depreciation and amortization	21,587	17,647	3,940	81,334	59,745	21,589
EBITDA	**47,894**	**45,753**	**2,141**	**247,850**	**135,850**	**112,000**
Gain on disposal of property and equipment	(16)	(4)	(12)	(394)	(186)	(208)
Foreign exchange loss (gain)	15,449	18,617	(3,168)	(14,331)	74,336	(88,667)
Other	—	(258)	258	(313)	(758)	445
Adjusted EBITDA	**63,327**	**64,108**	**(781)**	**232,812**	**209,242**	**23,570**
Other items:						
Signing bonuses	—	—	—	5,500	13,500	(8,000)
Strategic advisory fees	3,786	—	3,786	3,786	—	3,786
CPA advisory fees	—	—	—	—	2,079	(2,079)
Employee separation program	2,235	1,578	657	5,962	3,454	2,508
Adjusted EBITDA, excluding other items	*69,348*	*65,686*	*3,662*	*248,060*	*228,275*	*19,785*

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 signing bonuses, strategic advisory fees, CPA advisory fees, and employee separation program costs have been included within the calculation 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, 2016 $	2015 $	Change $	Year ended December 31, 2016 $	2015 $	Change $
Net income for the periods	12,656	12,512	144	111,766	25,487	86,279
Unrealized foreign exchange loss (gain)	12,510	19,625	(7,115)	(25,015)	70,848	(95,863)
Adjusted net income	25,166	32,137	(6,971)	86,751	96,335	(9,584)
Adjusted net income per Share - basic	0.21	0.26	(0.05)	0.71	0.79	(0.08)
Other items:						
Signing bonuses	—	—	—	5,500	13,500	(8,000)
Strategic advisory fees	3,786	—	3,786	3,786	—	3,786
CPA advisory fees	—	—	—	—	2,079	(2,079)
Employee separation program	2,235	1,578	657	5,962	3,454	2,508
Adjusted net income, excluding other items	31,187	33,715	(2,528)	101,999	115,368	(13,369)
Adjusted net income, excluding other items per Share - basic	0.26	0.28	(0.02)	0.83	0.95	(0.12)

Adjusted Net Debt to EBITDAR

Adjusted net debt to trailing 12-month Adjusted EBITDAR, excluding other items leverage ratio (also referred to as "leverage ratio" in this MD&A) is commonly used in the airline industry and is used by Chorus as a means to measure financial leverage. Leverage ratio is calculated by dividing adjusted net debt by trailing 12-month Adjusted EBITDAR, excluding other items. Leverage is not a recognized measure under GAAP, and therefore is unlikely to be comparable to similar measures presented by other companies. Management believes leverage to be a useful term when discussing liquidity and does monitor and manage leverage. In addition, as leverage is a measure frequently analyzed for public companies, Chorus has calculated the amount in order to assist readers in this review. Leverage should not be construed as a measure of cash flows.

(expressed in thousands of Canadian dollars)	December 31, 2016 $	December 31, 2015 $	Change $
Long-term debt and finance leases	902,130	604,741	297,389
Consideration payable	18,533	30,168	(11,635)
Total debt (including current portion)	920,663	634,909	285,754
Less: Cash	(23,491)	(32,677)	9,186
Net debt	897,172	602,232	294,940
Capitalized operating leases	41,269	66,529	(25,260)
Adjusted net debt	938,441	668,761	269,680
Adjusted EBITDA, excluding other items	248,060	228,275	19,785
Add:			
Aircraft rent	5,502	8,871	(3,369)
Adjusted EBITDAR, excluding other items	253,562	237,146	16,416
Leverage ratio	3.7	2.8	0.9

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 $91.0 million and $103.3 million for the trailing twelve months ended December 31, 2016 and December 31, 2015, respectively. The majority of Chorus' aircraft under operating leases are leased or subleased from Air Canada, or its subsidiary. Aircraft rent related to these aircraft of $85.5 million and $94.5 million for the trailing twelve months ended December 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, the leverage ratio would be 4.7 and 4.2, respectively.

As at December 31, 2016, adjusted net debt increased from $668.8 million to $938.4 million, representing an increase of $269.7 million or 14.7% from December 31, 2015. The increase was a result of new debt of $377.4 million. This increase was offset by a lower US dollar exchange rate which decreased long-term debt by approximately $25.1 million, debt repayments of $64.7 million, and repayment of consideration payable of $12.4 million.

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.

	Three months ended December 31,			Year ended December 31,		
	2016	2015	Change	2016	2015	Change
(expressed in thousands of Canadian dollars)	$	$	$	$	$	$
Adjusted Cash Provided by Operating Activities before net changes in non-cash balance related to operations	64,928	57,711	7,217	211,891	183,744	28,147
Less:						
Capital expenditures, excluding finance leases, aircraft acquisitions and ESP	(7,540)	(4,389)	(3,151)	(22,986)	(13,035)	(9,951)
Capitalized major maintenance overhauls	(4,479)	(7,443)	2,964	(21,627)	(24,029)	2,402
	(12,019)	(11,832)	(187)	(44,613)	(37,064)	(7,549)
Adjusted Cash Provided by Operating Activities	**52,909**	**45,879**	**7,030**	**167,278**	**146,680**	**20,598**

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.

	Trailing twelve months ended		
(expressed in thousands of Canadian dollars)	December 31, 2016 $	December 31, 2015 $	Change $
Income before income taxes	144,427	61,091	83,336
Unrealized foreign exchange (gain) loss	(25,015)	70,848	(95,863)
Income before income taxes (and unrealized foreign exchange)	119,412	131,939	(12,527)
Add:			
Finance costs	22,667	17,457	5,210
Implicit interest in operating leases(1)	2,889	4,657	(1,768)
	144,968	154,053	(9,085)
Invested capital:			
Average long-term debt(2)	736,877	494,658	242,219
Average obligations under finance leases(3)	16,559	11,418	5,141
Average consideration payable(4)	24,351	15,084	9,267
Average Shareholders' equity	124,880	120,428	4,452
Off-balance sheet aircraft leases(5)	41,269	66,529	(25,260)
	943,936	708,117	235,819
Return on invested capital	15.4%	21.8%	(6.4)%

(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. For the trailing twelve months ended December 31, 2016 and December 31, 2015, these aircraft lease expenses totalled $5.5 million and $8.9 million respectively.
(6) Aircraft rent was $91.0 million and $103.3 million for the trailing twelve months ended December 31, 2016 and December 31, 2015 respectively. The majority of Chorus' aircraft under operating leases are leased or subleased from Air Canada, or its subsidiary. Aircraft rent related to these aircraft of $85.5 million and $94.5 million for the trailing twelve months ended December 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 12.2% and 14.1% respectively.

18 SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Chorus								
Total revenue ($000)	315,103	331,097	310,104	320,550	357,368	412,157	400,055	375,101
Net income (loss) ($000)	12,656	20,555	23,657	55,398	12,512	6,320	31,411	(24,756)
Adjusted net income(1) ($000)	25,166	28,578	18,247	14,760	32,137	31,443	23,834	8,921
Adjusted net income,(1) excluding other items ($000)	31,187	28,748	21,804	20,260	33,715	35,199	25.454	21,000
Adjusted EBITDA(1) ($000)	63,327	69,795	54,258	45,432	64,108	65,079	52,064	27,991
Adjusted EBITDA,(1) excluding other items ($000)	69,348	69,965	57,815	50,932	65,686	68,835	53,684	40,070
Net income (loss) per Share, basic ($)	0.10	0.16	0.19	0.45	0.10	0.05	0.26	(0.21)
Net income (loss) per Share, diluted ($)	0.10	0.16	0.19	0.44	0.10	0.05	0.25	(0.21)
Adjusted net income(1) per Share, basic ($)	0.21	0.23	0.15	0.12	0.26	0.26	0.20	0.07
Adjusted net income,(1), excluding other items per Share - basic ($)	0.26	0.24	0.18	0.17	0.28	0.29	0.21	0.17
FTE employees (end of period)	4,442	4,440	4,504	4,412	4,445	4,473	4,467	4,132
Number of Aircraft (end of period)	152	146	145	143	144	143	141	125
Jazz								
Departures	56,743	62,161	57,344	56,601	61,650	68,842	65,190	59,983
Block Hours	82,577	90,672	81,472	81,517	87,617	97,135	90,362	85,691
Billable Block Hours	84,362	91,067	82,964	84,375	89,365	98,209	91,559	89,104
Number of Covered Aircraft (end of period)	113	113	109	110	116	120	120	122

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

Under the CPA, Jazz 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.

19 SELECTED ANNUAL INFORMATION

The following table provides selected annual information for Chorus for the years 2014 through to 2016.

	Year ended December 31,		
(expressed in thousands of Canadian dollars, except per Share amounts)	2016 $	2015 $	2014 $
Revenue	1,276,854	1,544,681	1,666,291
Operating income	151,478	149,497	137,901
Net income	111,766	25,487	64,710
Cash	23,491	32,677	114,578
Total assets	1,462,362	1,107,339	903,343
Total long-term liabilities	1,033,276	730,294	508,363
Dividends declared	58,517	57,814	54,454
Cash provided by operating activities	190,501	138,914	202,769
Per Share			
Operating income	1.24	1.23	1.14
Net income, basic	0.91	0.21	0.53
Net income, diluted	0.89	0.20	0.52
Dividends declared	0.48	0.48	0.45

2016 Compared to 2015

The 2016 results compared to the 2015 results are discussed throughout this MD&A.

Revenue decreased mainly as a result of changes related to the CPA. Starting November 1, 2015 Jazz ceased billing Air Canada for fuel under the CPA. Also, costs incurred at YVR and certain other airports related to airport fees and certain terminal handling services are now paid directly by Air Canada and have been removed from revenue. In addition, Controllable Revenue decreased under the CPA primarily related to a reduction in Billable Block Hours, cost efficiencies and fleet transitions.

Operating income increased mainly as a result of increased aircraft leasing revenue under the CPA attributable to 13 additional Q400s added in the fourth quarter of 2015 and in the first nine months of 2016. Since Chorus acquired Voyageur on May 1, 2015, 2016 also includes an additional four months operating income for the Voyageur operation. These increases were offset by higher depreciation related to new aircraft and Voyageur and a reduction in capitalized labour and maintenance costs on owned aircraft for major maintenance overhauls.

Net income increased primarily related to a foreign exchange gain due to a change in the foreign exchange rate.

Cash decreased primarily as a result of the purchase of aircraft (see next paragraph for further detail).

Total assets increased primarily as a result of the purchase of aircraft (which consisted of seven Q400s, five CRJ900s, two CRJ1000s and one King Air). This increase was offset by decreased cash as discussed above.

Total long-term liabilities increased primarily as a result of new long-term borrowing related to the acquisition of aircraft; offset by repayment of long-term debt and consideration payable and a change in the foreign exchange rate on long-term debt.

2015 Compared to 2014

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 were 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.

20 ADDITIONAL INFORMATION

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

21 GLOSSARY OF TERMS

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

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

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

"**AMO**" means a Transport Canada approved maintenance organization;

"**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;

"**Bombardier**" means Bombardier Inc.;

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

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

"**Chorus**" means, as the context may require, one or more of Chorus Aviation Inc. and its current and former subsidiaries;

"**Chorus Aviation Capital**" or "**CACC**" means Chorus Aviation Capital Corp. (formerly Chorus Aviation Holdings Inc.), a corporation incorporated under the CBCA on November 28, 2013. CACC is a subsidiary of Chorus Aviation Inc.;

"**Controllable Costs**" mean for any period, all costs and expenses incurred and paid by Jazz 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;

"**Convertible Units**" means the convertible debt units issuable by Chorus to Fairfax comprising $200.0 million principal amount of 6.00% secured debentures maturing on December 31, 2024 and warrants exercisable to acquire up to 24,242,424 Shares of Chorus at a price of $8.25 per Share;

"**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, 2015, between Air Canada and Jazz;

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

"**CRJ200**", "**CRJ705**", "**CRJ900**" and "**CRJ1000**" means, respectively, Bombardier CRJ 200, CRJ 705, CRJ 900, and CRJ 1000 regional jet aircraft;

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

"**Debentures**" mean Convertible Units comprised of a $1,000 secured debenture;

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

"**EBITDAR**" means earnings before interest, lease rental payments, taxes, depreciation, amortization, other rent and restructuring costs. Trailing 12 months EBITDAR is a measure commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft;

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

"**ESP**" means the Bombardier Extended Service Program for extending the service life of Dash-8-300s;

"**Fixed Fees**" means the Fixed Margin per Covered Aircraft and the Infrastructure Fee per Covered Aircraft;

"**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 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 is a subsidiary of Chorus Aviation Inc.;

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

"**Jazz Group**" comprises Jazz and Jazz Leasing and any entity controlled directly or indirectly by either of them;

"**Jazz Leasing**" means Jazz Leasing Inc., the successor by amalgamation to Jazz Leasing Inc. and Jazz Aircraft Financing Inc. under the *Canada Business Corporations Act* on December 31, 2016. Jazz Leasing is a subsidiary of Chorus Aviation Inc.;

"**JTS**" means Jazz Technical Services;

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

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

"**MRO**" means maintenance, repair and overhaul;

"**North Bay Leasing Group**" comprises North Bay Leasing, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts;

"**On-time performance**" means the percentage of flights that arrive within 15 minutes of their scheduled time;

"**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 Jazz, 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;

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

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

"**Voyageur**" means Voyageur Aviation and its current and former subsidiaries including Voyageur Airways, Voyageur Aerotech and Voyageur Avparts. Voyageur is a subsidiary of Chorus Aviation Inc.;

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

"**Voyageur Airways**" mean Voyageur Airways Limited, a corporation incorporated under the *Business Corporations Act (Ontario)* on January 4, 1968. Voyageur Airways is a subsidiary of Chorus Aviation Inc.;

"**Voyageur Avparts**" mean Voyageur Avparts Inc., a corporation incorporated under the *Business Corporations Act (Ontario)* on February 2, 2016. Voyageur Avparts is a subsidiary of Chorus Aviation Inc.; and

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