chorus aviation inc.

# Fourth Quarter and Year-End 2017 Management's Discussion and Analysis of Results of Operations and Financial Condition

February 14, 2018

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## 1 OVERVIEW

The financial and operating highlights for Chorus are as follows:

| (expressed in thousands of Canadian dollars, except per Share amounts) | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2017 $ | 2016 $ | Change $ | 2017 $ | 2016 $ | Change $ |
| Operating revenue | 356,557 | 315,103 | 41,454 | 1,355,141 | 1,276,854 | 78,287 |
| Adjusted EBITDA(1) | 82,556 | 69,348 | 13,208 | 285,559 | 248,060 | 37,499 |
| Adjusted net income(1) | 23,359 | 31,187 | (7,828) | 114,455 | 101,999 | 12,456 |
| Net income | 19,744 | 12,656 | 7,088 | 166,347 | 111,766 | 54,581 |
| Net income per Share - basic | 0.16 | 0.10 | 0.06 | 1.35 | 0.91 | 0.44 |
| Adjusted net income(1) per Share - basic ($) | 0.19 | 0.26 | (0.07) | 0.93 | 0.83 | 0.10 |

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

**Annual**

- Annual 2017 net income of $166.3 million, or $1.35 per basic Share, inclusive of an unrealized foreign exchange gain of $60.9 million
- Annual 2017 Adjusted EBITDA of $285.6 million
- Annual 2017 Adjusted net income of $114.5 million, or $0.93 per basic Share

**Quarter**

- Q4 net income of $19.7 million, inclusive of an unrealized foreign exchange loss of $2.4 million
- Q4 Adjusted EBITDA of $82.6 million
- Q4 Adjusted net income of $23.4 million, or $0.19 per basic Share

- Added to the S&P/TSX Composite Index
- Diversified and grew leased fleet to 64 regional aircraft
- Completed the fourth Extended Service Program on a Dash 8-300

### Fourth Quarter Summary

| (expressed in thousands of Canadian dollars) | Three months ended December 31, 2017 $ | 2016 $ | Change $ | Change % |
|---|---|---|---|---|
| Operating revenue | 356,557 | 315,103 | 41,454 | 13.2 |
| Operating expenses | 306,755 | 273,363 | 33,392 | 12.2 |
| Operating income | 49,802 | 41,740 | 8,062 | 19.3 |
| Non-operating expenses | (21,240) | (21,532) | 292 | (1.4) |
| Income before income taxes | 28,562 | 20,208 | 8,354 | 41.3 |
| Income tax expense | (8,818) | (7,552) | (1,266) | 16.8 |
| **Net income** | **19,744** | **12,656** | **7,088** | **56.0** |
| Add (Deduct) items to get to Adjusted net income(1) | | | | |
| Unrealized foreign exchange loss | 2,358 | 12,510 | (10,152) | (81.2) |
| Strategic advisory fees | — | 3,786 | (3,786) | (100.0) |
| Employee separation program | 1,257 | 2,235 | (978) | (43.8) |
| | 3,615 | 18,531 | (14,916) | (80.5) |
| **Adjusted net income(2)** | **23,359** | **31,187** | **(7,828)** | **(25.1)** |
| Add (Deduct) items to get to Adjusted EBITDA(1) | | | | |
| Net interest expense | 13,341 | 6,099 | 7,242 | 118.7 |
| Income tax expense | 8,818 | 7,552 | 1,266 | 16.8 |
| Depreciation and amortization | 31,497 | 21,587 | 9,910 | 45.9 |
| Foreign exchange loss | 5,600 | 2,939 | 2,661 | 90.5 |
| Gain on disposal of property and equipment | (59) | (16) | (43) | 268.8 |
| | 59,197 | 38,161 | 21,036 | 55.1 |
| **Adjusted EBITDA(2)** | **82,556** | **69,348** | **13,208** | **19.0** |

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

In the fourth quarter of 2017, Chorus reported Adjusted EBITDA of $82.6 million versus $69.3 million in 2016; an increase of $13.2 million or 19.0%.

The $13.2 million increase in Adjusted EBITDA was primarily driven by:

- a $10.3 million increase related to incremental margin mainly attributed to non-CPA aircraft leasing and maintenance, repair and overhaul;
- increased aircraft leasing under the CPA of $2.7 million;
- the absence of fleet transition costs of $1.7 million, which occurred in 2016; and
- decreased operating costs related to a $2.6 million increase in capitalized labour and maintenance costs on owned aircraft for major maintenance overhauls.

These increases were partially offset by:

- a decline of $0.8 million in CPA performance incentive revenue; and
- an increase of $3.3 million in other expenses.

Adjusted net income was $23.4 million for the quarter, a decrease from the fourth quarter of 2016 of $7.8 million, or 25.1%. The change was a result of the $13.2 million increase in Adjusted EBITDA previously described, partially offset by:

- $7.2 million of interest costs related to increased aircraft debt and Convertible Units;
- a $1.3 million increase in income taxes;
- $9.9 million of additional depreciation primarily related to new aircraft; and
- $2.6 million increase in foreign exchange losses related to working capital.

Net income was $19.7 million for the quarter, an increase of $7.1 million from the fourth quarter of 2016. The increase was due primarily to a $10.2 million reduction in unrealized foreign exchange losses on long-term debt, a $1.0 million decrease in employee separation costs and the absence of strategic advisory fees of $3.7 million incurred in 2016; offset by the previously noted $7.8 million decrease in Adjusted net income.

## Annual Summary

| (expressed in thousands of Canadian dollars) | Year ended December 31, 2017 $ | 2016 $ | Change $ | Change % |
|---|---|---|---|---|
| Operating revenue | 1,355,141 | 1,276,854 | 78,287 | 6.1 |
| Operating expenses | 1,183,448 | 1,125,376 | 58,072 | 5.2 |
| Operating income | 171,693 | 151,478 | 20,215 | 13.3 |
| Non-operating income (expenses) | 10,937 | (7,051) | 17,988 | (255.1) |
| Income before income taxes | 182,630 | 144,427 | 38,203 | 26.5 |
| Income tax expense | (16,283) | (32,661) | 16,378 | (50.1) |
| **Net income** | **166,347** | **111,766** | **54,581** | **48.8** |
| Add (Deduct) items to get to Adjusted net income(1) | | | | |
| Unrealized foreign exchange gain | (60,868) | (25,015) | (35,853) | 143.3 |
| Foreign exchange gain on cash held for deposit | (1,646) | — | (1,646) | 100.0 |
| Strategic advisory fees | — | 3,786 | (3,786) | (100.0) |
| Employee separation program | 10,622 | 5,962 | 4,660 | 78.2 |
| Signing bonuses | — | 5,500 | (5,500) | 100.0 |
| | (51,892) | (9,767) | (42,125) | 431.3 |
| **Adjusted net income(2)** | **114,455** | **101,999** | **12,456** | **12.2** |
| Add (Deduct) items to get to Adjusted EBITDA(1) | | | | |
| Net interest expense | 43,511 | 22,089 | 21,422 | 97.0 |
| Income tax expense | 16,283 | 32,661 | (16,378) | (50.1) |
| Depreciation and amortization | 103,244 | 81,334 | 21,910 | 26.9 |
| Foreign exchange loss | 8,628 | 10,684 | (2,056) | (19.2) |
| Loss (gain) on disposal of property and equipment | 125 | (394) | 519 | (131.7) |
| Other | (687) | (313) | (374) | 119.5 |
| | 171,104 | 146,061 | 25,043 | 17.1 |
| **Adjusted EBITDA(2)** | **285,559** | **248,060** | **37,499** | **15.1** |

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

For the year ended December 31, 2017, Chorus reported Adjusted EBITDA of $285.6 million versus $248.1 million in 2016; an increase of $37.5 million or 15.1%.

The $37.5 million increase in Adjusted EBITDA was primarily driven by:

- a $26.0 million increase related to incremental margin mainly attributed to non-CPA aircraft leasing and maintenance, repair and overhaul;
- increased aircraft leasing under the CPA of $16.9 million;

- decreased operating costs related to a $3.7 million increase in capitalized labour and maintenance costs on owned aircraft for major maintenance overhauls; and
- the absence of fleet transition costs of $1.7 million, which occurred in 2016.

These increases were partially offset by:

- a decline of $6.4 million in CPA performance incentive revenue;
- an increase of $2.5 million in stock-based compensation expense; and
- an increase of $1.9 million in other expenses.

Adjusted net income was $114.5 million for the year, an increase from 2016 of $12.5 million, or 12.2%. The change was a result of the $37.5 million increase in Adjusted EBITDA previously described, plus a $16.3 million decrease in income taxes and a year-over-year decrease of $2.0 million in foreign exchange losses related to working capital; partially offset by:

- $21.4 million of interest costs related to increased aircraft debt and Convertible Units; and
- $21.9 million of additional depreciation primarily related to new aircraft.

Net income was $166.3 million for the year, an increase of $54.6 million, or 48.8% from the same period of 2016. The increase was due primarily to the previously noted $12.5 million increase in Adjusted net income plus:

- an increase of $35.9 million in unrealized foreign exchange gains on long-term debt;
- the absence of signing bonuses in 2017, compared to $5.5 million in signing bonuses in the same period of 2016;
- the absence of strategic advisory fees in 2017, compared to $3.7 million in strategic advisory fees in the same period of 2016; and
- foreign exchange gains of $1.6 million on US dollar denominated cash held on deposit for investment in the regional aircraft leasing business.

This was offset partially by $4.6 million increase in employee separation costs in 2017 over 2016.

## 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, 2017 and 2016, and Chorus' Annual Information Form dated February 14, 2018. 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 14, 2018.

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 conditions precedent to the closing of transactions that are announced prior to their completion; 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 or refinance existing indebtedness or assets; 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; debt 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 2018 outlook discussion in Section 8 - 2018 Outlook, projections for Chorus' pension funding obligations from 2018 to 2022 in Section 14 - Pension Plans and in the discussion throughout this MD&A of Chorus' expectations for CAC's market potential. The statements containing forward-looking information in this MD&A represent Chorus' expectations as of February 14, 2018 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 currently operates in three sectors of the regional aviation industry.

The first sector is contract flying. These flying operations are conducted through both its Jazz and Voyageur subsidiaries. Jazz operates scheduled service through a capacity purchase agreement with Air Canada, providing substantially all of its capacity to Air Canada under the Air Canada Express brand. Jazz also operates charter flights for a variety of customers and provides airport handling services (both passenger and ramp handling). Voyageur Airways provides specialized contract flying, such as medical, logistical and humanitarian flights, to international and Canadian customers.

The second sector is regional aircraft leasing. Chorus' portfolio of leased aircraft includes 64 aircraft comprising six ATR 72-600s, five Q400s, four CRJ1000s, two E190 and two E195s currently leased to air operators which are not affiliated with Chorus, as well as 34 Q400s, five CRJ900s and four Dash 8-300s currently operated by Jazz under the CPA. In addition, some leasing activity is conducted by Voyageur Airways and North Bay Leasing.

The third sector is maintenance, repair and overhaul (MRO), including parts sales. These businesses are carried on by Voyageur (through its Voyageur Aerotech and Voyageur Avparts subsidiaries) and Jazz (through its Jazz Technical Services division).

## Chorus' Growth Strategy

Chorus' vision is to deliver regional aviation to the world, a vision it is achieving by engaging and investing in synergistic sectors of the regional aviation industry. Chorus is currently focused on three lines of business, all of which build on its expertise in regional aviation:

1) Regional aircraft leasing;
2) Contract flying operations; and
3) Maintenance, repair and overhaul.

Chorus' business was initially founded on the CPA, a contract with a current term expiring in December 31, 2025. Under this contract, Chorus currently provides approximately 70% of the Air Canada Express network capacity and earns predictable compensation levels that support the current dividend and investment in future growth. Chorus remains committed to ensuring it delivers a cost-effective service of superior quality to Air Canada and believes that its 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 strengthen the value proposition of its offering to Air Canada beyond 2025.

In 2011, Chorus began earning aircraft leasing revenue by purchasing aircraft for operation and lease by Jazz under the CPA. This portfolio has grown to 34 Q400s, five CRJ900s and four Dash 8-300s.

In 2015, Chorus acquired Voyageur. This acquisition broadened Chorus' capabilities and expertise in the regional aviation sector by adding international ACMI flying expertise and highly-specialized MRO capabilities.

In 2017, Chorus launched its new regional aircraft leasing business, Chorus Aviation Capital, with the support of a $200.0 million investment in Chorus from Fairfax (see Section 6 - Capital Structure "Convertible Units"). Chorus is focused on growing this business 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.

Chorus Aviation Capital made significant progress in its first year of operation, adding a further 21 regional aircraft to Chorus' portfolio of leased aircraft, all of which are placed on lease to brand-name customers in eight countries spanning six continents. Chorus continues to see significant opportunity to grow its leasing business and intends to continue investing in its future growth.

Each of Chorus' lines of business possesses unique expertise and capabilities in regional aviation. Their combined capabilities afford Chorus the opportunity to offer a full suite of flight, maintenance, repair, overhaul, modification and leasing solutions to regional aircraft owners and operators around the globe. Combined with Chorus' values of listening, collaborating and improving, Chorus is uniquely positioned to deliver regional aviation to the world.

## 2017 Strategic Accomplishments

The Chorus group of companies accomplished several strategic initiatives in support of its corporate objectives to grow and diversify the business, and improve its cost competitiveness. Highlights of 2017 included:

Regional Aircraft Leasing

- By the end of 2017, Chorus Aviation Capital ("CAC") completed the acquisition of 21 aircraft and leased them to brand-name regional carriers based in eight countries on six continents. These aircraft have an average age of less than three years and have an average leasing term greater than seven years. Together with the 43 aircraft leased under the CPA, Chorus' leased fleet of 64 aircraft is worth over one billion dollars.

  To date CAC has acquired:

  - four CRJ1000s leased to Air Nostrum;
  - three ATR 72-600s leased to Flybe:
  - three ATR 72-600s leased to Virgin Australia;
  - three Bombardier Q400s leased to Falcon Aviation Services;
  - one Embraer 190 leased to KLM Cityhopper;
  - three Embraer 190s leased to Aeromexico Connect;
  - two Embraer 195s leased to Azul Brazilian Airlines; and
  - two Q400 aircraft leased to Ethiopian Airlines.

- Aircraft leasing under the CPA increased by $16.9 million or 17.1% with the addition of five new CRJ900s, five Q400s and four Dash 8-300s (post completion of an Extended Service Program ("ESP")).

Contract Flying

- Jazz operated over 230,000 Air Canada Express flights, carrying just under 11 million passengers on behalf of Air Canada.

- Commenced new contracted flying missions in Sweden, Denmark and Aruba.

- Transitioned a significant portion of the workforce to new industry competitive wage scales; currently 52% of Jazz pilots are operating under the new collective agreement.

- Added ten efficient aircraft (five CRJ900s and five Q400s) and removed six less efficient aircraft (three CRJ200s and three Dash 8-100s). Available seat miles increased by approximately 3% over 2016.

MRO

- Completed the world's first ESP on Dash 8-300 aircraft. The ESP extends the life of the aircraft by approximately 15 years. Four ESPs were completed and a minimum of 12 additional aircraft are scheduled to undergo the ESP program by the end of 2019.

- Became an Authorized Service Facility for Bombardier Commercial Aircraft at the MRO base in Halifax.

- Executed on third-party maintenance contracts and increased the number of heavy maintenance lines at the Halifax facility from three to five lines.

- Engineered a Supplemental Type Certificate and converted two former Jazz Dash 8-100 aircraft to Package Freighters and leased them to a third party. This conversion was the first of its kind with a Dash 8-100.

- Parted out seven aircraft to support strong market demand for part sales.

- Demonstrated strong technical capabilities through maintenance and engineering contracts including inflight entertainment and wireless GOGO installations, cabin seat reconfigurations of CRJ705 and Q400 aircraft, and the refurbishment of certain aircraft interiors**.**

**Jazz**

Jazz is the largest regional airline in Canada, and operates more flights into more airports in Canada than any other airline. Jazz and Air Canada are parties to the CPA under which Air Canada purchases substantially all of Jazz's fleet capacity at pre-determined rates. Air Canada is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft, including revenue from passenger ticket sales and Cargo Services. Accordingly, Air Canada bears all of the market risk associated with fluctuations in those revenues.

Jazz's operations provide a significant part of Air Canada's domestic and transborder network under the Air Canada Express brand. Under the CPA, Jazz provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada and to and from certain destinations in the U.S. As at December 31, 2017, Jazz operated scheduled passenger service on behalf of Air Canada with approximately 700 departures per weekday to 59 destinations in Canada and 15 destinations in the U.S., using 117 Covered Aircraft. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and provide valuable traffic feed to Air Canada's mainline routes. The CPA currently has a term which expires on December 31, 2025. A copy of the CPA is available on SEDAR at www.sedar.com.

**Capacity Purchase Agreement with Air Canada**

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. With the exception of flight crew labour costs, a majority of Controllable Revenue rates are determined annually or on a three-year cycle through negotiation with Air Canada (refer to Section 9 - Risk Factors). Chorus is also paid Pass-Through Revenue, which is based on Pass-Through Costs reimbursed by Air Canada.

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 $111.3 million for 2017, and now that all incremental aircraft are in operation, 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 at $64.9 million per year. (Please refer to Section 2 - Introduction, "Caution regarding forward-looking information".)

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 earns aircraft leasing revenue under the CPA from 34 Q400s, five CRJ900s, four Dash 8-300s and spare engines owned by it and Jazz Leasing. For the year ended December 31, 2017, Jazz earned aircraft leasing revenue under the CPA of $115.9 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 |
| Certain of the Chorus Q400s, CRJ900s and Dash 8-300s 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 |
| 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 certain changes in 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.

In 2017, Chorus derived approximately 90% of its revenue from the CPA (94% in 2016); however, approximately 73% of Chorus' consolidated revenue in 2017 was attributable to Pass-Through Revenue and Controllable Revenue.

**Chorus Aviation Capital**

Chorus Aviation Capital was launched at the start of 2017, with the objective of developing Chorus’ aircraft leasing activity 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.

In March 2017, Chorus issued $200.0 million gross principal amount of Convertible Units to Fairfax and invested the net proceeds in Chorus Aviation Capital to drive the growth of its regional aircraft leasing business. As at December 31, 2017, Chorus Aviation Capital had deployed approximately 70% of that capital, adding 21 aircraft to its portfolio and bringing Chorus’ total portfolio of leased aircraft to 64 (including 34 Q400s, five CRJ900s and four Dash 8-300s which are operated by Jazz and earn leasing revenue under the CPA).

Over the course of 2017, Chorus Aviation Capital also invested in establishing and building its subsidiary in Ireland: Chorus Aviation Capital (Ireland) Limited ("CACIL"). CACIL has recruited a highly-experienced management team possessing core competencies in critical disciplines for aircraft leasing operations, including contracts administration, aircraft technical oversight, legal and capital markets.

Chorus Aviation Capital is focused on building a diversified portfolio of regional aircraft manufactured by ATR, Bombardier and Embraer for lease to regional aircraft operators around the world.

**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:

Voyageur Aviation is the parent company of Voyageur Airways, Voyageur Aerotech, and Voyageur Avparts, and 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.

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.

Voyageur Aerotech is an Approved Maintenance Organization (“AMO”) and Design Approval Organization, specializing in comprehensive regional aircraft 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 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.

## Fleet

The following table provides the total number of aircraft in Chorus' fleet as at December 31, 2017 and December 31, 2016.

| | December 31, 2016 | 2017 Fleet Changes | | | December 31, 2017 | Owned[1] |
|---|---|---|---|---|---|---|
| | | Additions | Removals | Transfers | | |
| **Leased Aircraft** | | | | | | |
| **Non-CPA Leased Aircraft** | | | | | | |
| CRJ1000s | 2 | 2 | — | — | 4 | 4 |
| Q400s | — | 5 | — | — | 5 | 5 |
| E190s | — | 4 | — | — | 4 | 4 |
| E195s | — | 2 | — | — | 2 | 2 |
| ATR 72-600s | — | 6 | — | — | 6 | 6 |
| | 2 | 19 | — | — | 21 | 21 |
| **Covered Aircraft Leased under the CPA[2]** | | | | | | |
| Q400s | 34 | — | — | — | 34 | 34 |
| CRJ900s | — | — | — | 5 | 5 | 5 |
| Dash 8-300s | — | — | — | 4 | 4 | 4 |
| | 34 | — | — | 9 | 43 | 43 |
| **Total Leased Aircraft** | 36 | 19 | — | 9 | 64 | 64 |
| **Other Covered Aircraft** | | | | | | |
| CRJ200s | 13 | — | (3) | — | 10 | — |
| CRJ705s | 16 | — | — | — | 16 | — |
| Dash 8-100s | 19 | — | (3) | — | 16 | 16 |
| Dash 8-300s | 26 | — | (2) | (2) | 22 | 17 |
| Q400s | 5 | 5 | — | — | 10 | — |
| **Total Other Covered Aircraft[2]** | 79 | 5 | (8) | (2) | 74 | 33 |
| **Jazz Charter Aircraft** | | | | | | |
| CRJ200s | 1 | — | (1) | — | — | — |
| Dash 8-300s | 2 | — | — | (2) | — | — |
| **Total Jazz Charter Aircraft[3]** | 3 | — | (1) | (2) | — | — |
| **Voyageur Aircraft** | | | | | | |
| CRJ200s | 7 | — | — | — | 7 | 7 |
| King Air 200s | 2 | — | — | — | 2 | 2 |
| Dash 8-100s[4] | 2 | — | — | 4 | 6 | 6 |
| Dash 8-300s[5] | 6 | — | — | — | 6 | 6 |
| **Total Voyageur Aircraft** | 17 | — | — | 4 | 21 | 21 |
| **Non-Operational Aircraft** | | | | | | |
| CRJ200s | — | 1 | — | — | 1 | 1 |
| CRJ900s | 5 | — | — | (5) | — | — |
| Dash 7-100s | 2 | — | (2) | — | — | — |
| Dash 8-100s | 10 | 3 | (1) | (4) | 8 | 8 |
| **Total Non-Operational Aircraft** | 17 | 4 | (3) | (9) | 9 | 9 |
| **Total Aircraft** | 152 | 28 | (12) | — | 168 | 127 |

(1) Denotes aircraft owned by Chorus versus leased from third parties.
(2) Total Covered Aircraft in the CPA is 117, including 43 aircraft leased under the CPA.
(3) Jazz has the ability to operate charter flights during the term of the CPA utilizing the Covered Aircraft (subject to the payment of a charter fee to Air Canada) or with other aircraft, provided that Jazz continues to meet its obligations under the CPA,does not market such flights as Air Canada flights and otherwise complies with the non-competition provisions of the CPA.
(4) Includes four aircraft leased to a third party.
(5) Includes one aircraft leased to a third party.

## 4 FOURTH QUARTER ANALYSIS

**Revenue**

| (expressed in thousands of Canadian dollars) | Three months ended December 31, 2017 $ | 2016 $ | Change $ |
|---|---|---|---|
| Controllable Revenue | 202,342 | 181,124 | 21,218 |
| Aircraft leasing revenue under the CPA | 29,779 | 27,067 | 2,712 |
| Fixed Margin and Infrastructure Fee per Covered Aircraft | 27,917 | 27,668 | 249 |
| Incentive revenue | 4,771 | 5,601 | (830) |
| CPA Pass-Through Revenue | 50,085 | 55,680 | (5,595) |
| Charter and other contract flying revenue | 13,575 | 11,531 | 2,044 |
| Passenger revenue | 328,469 | 308,671 | 19,798 |
| Other revenue | 28,088 | 6,432 | 21,656 |
| | 356,557 | 315,103 | 41,454 |

**Controllable revenue**

Controllable revenue increased $21.2 million or 11.7%. The increase was mainly attributable to increases under the CPA, related to engine overhaul events, flight crew salaries, wages and benefits and fleet transitions.

During 2017, Chorus incurred increased engine overhaul maintenance expense for the Jazz CRJ200s and CRJ705s which are under a time and materials based contract. This increase in expense resulted in a corresponding increase in Controllable Revenue billed to Air Canada under the CPA.

**Aircraft leasing revenue under the CPA**

Aircraft leasing revenue under the CPA was earned from 34 Q400s, five CRJ900s and four Dash 8-300s which had completed an ESP. The increase of $2.7 million from the same period last year was mainly attributable to the addition of the five CRJ900s and the four Dash 8-300s during 2017.

**CPA Pass-Through Revenue**

CPA Pass-Through Revenue decreased by $5.6 million or 10.0%. Throughout 2016, Air Canada entered into new commercial agreements with certain domestic airports in connection with Jazz's CPA operations. Costs incurred at these 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 these new agreements. This change accounted for $4.0 million of the decrease in CPA Pass-Through Revenue.

**Charter and other contract flying revenue**

Charter and other contract flying revenue increased $2.0 million. The increase was mainly attributable to additional income from international ACMI flying in the Voyageur operations.

**Other revenue**

Other revenue increased by $21.7 million. The increase was mainly attributable to increased non-CPA aircraft leasing revenue and secondly to increased third party maintenance, repair and overhaul revenue.

## Expenses

| (expressed in thousands of Canadian dollars) | Three months ended December 31, 2017 $ | 2016 $ | Change $ |
|---|---|---|---|
| Operating expenses | | | |
| Salaries, wages and benefits | 110,471 | 106,694 | 3,777 |
| Aircraft fuel | 603 | 623 | (20) |
| Depreciation and amortization | 31,497 | 21,587 | 9,910 |
| Food, beverage and supplies | 171 | 3,646 | (3,475) |
| Aircraft maintenance materials, supplies and services | 58,078 | 30,926 | 27,152 |
| Airport and navigation fees | 39,185 | 38,886 | 299 |
| Aircraft rent | 23,679 | 22,721 | 958 |
| Terminal handling services | 6,188 | 10,642 | (4,454) |
| Other | 36,883 | 37,638 | (755) |
| | 306,755 | 273,363 | 33,392 |

Operating expenses increased by $33.4 million or 12.2%, compared with the same period in 2016. Additional information regarding operating expenses is provided below.

### Salaries, wages and benefits

| (expressed in thousands of Canadian dollars) | Three months ended December 31, 2017 $ | 2016 $ | Change $ |
|---|---|---|---|
| Adjusted salaries, wages and benefits | 107,516 | 101,080 | 6,436 |
| Stock-based compensation | 4,415 | 4,270 | 145 |
| Employee separation program costs | 1,257 | 2,235 | (978) |
| Capitalized major maintenance overhaul labour | (2,717) | (891) | (1,826) |
| | 110,471 | 106,694 | 3,777 |

Adjusted salaries, wages and benefits increased $6.4 million related primarily to increased contract flying activity; offset by lower labour costs due to increased efficiencies. Stock-based compensation increased by $0.1 million as compared to the same period in 2016 primarily due to an increase in the price of Chorus' Shares. Employee separation program costs (related to various cost reduction programs), incurred during the quarter decreased $1.0 million. Chorus continues to proactively focus on cost reduction opportunities. Salaries and wages were also reduced due to $1.8 million of additional labour costs being capitalized on owned aircraft for major maintenance overhauls in 2017.

### Depreciation and amortization

Depreciation and amortization expense increased by $9.9 million from $21.6 million to $31.5 million. The purchase of additional aircraft for the regional aircraft leasing business accounted for $7.6 million and other depreciation expense increased by $2.3 million.

### Food, beverage and supplies

Food, beverage and supplies decreased $3.5 million. Effective April 28, 2017, certain food, beverage and supplies are now paid directly by Air Canada.

### Aircraft maintenance materials, supplies and services

Aircraft maintenance expense increased by $27.2 million from $30.9 million to $58.1 million. The increase was mainly attributable to $20.9 million in engine overhauls, $2.6 million increase in maintenance costs associated with increased third party activity in the JTS operation, a $1.2 million increase related to third party activity in Voyageur and $2.5 million in other maintenance costs.

During 2017, Chorus incurred increased engine overhaul maintenance expense for the Jazz CRJ200s and CRJ705s which are under a time and materials based contract. This increase in expense resulted in a corresponding increase in Controllable Revenue billed to Air Canada under the CPA.

### Airport and navigation fees

Airport and navigation fees increased by $0.3 million from $38.9 million to $39.2 million. The increase was attributable primarily to changes in aircraft deployment.

### Aircraft rent

Aircraft rent increased by $1.0 million from $22.7 million to $23.7 million. The increase was due to the addition of Q400s subleased from Air Canada for $3.8 million; offset by the return of CRJ200s in the third quarter of 2017 of $1.8 million, and a change in the US dollar exchange rate which accounted for $1.0 million.

### Terminal handling services

Terminal handling costs decreased by $4.5 million from $10.6 million to $6.2 million. Costs incurred at certain airports by Chorus were $nil in the period compared to $4.0 million for the same period last year, as those costs are now paid directly by Air Canada. In addition, increases related to changes in aircraft deployment accounted for $0.5 million.

### Other

Other expenses decreased by $0.8 million from $37.6 million to $36.9 million primarily as a result of the absence of strategic advisory fees of $3.8 million which occurred in 2016. This decrease was offset by incremental CPA and Voyageur contract flying activity resulting in increased crew costs, including travel and training.

### Non-operating income (expenses)

| | Three months ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **Change** |
| (expressed in thousands of Canadian dollars) | **$** | **$** | **$** |
| Non-operating income (expenses) | | | |
| Net interest expense | (13,341) | (6,099) | (7,242) |
| Gain on disposal of property and equipment | 59 | 16 | 43 |
| Foreign exchange loss | (7,958) | (15,449) | 7,491 |
| | (21,240) | (21,532) | 292 |

Non-operating expense decreased by $0.3 million from $21.5 million to $21.2 million.

Net interest expense increased by $7.2 million. Interest expense increased due to incremental aircraft debt incurred throughout 2016 and 2017, primarily related to new aircraft for the regional aircraft leasing business as well as interest on the Convertible Units from March 2017.

The weakening of the Canadian dollar versus the US dollar contributed to a foreign exchange loss of $8.0 million in 2017, and $15.4 million in 2016. This loss relates primarily to US dollar loans, but also includes gains and losses on working capital. The US dollar exchange rate at December 31, 2017 was $1.2545 while the US dollar exchange rate at September 30, 2017 was $1.2480. 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. 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 materially affect current or future cash flows.

## 5 ANNUAL ANALYSIS

### Revenue

| | Year ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **Change** |
| (expressed in thousands of Canadian dollars) | **$** | **$** | **$** |
| Controllable Revenue | 768,242 | 749,414 | 18,828 |
| Aircraft leasing under the CPA | 115,949 | 99,031 | 16,918 |
| Fixed Margin and Infrastructure Fee per Covered Aircraft | 111,295 | 110,256 | 1,039 |
| Incentive revenue | 15,313 | 21,725 | (6,412) |
| CPA Pass-Through Revenue | 214,863 | 224,865 | (10,002) |
| Charter and other contract flying revenue | 54,156 | 46,565 | 7,591 |
| Passenger revenue | 1,279,818 | 1,251,856 | 27,962 |
| Other revenue | 75,323 | 24,998 | 50,325 |
| | 1,355,141 | 1,276,854 | 78,287 |

### Controllable revenue

Controllable revenue increased $18.8 million or 2.5%. The increase was mainly attributable to increases under the CPA, related to engine overhaul events, flight crew salaries, wages and benefits and fleet transitions.

During 2017, Chorus incurred increased engine overhaul maintenance expense for the Jazz CRJ200s and CRJ705s which are under a time and materials based contract. This increase in expense resulted in a corresponding increase in Controllable Revenue billed to Air Canada under the CPA.

### Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA was earned from 34 Q400s, five CRJ900s and four Dash 8-300s which had completed an ESP. The increase from the same period last year was mainly attributable to the addition of eight Q400s in the first nine months of 2016, five CRJ900s in the second quarter of 2017 and four Dash 8-300s during the last six months of 2017.

### Incentive revenue

Incentive revenue was lower by $6.4 million due to operational challenges with the hub airports, weather related issues and pilot transitioning activity during 2017.

### CPA Pass-Through Revenue

CPA Pass-Through Revenue decreased by $10.0 million or 4.4%, from $224.9 million to $214.9 million. Throughout 2016, Air Canada entered into new commercial agreements with certain domestic airports in connection with Jazz's CPA operations. Costs incurred at these 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 these new agreements. This change accounted for $12.1 million. This change was offset by increased airport fees related to increased flying activity, changes in aircraft deployment and deicing costs.

### Charter and other contract flying revenue

Charter and other contract flying revenue increased $7.6 million. The increase was mainly attributable to additional income from international ACMI flying in the Voyageur operations.

### Other revenue

Other revenue increased by $50.3 million. The increase was mainly attributable to increased non-CPA aircraft leasing revenue and secondly to increased third party maintenance, repair and overhaul revenue.

### Expenses

| | Year ended December 31, | | |
|---|---|---|---|
| | **2017** | **2016** | **Change** |
| (expressed in thousands of Canadian dollars) | **$** | **$** | **$** |
| Operating expenses | | | |
| Salaries, wages and benefits | 444,993 | 432,921 | 12,072 |
| Aircraft fuel | 2,642 | 3,122 | (480) |
| Depreciation and amortization | 103,244 | 81,334 | 21,910 |
| Food, beverage and supplies | 3,773 | 13,075 | (9,302) |
| Aircraft maintenance materials, supplies and services | 192,639 | 167,547 | 25,092 |
| Airport and navigation fees | 167,147 | 160,612 | 6,535 |
| Aircraft rent | 99,390 | 91,047 | 8,343 |
| Terminal handling services | 27,907 | 39,319 | (11,412) |
| Other | 141,713 | 136,399 | 5,314 |
| | 1,183,448 | 1,125,376 | 58,072 |

Operating expenses increased $58.1 million or 5.2% from $1,125.4 million to $1,183.4 million. Additional information regarding operating expenses is provided below.

### Salaries, wages and benefits

| (expressed in thousands of Canadian dollars) | Year ended December 31, 2017 $ | 2016 $ | Change $ |
|---|---|---|---|
| Adjusted salaries, wages and benefits | 428,372 | 416,233 | 12,139 |
| Signing bonuses | — | 5,500 | (5,500) |
| Stock-based compensation | 14,439 | 11,919 | 2,520 |
| Employee separation program costs | 10,622 | 5,962 | 4,660 |
| Capitalized major maintenance overhaul labour | (8,440) | (6,693) | (1,747) |
| | 444,993 | 432,921 | 12,072 |

Salaries, wages and benefits increased by $12.1 million from $432.9 million to $445.0 million. Adjusted salaries, wages and benefits increased by $12.1 million related primarily to increased contract flying activity; offset by lower labour costs due to increased efficiencies. 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. Stock-based compensation increased $2.5 million primarily as a result of an increase in the price of Chorus' Shares. Employee separation program costs increased $4.7 million. Employee separation program costs relate to various cost reduction programs offered by Chorus. Chorus continued to proactively focus on cost reduction opportunities. Salaries and wages were also affected by $1.7 million of additional labour costs being capitalized on owned aircraft for major maintenance overhauls in 2017.

### Depreciation and amortization

Depreciation and amortization expense increased by $21.9 million from $81.3 million to $103.2 million. The purchase of additional aircraft for the regional aircraft leasing business accounted for $19.2 million and other depreciation expense increased $2.7 million.

### Food, beverage and supplies

Food, beverage and supplies decreased $9.3 million. Effective April 28, 2017, certain food, beverage and supplies are now paid directly by Air Canada.

### Aircraft maintenance materials, supplies and services

Aircraft maintenance expense increased by $25.1 million from $167.5 million to $192.6 million. The increase was attributable to $11.7 million in other maintenance costs and engine overhauls, a $10.8 million increase in maintenance costs associated with increased third party activity in the JTS operation, as well as a $2.6 million increase related to third party activity in Voyageur.

During 2017, Chorus incurred increased engine overhaul maintenance expense for the Jazz CRJ200s and CRJ705s which are under a time and materials based contract. This increase in expense resulted in a corresponding increase in Controllable Revenue billed to Air Canada under the CPA.

### Airport and navigation fees

Airport and navigation fees increased by $6.5 million from $160.6 million to $167.1 million. The increase was attributable primarily to changes in aircraft deployment and increased flying activity.

### Aircraft rent

Aircraft rent increased by $8.3 million from $91.0 million to $99.4 million. The increase was due to the addition of Q400s subleased from Air Canada for $16.0 million; offset by $6.1 million related to the return of CRJ200s in 2016 and 2017 and a change in the US dollar exchange rate which accounted for $1.6 million.

### Terminal handling services

Terminal handling costs decreased by $11.4 million from $39.3 million to $27.9 million. Costs incurred at certain airports by Chorus were $nil in the period compared to $12.1 million for the same period last year, as those costs are now paid directly by Air Canada. This decrease was offset by increases related to changes in aircraft deployment and increased deicing costs.

### Other

Other expenses increased by $5.3 million from $136.4 million to $141.7 million. The increase was related to incremental CPA and Voyageur contract flying activity resulting in increased crew costs, including travel and training; offset by the absence of strategic advisory fees in 2017 versus fees of $3.8 million incurred in 2016.

### Non-operating income (expenses)

| | Year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | Change |
| (expressed in thousands of Canadian dollars) | $ | $ | $ |
| Non-operating income (expenses) | | | |
| Net interest expense | (43,511) | (22,089) | (21,422) |
| (Loss) gain on disposal of property and equipment | (125) | 394 | (519) |
| Foreign exchange gain | 53,886 | 14,331 | 39,555 |
| Other | 687 | 313 | 374 |
| | 10,937 | (7,051) | 17,988 |

Non-operating income increased by $18.0 million from an expense of $7.1 million to income of $10.9 million.

Net interest expense increased by $21.4 million. Interest expense increased due to incremental aircraft debt taken on throughout 2016 and 2017, primarily related to new aircraft for the regional aircraft leasing business as well as interest on the Convertible Units from March 2017.

The strengthening of the Canadian dollar for the year ended December 31, 2017 contributed to a foreign exchange gain of $53.9 million, compared to a foreign exchange gain of $14.3 million in the previous year. This gain relates primarily to US dollar loans, but also includes gains and losses on working capital. The US dollar exchange rate at December 31, 2017 was $1.2545 while the US dollar exchange rate at December 31, 2016 was $1.3427. 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. 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 materially affect current or future cash flows.

Other income relates to loan forgiveness. In 2017 and 2016, Chorus met certain employment conditions required to obtain the annual forgiveness of a portion of a forgivable loan from the province of Nova Scotia.

## 6 CAPITAL STRUCTURE

Chorus' capital structure includes a combination of equity and debt including common Shares, Convertible Units, 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. It manages 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 earnings, typically measured at the Adjusted EBITDAR level (refer to Section 17 - Non-GAAP Financial Measures) and market accepted norms for businesses in its sector. Adjusted EBITDAR 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 equity, issuing new debt, modifying the term of existing debt facilities or repaying existing facilities, utilizing surplus cash, and selling surplus assets to repay debt.

Chorus' capital structure was as follows as at December 31, 2017 and December 31, 2016.

| (expressed in thousands of Canadian dollars) | 2017<br>$ | 2016<br>$ | Change<br>$ |
|---|---|---|---|
| **Equity** | | | |
| Capital | 32,412 | 16,819 | 15,593 |
| Contributed surplus | 1,040,826 | 1,041,345 | (519) |
| Deficit | (798,085) | (919,201) | 121,116 |
| Equity component of Convertible Units | 2,981 | — | 2,981 |
| | 278,134 | 138,963 | 139,171 |
| **Convertible Units** | 193,540 | — | 193,540 |
| **Finance leases** | 7,981 | 13,633 | (5,652) |
| **Long-term debt** | 1,114,809 | 888,497 | 226,312 |
| **Consideration payable** | 4,387 | 18,533 | (14,146) |
| **Total capital** | 1,598,851 | 1,059,626 | 539,225 |

As at February 9, 2018 and December 31, 2017, the issued and outstanding Shares of Chorus were as follows:

| | February 9, 2018 | December 31, 2017 |
|---|---|---|
| **Total issued and outstanding Shares** | 125,410,001 | 125,410,001 |
| Shares potentially issuable | | |
| Stock-based compensation plans | 2,637,286 | 2,637,286 |
| **Total outstanding and potentially dilutive Shares** | 128,047,287 | 128,047,287 |

In addition, approximately 24,242,242 common Shares are potentially issuable at an exercise price of $8.25 in connection with the private placement of Convertible Units as noted below.

**Dividend Reinvestment Program ("DRIP")**

Chorus implemented a DRIP effective February 1, 2018, the DRIP provides Shareholders who are resident in Canada the opportunity to purchase additional Shares using cash dividends paid on Shares enrolled in the DRIP. All Shares purchased under the DRIP are newly issued by Chorus from treasury, and the proceeds received by Chorus are used for general corporate purposes.

The price for Shares purchased under the DRIP is equal to 100% of the average market price; however, Chorus may, from time to time, offer a discount of up to 5% from the average market price for Shares purchased under the DRIP. As of the date of this MD&A, Chorus offers a 4% discount and reserves the right to change or eliminate the discount at any time by way of news release.

**Long-term debt**

Long-term debt consists of the following:

| (expressed in thousands of Canadian dollars) | December 31, 2017 $ | December 31, 2016 $ |
|---|---|---|
| Amortizing term loans | | |
| Secured by aircraft[1a] | 1,093,350 | 866,141 |
| Secured by engines[1b] | 11,459 | 11,356 |
| Nova Scotia Jobs Fund loan - secured by office building[2] | 10,000 | 11,000 |
| | 1,114,809 | 888,497 |
| Less: Current portion | 118,729 | 84,543 |
| | 996,080 | 803,954 |

Chorus' debt agreements contain covenants, which if breached and not waived by the relevant lenders, could result in the acceleration of indebtedness. Since some of these agreements are cross-defaulted to other debt agreements, a default or acceleration under one agreement could cause a default or acceleration under another agreement. Therefore, if Chorus were to default under its debt agreements, this could have a material adverse effect on Chorus' financial position, cash flows and prospects.

(1) Amortizing term loans

a) Secured by aircraft - Individual term loans, repayable in monthly, quarterly, or semi-annual instalments, ranging from $0.1 million to $1.3 million, bearing fixed, floating, and floating interest fixed via swap agreements at a weighted average rate of 3.820%, maturing between April 2020 and December 2028, each secured primarily by its respective aircraft and engines. These instalments are payable in USD or Euro and have been converted to CAD at period end foreign exchange rates of 1.2545 USD to CAD and 1.5052 Euro to CAD. As at December 31, 2017, the total payable under these term loans in US dollars and Euros was US$787.3 million and €71.4 million, respectively (December 31, 2016 - US$604.0 million and €39.0 million, respectively), and the net book value of property and equipment pledged as collateral under these term loans was CAD$1,431.9 million (December 31, 2016 - $970.2 million). Chorus has restricted cash of $19.3 million related to these borrowings.

b) Secured by engines - Individual term loans, repayable in monthly instalments of approximately $0.1 million, including fixed interest at a weighted average rate of 4.316%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine. These instalments are payable in USD and have been converted to CAD at a period end foreign exchange rate of 1.2545 USD to CAD. As at December 31, 2017, the total engine financing payable in US dollars was US$9.1 million (December 31, 2016 - US$8.5 million) and the net book value of property and equipment pledged as collateral under Q400 engine financing was CAD $11.0 million (December 31, 2016 - $11.5 million).

c) Financial Covenants - Amortizing term loans totalling CAD$813.5 million, payable at December 31, 2017, have covenants which apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing), the “North Bay Leasing Group” (comprising North Bay Leasing, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts), and various subsidiaries of Chorus Aviation Capital (which hold aircraft acquired for lease to customers outside the Chorus group and the CPA).

   The Jazz Group is required to maintain a maximum adjusted leverage and a minimum adjusted interest debt coverage ratio. The financing agreement with the lender 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, 2017, the Jazz Group was in compliance with these covenants.

   The North Bay Leasing Group is required to maintain prescribed liquidity levels, a minimum lease coverage ratio, and a minimum EBITDAR level, measured annually prior to the payment of consideration payable to the former owner of Voyageur. As at December 31, 2017, the North Bay Leasing Group was in compliance with these covenants. Also, Voyageur Aviation, Voyageur Airways, Voyageur Aerotech and Voyageur Avparts have each provided full recourse guarantees to the lender, and Chorus Aviation Holdings II Inc. has pledged the shares of North Bay Leasing Inc. to the lender.

   In June 2017, certain subsidiaries of Chorus Aviation Capital entered into financing agreements with the lender in connection with the acquisition of six ATR 72-600s. Both Chorus Aviation Capital and Jazz Leasing have guaranteed the indebtedness under these agreements to the lender. Under the terms of the financing agreements, Chorus Aviation Capital is required to maintain a maximum consolidated total debt to tangible net worth ratio and is also prohibited from declaring or paying dividends or other distributions unless its consolidated tangible net worth is equal to at least the prescribed minimum. As at December 31, 2017, Chorus Aviation Capital and its subsidiaries were in compliance with these covenants. The indebtedness under these agreements is cross-defaulted to any payment default by Jazz Leasing under its other debt facilities with the lender. It is also cross-defaulted and cross-collateralized to any other debt of Chorus Aviation Capital or its subsidiaries supported by the lender, except debt in respect of which such lender does not have recourse beyond the borrower entity.

   Amortizing term loans totaling CAD$32.5 million payable at December 31, 2017 have covenants which apply directly to Chorus Aviation Leasing Inc., a subsidiary of Chorus Aviation Inc. This subsidiary is required to maintain a minimum consolidated tangible net worth. At December 31, 2017, Chorus Aviation Leasing Inc. was in compliance with this covenant.

(2) Nova Scotia Jobs Fund loan

Term 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.

(3) Revolving loan

On August 30, 2017 Chorus entered into a three-year committed operating credit facility. The facility provides Chorus and certain designated subsidiaries (collectively, the "Credit Parties") with a committed limit of up to $50.0 million with the opportunity to borrow up to a further $25.0 million on a demand basis, subject in each case to a borrowing base calculation based principally on the value of eligible accounts receivable, inventory and equipment. As of December 31, 2017 no amounts were drawn on the facility, however, Chorus has provided letters of credit totalling $6.3 million that reduce the amount available under this facility. This facility replaces $40.0 million in demand operating credit facilities previously held by Chorus and certain of its subsidiaries. The indebtedness under this facility is secured by all present and after-acquired personal property of the Credit Parties, excluding aircraft, engines and certain real estate property. It contains customary representations, warranties and covenants, including maximum total leverage and fixed charge covenants.

Under the terms of this credit facility, Chorus is required to maintain a maximum ratio of total debt to EBITDA, as well as a minimum ratio of EBITDA to fixed charges. At December 31, 2017, Chorus was in compliance with this covenant.

The majority of the following future repayments of long-term debt are payable in US dollars and have been converted to Canadian dollars at $1.2545, which was the exchange rate in effect at the end of day closing December 31, 2017.

| (expressed in thousands of Canadian dollars) | $ |
|---|---|
| No later than one year | 118,729 |
| Later than one year and no later than five years | 542,773 |
| Later than five years | 453,307 |
| | 1,114,809 |

**Convertible Units**

In December 2016, Chorus entered into a subscription agreement with Fairfax for an investment of $200.0 million in Chorus through a private placement of Convertible Units. In March 2017, Chorus received gross proceeds of $200.0 million upon issuance of the Convertible Units. The net proceeds received by Chorus were approximately $196.0 million, after deduction of the expenses associated with the placement.

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 senior debenture (the “Debenture”) and 121.21212121 warrants (the “Warrants”). The Debentures 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 are 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 is 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 also include customary anti-dilution provisions.

Assuming the exercise of all of the Warrants, Fairfax, through its subsidiaries, would beneficially own 24,242,424 of the issued and outstanding Shares of Chorus, representing approximately 16.2% 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).

The Debentures are listed on the Toronto Stock Exchange under the symbol CHR.DB. 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.

**Interest rate risk**

The majority of Chorus' debt, including the majority of the amortizing terms loans and the Nova Scotia Jobs Fund Loan, is not subject to interest rate volatility as it bears interest at fixed rates. Chorus has several term floating rate loans that are subject to interest rate volatility. Certain of these are related to aircraft for which Chorus has a variable lease rate with the underlying lessee and therefore has limited the exposure to the fluctuating rate of those loans. It also has four additional term loans which bear floating interest rates, but has entered into interest rate swaps that effectively fix the interest rates of those loans. As at December 31, 2017, 94.2% of Chorus' debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 5.8% floating rate debt.

Chorus manages interest rate risk on a portfolio 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, 2017.

## 7 LIQUIDITY

Chorus' liquidity needs are primarily related to funding ongoing operations, planned capital expenditures including investment in aircraft acquisitions for purposes of business growth and diversification, principal and interest payments related to long-term borrowings and the payment of dividends.

Chorus has a number of treasury management practices designed to promote strong liquidity and continued access to capital including practices related to liquidity, leverage, cash flows and dividends, foreign exchange risk and interest rate risk.

**Liquidity**

As of December 31, 2017 Chorus had $71.2 million in cash, and a committed facility of up to $50.0 million with the opportunity to borrow up to a further $25.0 million on a demand basis. The ability to borrow on the facility is based upon eligible inventory and receivables; no amounts were drawn as of December 31, 2017, however, Chorus has provided letters of credit totalling $6.3 million that reduce the amount available under this facility. The cash balance, together with available credit on the revolving loan, will be used to fund the growth of its regional aircraft leasing business, as well as for working capital requirements and general corporate purposes. Chorus is satisfied that it has ample liquidity to satisfy its working capital requirements. Refer to Section 2 - Introduction, "Caution regarding forward-looking information".

### 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 has had 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. However, excluding the regional aircraft leasing business, scheduled payments under term debt facilities are expected to reduce Chorus' debt and related leverage over the next several years.

Chorus' leverage ratio (Adjusted net debt to trailing 12-month Adjusted EBITDAR) was 4.4 as at December 31, 2017 (December 31, 2016 - 3.7). Leverage increased in 2017 due to additional debt related to the regional aircraft leasing business for which there is not yet twelve months of trailing Adjusted EBITDAR. In addition, leverage as measured on an Adjusted net debt to Adjusted EBITDAR basis is typically higher in the regional aircraft leasing business. Refer to Section 17 - Non-GAAP Financial Measures. As the regional aircraft leasing business continues to grow, Chorus' overall leverage will migrate to be more in line with market acceptable levels for regional aircraft leasing businesses.

### Cash Flows

Chorus continues to generate positive operating income and cash flows from operations before net changes in non-cash balances, producing $61.4 million and $235.6 million for the three months and year ended December 31, 2017, respectively, compared to $64.9 million and $211.9 million for the three months and year ended December 31, 2016, respectively.

The following table provides information on Chorus' cash flows for the three months and years ended December 31, 2017 and December 31, 2016.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| (expressed in thousands of Canadian dollars) | 2017<br>$ | 2016<br>$ | Change<br>$ | 2017<br>$ | 2016<br>$ | Change<br>$ |
| **Sources of Cash:** | | | | | | |
| Cash provided by operating activities before net changes in non-cash balances related to operations | 61,350 | 64,928 | (3,578) | 235,550 | 211,891 | 23,659 |
| Net changes in non-cash balances related to operations | — | — | — | 35,670 | — | 35,670 |
| Long-term borrowings | 59,161 | 188,631 | (129,470) | 313,822 | 377,367 | (63,545) |
| Convertible Units, net of transaction costs | — | — | — | 195,972 | — | 195,972 |
| Stock options exercised | 3,928 | — | 3,928 | 14,525 | — | 14,525 |
| Decrease in restricted cash | 5,367 | — | 5,367 | — | — | — |
| Other | 59 | 6 | 53 | 69 | 497 | (428) |
| **Total sources** | **129,865** | **253,565** | **(123,700)** | **795,608** | **589,755** | **205,853** |
| **Uses of Cash:** | | | | | | |
| Net changes in non-cash balances related to operations | (37,326) | (13,041) | (24,285) | — | (21,390) | 21,390 |
| Repayment of long-term debt and obligations under finance leases | (31,066) | (19,848) | (11,218) | (96,354) | (64,712) | (31,642) |
| Repayment of consideration payable | — | — | — | (13,000) | (12,438) | (562) |
| Dividends | (14,967) | (14,667) | (300) | (59,141) | (58,668) | (473) |
| Acquisition of leased aircraft, net of debt and cash assumed | (1,272) | — | (1,272) | (31,487) | — | (31,487) |
| Additions to property and equipment | (126,073) | (221,715) | 95,642 | (533,209) | (437,314) | (95,895) |
| Increase in restricted cash | — | (3,384) | 3,384 | (8,588) | (3,842) | (4,746) |
| **Total usage** | **(210,704)** | **(272,655)** | **61,951** | **(741,779)** | **(598,364)** | **(143,415)** |
| **Effect of foreign exchange on cash** | **3,358** | **431** | **2,927** | **(6,071)** | **(577)** | **(5,494)** |
| **Net change in cash during the periods** | **(77,481)** | **(18,659)** | **(58,822)** | **47,758** | **(9,186)** | **56,944** |
| **Cash – Beginning of periods** | **148,730** | **42,150** | **106,580** | **23,491** | **32,677** | **(9,186)** |
| **Cash – End of periods** | **71,249** | **23,491** | **47,758** | **71,249** | **23,491** | **47,758** |

**Sources of cash**

Sources of cash for the three months ended December 31, 2017 totalled $129.9 million, a decrease of $123.7 million. The decrease was mainly the result of a reduction in long-term borrowings, as in the fourth quarter of 2017 Chorus acquired and financed three less aircraft than in the fourth quarter of 2016. Contributions to cash consisted of a decrease in restricted cash related to leasing agreements of $5.4 million, other contributions of $0.1 million and proceeds received on stock options exercised contributed $3.9 million.

Sources of cash for the year ended December 31, 2017 totalled $795.6 million, an increase of $205.9 million. The increase was mainly the result of proceeds received for the Convertible Units (refer to Section 6 - Capital Structure for further discussion). As well, a positive change in non-cash working capital increased sources of cash, and proceeds received on stock options exercised contributed $14.5 million. These positive changes were offset by a reduction in long-term borrowings for aircraft acquisitions.

**Uses of cash**

Uses of cash for the three months ended December 31, 2017 totalled $210.7 million, a decrease of $62.0 million related to decreased aircraft investment activity during the quarter. Capital expenditures were $126.1 million, compared to $221.7 million in the same period of 2016. As well, there was a negative change in non-cash working capital and increased payments of $11.2 million related to incremental long-term debt.

Uses of cash for the year ended December 31, 2017 totalled $741.8 million, an increase of $143.4 million, primarily related to expansion of the regional aircraft leasing business. Capital expenditures were $533.2 million, compared to $437.3 million in the same period of 2016. In addition there were increased payments of $31.6 million related to the incremental long-term debt. Finally, a positive change in non-cash working capital decreased uses of cash.

**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) | 2017 $ | 2016 $ | Change $ | 2017 $ | 2016 $ | Change $ |
| Capital expenditures, excluding aircraft acquisitions and ESP | 10,647 | 7,540 | 3,107 | 31,074 | 22,986 | 8,088 |
| Capitalized major maintenance overhauls | 7,257 | 4,479 | 2,778 | 27,003 | 21,627 | 5,376 |
| Aircraft acquisitions and ESP (1) | 112,172 | 210,999 | (98,827) | 564,271 | 394,004 | 170,267 |
| Total capital expenditures | 130,076 | 223,018 | (92,942) | 622,348 | 438,617 | 183,731 |

(1) Includes the acquisition of three Q400s on lease to Falcon Aviation Services of Abu Dhabi on July 19, 2017. This purchase was made through the acquisition of shares of certain special purpose entities that hold head leases on the aircraft together with purchase option rights exercisable upon payment in full of existing debt terms incurred to finance the original purchase of the aircraft.

The 2017 actual capital expenditures, excluding aircraft acquisitions and ESP of $31.1 million were higher than anticipated expenditures of $23.0 million to $28.0 million due to the timing of costs related to a regulatory requirement coming in earlier than anticipated.

The 2017 actual aircraft acquisitions and ESP of $564.3 million were higher than anticipated expenditures of $490.0 million to $510.0 million due to the acquisition of two aircraft in the fourth quarter of 2017 which had not been previously announced.

**Commitments for capital expenditures**

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 began in April 2017, with four aircraft being completed by end of December 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 (a portion of which will be incurred in US dollars) for the years 2018, 2019, and 2020 is expected to be approximately $24.8 million, $11.3 million and $0.8 million, respectively (US dollar amounts were converted to Canadian dollars at $1.2545, the December 31, 2017 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 16 Dash 8-300s by no later than December 31, 2019 and a further three Dash 8-300s by no later than December 31, 2022, for a total investment commitment of at least $60.0 million, which includes amounts previously spent in 2015, 2016 and 2017. Refer to Section 2 - Introduction, "Caution regarding forward-looking information".

**Dividends**

Chorus currently pays a monthly dividend of $0.04 per Share.

Chorus declared dividends of $15.0 million and $59.3 million respectively for the three months and year ended December 31, 2017 (2016 - $14.5 million and $58.5 million respectively).

Chorus paid dividends of $15.0 million and $59.1 million respectively for the three months and year ended December 31, 2017 (2016 - $14.7 million and $58.7 million respectively).

**Contractual obligations and other commitments**

In addition to the commitments for capital expenditures previously noted, Chorus has commitments related to scheduled payments of principal and interest on long-term debt, Convertible Units, consideration payable and lease payments under operating leases for flight equipment and base facilities for the years 2018 through to 2022 and thereafter, all of which are summarized in the following table.

| (expressed in thousands of Canadian dollars) | Total $ | 2018 $ | 2019 $ | 2020 $ | 2021 $ | 2022 $ | After 5 years $ |
|---|---|---|---|---|---|---|---|
| | Payments Due by Period | | | | | | |
| **Long-term debt** | 1,305,361 | 159,547 | 155,897 | 196,694 | 160,369 | 139,323 | 493,531 |
| **Convertible Units** | 284,000 | 12,000 | 12,000 | 12,000 | 12,000 | 12,000 | 224,000 |
| **Finance leases**(1) | 8,413 | 3,010 | 3,010 | 2,393 | — | — | — |
| **Consideration payable** | 4,527 | 4,527 | — | — | — | — | — |
| **Operating leases**(1) | | | | | | | |
| Air Canada and its subsidiary(2) | 458,263 | 89,965 | 89,965 | 89,055 | 68,149 | 52,634 | 68,495 |
| Other | 27,916 | 6,313 | 5,729 | 4,842 | 3,371 | 3,080 | 4,581 |
| | 2,088,480 | 275,362 | 266,601 | 304,984 | 243,889 | 207,037 | 790,607 |

(1) A significant portion of lease payments are payable in US dollars and have been converted using a foreign exchange rate of $1.2545.
(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.

## 8 2018 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 2018. 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. Chorus is determined to create additional long-term Shareholder value by strengthening the foundational CPA business, growing and diversifying aircraft leasing revenues, and pursuing additional growth opportunities.

Chorus intends to continue growing its regional aircraft leasing business through CAC by leveraging the proceeds from the private placement of convertible debt units to acquire aircraft for lease to regional aircraft operators. CAC has invested approximately 70% of that capital to date and intends to deploy the balance by mid-2018 leveraging the remaining capital with further debt financing at a ratio ranging between three and four to one, to acquire new to mid-life regional aircraft for lease. Chorus is currently examining options for future financing arrangements so as to sustain the growth in the regional aircraft leasing business.

Based on the 2017-2018 winter schedule, the 2018 summer schedule and updated planning assumptions received from Air Canada, Billable Block Hours for 2018 are expected to be between 350,000 and 375,000 hours based on 116 Covered Aircraft as at December 31, 2018. The actual number of Billable Block Hours for 2018 may vary from this anticipated range due to a number of factors, see Section 9 - Risk Factors.

Capital expenditures for 2018, excluding those for the acquisition of aircraft and the ESP, and including capitalized major maintenance overhauls, are expected to be between $44.0 million and $50.0 million.

| (expressed in thousands of Canadian dollars) | Planned 2018[1] $ | Actual Year ended December 31, 2017[2] $ | Actual Year ended December 31, 2016 $ |
|---|---|---|---|
| Capital expenditures, excluding aircraft acquisitions and ESP | 25,000 to 28,000 | 31,074 | 22,986 |
| Capitalized major maintenance overhauls | 19,000 to 22,000 | 27,003 | 21,627 |
| Aircraft related acquisitions and ESP | 23,500 to 26,500 | 564,271 | 394,004 |
| | 67,500 to 76,500 | 622,348 | 438,617 |

(1) Planned 2018 includes ESP which have been converted using a foreign exchange rate of $1.2545. Excludes any additional capital for CAC, beyond that announced.

(2) Includes the acquisition of three Q400s on lease to Falcon Aviation Services of Abu Dhabi. This purchase was made through the acquisition of shares of certain special purpose entities that hold head leases on the aircraft together with purchase option rights exercisable upon payment in full of existing debt terms incurred to finance the original purchase of the aircraft.

## 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 carried on by CAC and the Voyageur business refer to the Section entitled "Risk Factors" in Chorus' Annual Information Form dated February 14, 2018.

## 10 ECONOMIC DEPENDENCE

Chorus provides capacity for a significant portion of Air Canada's domestic and transborder regional network. Chorus is currently 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 - Capacity Purchase Agreement with Air Canada and note 20 of the audited consolidated financial statements of Chorus for the years ended December 31, 2017 and 2016 for further discussion).

## 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, 2017 and 2016.

**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 6.0% per annum for 2017 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, 2017 | 2016 |
|---|---|---|
| Weighted average assumptions used to determine accrued benefit obligation | | |
| - Discount rate | 3.2%-3.5% | 3.2% - 3.7% |
| - Rate of compensation increase | 2.0% - 4.5% | 2.0% - 4.5% |
| - Health care inflation - Select | 5.8% | 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 | 3.2%-3.7% | 3.4% - 3.9% |
| - Rate of compensation increase | 2.0% - 4.5% | 2.0% - 4.5% |
| - Health care inflation - Select | 6.0% | 6.1% |
| - Health care inflation - Ultimate | 4.5% | 4.5% |
| - Year ultimate trend reached | 2029 | 2029 |

**Depreciation and amortization of long-lived assets**

Management makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current fair value of the assets, Chorus' fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. These adjustments are accounted for on a prospective basis, through depreciation and amortization expense. A 25% reduction to the residual values of aircraft would result in an increase of $14.7 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.

### Income taxes

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors potential changes to tax law and bases its estimates on the best available information at each reporting date.

## 12 CHANGES IN ACCOUNTING STANDARDS

The significant accounting policies of Chorus are described in note 3 of the December 31, 2017 consolidated financial statements.

### New accounting standards adopted during the period

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. The adoption of this standard had no impact on the Chorus 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. As a result, additional disclosure has been included in the Chorus consolidated financial statements.

### Accounting standards issued but not yet applied

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. IFRS 15 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (cumulative effect method). Chorus will adopt the standard using the full retrospective method on January 1, 2018.

Chorus has completed its research and has reached conclusions on key accounting impacts related to both the CPA and non-CPA revenue streams.

A portion of maintenance fees earned under the CPA will be recognized using a different methodology than under the current standard Based on more specific guidance related to the identification of the contract and performance obligations, Chorus had determined that under IFRS 15, revenue recognition related to these services will be accelerated. This change will result in an adjustment to opening retained earnings of approximately $4.0 million on January 1, 2017 and an increase in revenue for the year ended December 31, 2017 of approximately $1.4 million.

Currently, Chorus recognizes all CPA Pass-Through Revenue on a gross basis. On adoption of IFRS 15, some of these pass-through items will be recognized on a net basis as Chorus is deemed to be acting as an agent. This change will not result in an adjustment to opening retained earnings. However, revenue and costs for the year ended December 31, 2017 will be reduced by approximately $4.3 million.

No other significant impacts on implementation of the new revenue standard have been identified. Chorus has completed its analysis to identify data gaps against current disclosures and has processes in place that capture the required data.

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") and IFRIC 4 *Determining whether an Arrangement contains a Lease*. Chorus does not anticipate early adoption of the new standard.

IFRS 16 eliminates the classification of leases as either operating or finance for lessees and, instead, introduces a single lessee accounting model. These new requirements will significantly impact Chorus' statement of financial position and statement of income. Qualifying leases will be recorded as a right-of-use asset or together with property and equipment, and will have a corresponding liability with both current and long-term portions. Lessor accounting under the new standard remains similar to IAS 17. Chorus anticipates that the CPA will continue to include a lease component with respect to the right to use a specific type and number of aircraft known as the Covered Aircraft. Chorus is continuing to evaluate the impact that the new standard will have on its consolidated financial statements.

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, additional changes relating to financial liabilities and new general hedge accounting requirements. Chorus has already early adopted all previous iterations of IFRS 9 (2009 through 2013). Chorus has concluded that adoption of the standard will not have a material impact on the 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 provide for requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. Chorus has concluded that adoption of the standard will not have a material impact on the financial statements as Chorus' current accounting practice for share-based payments is consistent with the amendments.

## 13 FAIR VALUE OF FINANCIAL INSTRUMENTS

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, ABCP, accounts payable and accrued liabilities, dividends payable, long-term incentive plan liability, Convertible Units, consideration payable, obligations under finance leases 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:

- Long-term debt

  At December 31, 2017, the term loans had a fair value of $1,079.1 million versus a book value of $1,114.8 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.

- Convertible Units

At December 31, 2017, the Convertible Units had a fair value of $217.6 million versus a book value of $193.5 million. The fair value was calculated by discounting the future cash flow of the respective debt at the estimated yield to maturity of similar debt instruments.

## 14 PENSION PLANS

**Projected pension funding obligations**

The table below provides projections for Chorus' pension funding obligations from 2018 to 2022:

| (expressed in thousands of Canadian dollars) | 2018<br>$ | 2019<br>$ | 2020<br>$ | 2021<br>$ | 2022<br>$ |
|---|---|---|---|---|---|
| Defined benefit pension plans, current service | 20,100 | 22,100 | 20,900 | 19,700 | 18,200 |
| Defined benefit pension plan, past service | 9,500 | 9,500 | 9,500 | 9,500 | — |
| Defined contribution pension plans | 14,500 | 15,100 | 15,900 | 16,500 | 17,500 |
| Projected pension funding obligations | 44,100 | 46,700 | 46,300 | 45,700 | 35,700 |

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, 2017 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, 2017 financial position of the plan for funding purposes.

The solvency deficiency for the Pilot DB Plan as at January 1, 2017 was $61.0 million compared with $66.1 million as at January 1, 2016.

The January 1, 2017 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, 2017, 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 individuals 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, 2017, 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, 2017 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, 2017, 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 that is used frequently by companies in the aviation industry as a measure of performance. Adjusted EBITDA (EBITDA before signing bonuses, employee separation program costs, strategic advisory fees and other items such as foreign exchange gains or losses) is a non-GAAP financial measure used by Chorus as a supplemental financial measure of operational performance. Management believes Adjusted EBITDA assists investors in comparing Chorus' performance by excluding items, which it does not believe will occur over the longer-term (such as signing bonuses, employee separation program costs and strategic advisory fees) as well, which items that are non-cash in nature such as foreign exchange gains and losses.

During the first quarter of 2017, Chorus revised its definition of Adjusted EBITDA to include signing bonuses, employee separation program costs and strategic advisory fees to facilitate transparency and comparability as these items can fluctuate from period to period. 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.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| (expressed in thousands of Canadian dollars) | 2017<br>$ | 2016<br>$ | Change<br>$ | 2017<br>$ | 2016<br>$ | Change<br>$ |
| **Net income** | **19,744** | **12,656** | **7,088** | **166,347** | **111,766** | **54,581** |
| Add: | | | | | | |
| Net interest expense | 13,341 | 6,099 | 7,242 | 43,511 | 22,089 | 21,422 |
| Income tax expense | 8,818 | 7,552 | 1,266 | 16,283 | 32,661 | (16,378) |
| Depreciation and amortization | 31,497 | 21,587 | 9,910 | 103,244 | 81,334 | 21,910 |
| **EBITDA** | **73,400** | **47,894** | **25,506** | **329,385** | **247,850** | **81,535** |
| (Gain) loss on disposal of property and equipment | (59) | (16) | (43) | 125 | (394) | 519 |
| Foreign exchange loss (gain) | 7,958 | 15,449 | (7,491) | (53,886) | (14,331) | (39,555) |
| Other | — | — | — | (687) | (313) | (374) |
| Signing bonuses | — | — | — | — | 5,500 | (5,500) |
| Strategic advisory fees | — | 3,786 | (3,786) | — | 3,786 | (3,786) |
| Employee separation program | 1,257 | 2,235 | (978) | 10,622 | 5,962 | 4,660 |
| **Adjusted EBITDA** | **82,556** | **69,348** | **13,208** | **285,559** | **248,060** | **37,499** |

## 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, foreign exchange gains or losses on cash held on deposit for investment in the regional aircraft leasing business, signing bonuses, employee separation program costs and strategic advisory fees. 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. During the first quarter of 2017, Chorus revised its definition of Adjusted net income to exclude the signing bonuses, employee separation program costs, and strategic advisory fees to facilitate transparency and comparability as these items can fluctuate from period to period. In addition, Chorus revised its definition of Adjusted net income to exclude foreign exchange gains or losses on US dollar denominated cash held on deposit for investment in the regional aircraft leasing business. This item is excluded as it relates to a foreign exchange gain or loss on proceeds from the Convertible Units that were converted to US dollars and will be used to invest in long-term and primarily US dollar denominated assets, whose related income is expected to be earned over time. (Refer to Section 2 - Introduction, "Caution regarding forward-looking information")

| (expressed in thousands of Canadian dollars, except per Share amounts) | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **Change** | **2017** | **2016** | **Change** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **Net income for the periods** | **19,744** | **12,656** | **7,088** | **166,347** | **111,766** | **54,581** |
| **Net income per Share - basic** | **0.16** | **0.10** | **0.06** | **1.35** | **0.91** | **0.44** |
| Unrealized foreign exchange loss (gain) | 2,358 | 12,510 | (10,152) | (60,868) | (25,015) | (35,853) |
| Foreign exchange gain on cash held on deposit | — | — | — | (1,646) | — | (1,646) |
| Signing bonuses | — | — | — | — | 5,500 | (5,500) |
| Strategic advisory fees | — | 3,786 | (3,786) | — | 3,786 | (3,786) |
| Employee separation program | 1,257 | 2,235 | (978) | 10,622 | 5,962 | 4,660 |
| **Adjusted net income** | **23,359** | **31,187** | **(7,828)** | **114,455** | **101,999** | **12,456** |
| **Adjusted net income per Share - basic** | **0.19** | **0.26** | **(0.07)** | **0.93** | **0.83** | **0.10** |

### Adjusted Net Debt to Adjusted EBITDAR

Adjusted net debt to trailing 12-month Adjusted EBITDAR 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. 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 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, 2017 $ | December 31, 2016 $ | Change $ |
|---|---|---|---|
| Long-term debt and finance leases | 1,122,790 | 902,130 | 220,660 |
| Convertible Units | 193,540 | — | 193,540 |
| Consideration payable | 4,387 | 18,533 | (14,146) |
| Total debt (including current portion) | 1,320,717 | 920,663 | 400,054 |
| Less: Cash | (71,249) | (23,491) | (47,758) |
| Net debt | 1,249,468 | 897,172 | 352,296 |
| Capitalized operating leases | 40,295 | 41,269 | (974) |
| **Adjusted net debt** | 1,289,763 | 938,441 | 351,322 |
| **Adjusted EBITDA** | 285,559 | 248,060 | 37,499 |
| Add: | | | |
| Aircraft rent | 5,372 | 5,502 | (130) |
| **Adjusted EBITDAR** | 290,931 | 253,562 | 37,369 |
| **Leverage ratio** | 4.4 | 3.7 | 0.7 |

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 $99.4 million and $91.0 million for the trailing twelve months ended December 31, 2017 and December 31, 2016, 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 $94.0 million and $85.5 million for the trailing twelve months ended December 31, 2017 and December 31, 2016 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 5.9 and 4.7, respectively.

As at December 31, 2017, Adjusted net debt increased from $938.4 million to $1,289.8 million, representing an increase of $351.3 million or 37.4% from December 31, 2016. The increase was primarily the result of new debt of $313.8 million related to aircraft acquisitions and Convertible Units of $196.0 million, partially offset by $96.4 million in scheduled payments on long-term borrowings and the impact of a lower US dollar exchange rate which decreased long-term debt by approximately $60.9 million.

Chorus' leverage ratio (Adjusted net debt to trailing 12-month Adjusted EBITDAR) was 4.4 as at December 31, 2017 (December 31, 2016 - 3.7). Leverage increased in 2017 due to additional debt related to the regional aircraft leasing business for which there is not yet twelve months of trailing Adjusted EBITDAR. In addition, leverage as measured on an Adjusted net debt to Adjusted EBITDAR basis is typically higher in the regional aircraft leasing business. As the regional aircraft leasing business continues to grow, Chorus' overall leverage will migrate to be more in line with market acceptable levels for regional aircraft leasing businesses.

**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 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,** | | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **Change** | **2017** | **2016** | **Change** |
| (expressed in thousands of Canadian dollars) | **$** | **$** | **$** | **$** | **$** | **$** |
| Adjusted Cash Provided by Operating Activities before net changes in non-cash balance related to operations | 61,350 | 64,928 | (3,578) | 235,550 | 211,891 | 23,659 |
| Less: | | | | | | |
| Capital expenditures, excluding aircraft acquisitions and ESP | (10,647) | (7,540) | (3,107) | (31,074) | (22,986) | (8,088) |
| Capitalized major maintenance overhauls | (7,257) | (4,479) | (2,778) | (27,003) | (21,627) | (5,376) |
| | (17,904) | (12,019) | (5,885) | (58,077) | (44,613) | (13,464) |
| **Adjusted Cash Provided by Operating Activities** | **43,446** | **52,909** | **(9,463)** | **177,473** | **167,278** | **10,195** |

## 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. During the first quarter of 2017, Chorus revised its definition of Adjusted net income to exclude the realized foreign exchange gain on Convertible Units. This item was excluded as it relates to a foreign exchange gain on proceeds from the Convertible Units which will be used to invest in long-term assets, whose related income will be earned over time.

| (expressed in thousands of Canadian dollars) | Trailing twelve months ended December 31, 2017 $ | Trailing twelve months ended December 31, 2016 $ | Change $ |
|---|---|---|---|
| **Income before income taxes** | 182,630 | 144,427 | 38,203 |
| **Unrealized foreign exchange gain** | (60,868) | (25,015) | (35,853) |
| **Foreign exchange gain on cash held for deposit** | (1,646) | — | (1,646) |
| **Income before income taxes (and unrealized foreign exchange)** | 120,116 | 119,412 | 704 |
| Add: | | | |
| Finance costs | 45,757 | 22,667 | 23,090 |
| Implicit interest in operating leases(1) | 2,821 | 2,889 | (68) |
| | 168,694 | 144,968 | 23,726 |
| **Invested capital:** | | | |
| Average long-term debt(2) | 1,001,653 | 736,877 | 264,776 |
| Average obligations under finance leases(3) | 10,807 | 16,559 | (5,752) |
| Average Convertible Units | 96,770 | — | 96,770 |
| Average consideration payable(4) | 11,460 | 24,351 | (12,891) |
| Average Shareholders' equity | 208,549 | 124,880 | 83,669 |
| Off-balance sheet aircraft leases(5) | 40,295 | 41,269 | (974) |
| | 1,369,534 | 943,936 | 425,598 |
| **Return on invested capital** | 12.3% | 15.4% | (3.1)% |

(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, 2017 and December 31, 2016, these aircraft lease expenses totalled $5.4 million and $5.5 million respectively.
(6) Aircraft rent was $99.4 million and $91.0 million for the trailing twelve months ended December 31, 2017 and December 31, 2016 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 $94.0 million and $85.5 million for the trailing twelve months ended December 31, 2017 and December 31, 2016 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 10.5% and 12.2% respectively.

During 2017 the average return on invested capital has decreased from 15.4% to 12.3%. This was partially due to the timing of investments which sees all capital raised with aircraft investments included in capital, whereas the returns from those aircraft will come over time. In addition, the regional aircraft leasing business is both capital intensive and more reliant on debt than equity financing. This may lead to Chorus changing its measure of return to return on equity in the future as its regional aircraft leasing business expands.

## 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 2017 | Q3 2017 | Q2 2017 | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 |
|---|---|---|---|---|---|---|---|---|
| **Chorus** | | | | | | | | |
| Total revenue ($000) | 356,557 | 344,632 | 333,362 | 320,590 | 315,103 | 331,097 | 310,104 | 320,550 |
| Net income ($000) | 19,744 | 79,065 | 40,807 | 26,731 | 12,656 | 20,555 | 23,657 | 55,398 |
| Adjusted net income(1) ($000) | 23,359 | 48,560 | 26,669 | 15,867 | 31,187 | 28,748 | 21,804 | 20,260 |
| Adjusted EBITDA(1) ($000) | 82,556 | 83,411 | 65,506 | 54,086 | 69,348 | 69,965 | 57,815 | 50,932 |
| Net income per Share, basic ($) | 0.16 | 0.64 | 0.33 | 0.22 | 0.10 | 0.16 | 0.19 | 0.45 |
| Net income per Share, diluted ($) | 0.15 | 0.62 | 0.32 | 0.21 | 0.10 | 0.16 | 0.19 | 0.44 |
| Adjusted net income,(1) per Share - basic ($) | 0.19 | 0.39 | 0.22 | 0.13 | 0.26 | 0.24 | 0.18 | 0.17 |
| FTE employees (end of period) | 4,882 | 4,870 | 4,737 | 4,527 | 4,442 | 4,440 | 4,504 | 4,412 |
| Number of aircraft (end of period) | 168 | 167 | 163 | 157 | 152 | 146 | 145 | 143 |
| **Jazz** | | | | | | | | |
| Departures | 58,347 | 63,087 | 59,278 | 55,291 | 56,743 | 62,161 | 57,344 | 56,601 |
| Block Hours | 87,347 | 94,741 | 87,055 | 80,705 | 82,577 | 90,672 | 81,472 | 81,517 |
| Billable Block Hours | 89,353 | 96,674 | 88,795 | 84,515 | 84,362 | 91,067 | 82,964 | 84,375 |
| Number of Covered Aircraft (end of period) | 117 | 117 | 120 | 115 | 113 | 113 | 109 | 110 |

(1) This is a non-GAAP measure. 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. Seasonality has little effect on the operations of Voyageur, CAC, and the other lines of business carried on by Chorus. Chorus has substantial fixed costs that do not meaningfully fluctuate with demand in the short-term.

## 19 SELECTED ANNUAL INFORMATION

The following table provides selected annual information for Chorus for the years 2015 through to 2017.

| | Year ended December 31, | | |
|---|---|---|---|
| (expressed in thousands of Canadian dollars, except per Share amounts) | 2017<br>$ | 2016<br>$ | 2015<br>$ |
| **Revenue** | 1,355,141 | 1,276,854 | 1,544,681 |
| **Operating income** | 171,693 | 151,478 | 149,497 |
| **Net income** | 166,347 | 111,766 | 25,487 |
| **Cash** | 71,249 | 23,491 | 32,677 |
| **Total assets** | 2,025,825 | 1,462,362 | 1,107,339 |
| **Total long-term liabilities** | 1,394,758 | 1,033,276 | 730,294 |
| **Dividends declared** | 59,278 | 58,517 | 57,814 |
| **Cash provided by operating activities** | 271,220 | 190,501 | 138,914 |
| **Per Share** | | | |
| Operating income | 1.39 | 1.24 | 1.23 |
| Net income, basic | 1.35 | 0.91 | 0.21 |
| Net income, diluted | 1.32 | 0.89 | 0.20 |
| Dividends declared | 0.48 | 0.48 | 0.48 |

**2017 Compared to 2016**

The 2017 results compared to the 2016 results are discussed throughout this MD&A.

Revenue increased mainly as a result of Controllable Revenue, new non-CPA aircraft leasing revenue, increased aircraft leasing revenue under the CPA, additional revenue from international ACMI flying in the Voyageur operations and maintenance, repair and overhaul.

During 2017, Chorus incurred increased engine overhaul maintenance expense for the Jazz CRJ200s and CRJ705s which are under a time and materials based contract. This increase in expense resulted in a corresponding increase in Controllable Revenue billed to Air Canada under the CPA.

Operating income increased mainly as a result of increased non-CPA aircraft leasing, increased aircraft leasing revenue under the CPA attributable to five additional CRJ900s added in the second quarter of 2017 and eight additional Q400s added in the first nine months of 2016. These increases were offset by higher depreciation related to new aircraft 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 increased primarily as a result of gross proceeds received of $200.0 million upon issuance of the Convertible Units offset by the purchase of aircraft and debt repayments.

Total assets increased primarily as a result of the purchase of aircraft related to expansion of the regional aircraft leasing business. This increase was offset by decreased cash as discussed above.

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

**2016 Compared to 2015**

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.

## 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;

"**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;

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

"**Chorus Aviation Capital**" or "**CAC**" means Chorus Aviation Capital Corp. (formerly Chorus Aviation Holdings Inc.), a corporation incorporated under the CBCA on November 28, 2013 and renamed on January 4, 2017. CAC is a subsidiary of Chorus Aviation Inc.;

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

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

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

"**Convertible Units**" means the convertible debt units issued 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;

"**EBITDA**" means earnings before net interest expense, income taxes, and depreciation and amortization and is a non-GAAP financial measure that is used frequently by companies in the aviation industry as a measure of performance;

"**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;

"**E190**" and "**E195**" means, respectively, Embraer E190 and Embraer E195 E jet aircraft;

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

**"Fairfax"** means Fairfax Financial Holdings Limited;

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

"**Fixed Margin and Infrastructure Fee 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 200**" means Beechcraft King Air 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 received by Jazz 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.