chorus aviation inc.

First Quarter 2017
Management's Discussion and Analysis of Results of Operations and Financial Conditions

May 11, 2017

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1 OVERVIEW

The financial and operating highlights for Chorus are as follows:

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31, 2017 $	2016 $	Change $
Operating revenue	320,590	320,550	40
Adjusted EBITDA[(1)]	54,086	50,932	3,154
Adjusted net income[(1)]	15,867	20,260	(4,393)
Net income	26,731	55,398	(28,667)
Adjusted net income[(1)] per Share - basic ($)	0.13	0.17	(0.04)

1) This is a non-GAAP measurement. Refer to Section 15 – Non-GAAP Financial Measures.

- Q1 Adjusted EBITDA of $54.1 million
- Q1 Adjusted net income of $15.9 million or $0.13 per basic share
- Q1 Net income of $26.7 million or $0.22 per basic share, includes unrealized foreign exchange gain of $10.4 million
- Established Chorus Aviation Capital to become a leading regional aircraft leasing company worldwide
- Received gross proceeds of $200.0 million in financing from Fairfax in support of regional aircraft leasing growth strategy
- Announced intention to diversify leasing portfolio through the acquisition of ATR 72-600s on lease with Flybe and Virgin Australia

Chorus remains focused on its vision of delivering regional aviation to the world. Our financial results were in line with our expectations. The CPA with Air Canada continues to deliver strong and stable financial results, as we modernize our fleet and improve our cost competitiveness. Jazz Technical Services was highly productive in the quarter completing heavy maintenance checks on third party customer aircraft, in addition to the CPA aircraft. Voyageur secured two new flying contracts in Africa and Europe, purchased two CRJ-200s for disassembly and part sales, and completed modifications to a Dash 8-100 to convert it to a first-of-its kind new package freighter.

First Quarter Summary

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31,			
	2017 $	2016 $	Change $	Change %
Operating revenue	320,590	320,550	40	—
Operating expenses	292,816	293,765	(949)	(0.3)
Operating income	27,774	26,785	989	3.7
Non-operating income (expenses)	5,176	33,760	(28,584)	(84.7)
Income before income taxes	32,950	60,545	(27,595)	(45.6)
Income tax expense	(6,219)	(5,147)	(1,072)	20.8
Net income	**26,731**	**55,398**	**(28,667)**	**(51.7)**
Add (Deduct) items to get to Adjusted Net Income(1)				
Unrealized foreign exchange gain	(10,415)	(40,638)	30,223	(74.4)
Realized foreign exchange gain on cash held for deposit	(4,712)	—	(4,712)	100.0
Employee separation program	4,263	—	4,263	100.0
Signing bonuses	—	5,500	(5,500)	100.0
	(10,864)	(35,138)	24,274	(69.1)
Adjusted net income(2)	**15,867**	**20,260**	**(4,393)**	**(21.7)**
Add (Deduct) items to get to Adjusted EBITDA(1)				
Net interest expense	8,014	5,031	2,983	59.3
Income tax expense	6,219	5,147	1,072	20.8
Depreciation and amortization	22,049	18,647	3,402	18.2
Foreign exchange loss	1,750	1,884	(134)	(7.1)
Loss (gain) on disposal of property and equipment	187	(37)	224	(605.4)
	38,219	30,672	7,547	24.6
Adjusted EBITDA(2)	**54,086**	**50,932**	**3,154**	**6.2**

(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 measurement. Refer to Section 15 – Non-GAAP Financial Measures.

In the first quarter of 2017, Chorus reported revenue and Adjusted EBITDA of $320.6 million and $54.1 million, respectively, versus 2016 comparative figures of $320.6 million and $50.9 million, respectively. Revenue was consistent with the prior year while Adjusted EBITDA increased by $3.2 million or 6.2%.

The increase in Adjusted EBITDA was primarily driven by:

- increased aircraft leasing under the CPA with Air Canada of $4.3 million; and
- a $3.4 million increase related to higher margin attributed primarily to non-CPA third party aircraft leasing and MRO.

These increases were partially offset by:

- decreased incentive revenue of $0.9 million;
- decreased margin of $1.5 million related to incremental transition costs associated with pilot recruitment, flow and training;
- increased expenses related to a $0.9 million reduction in capitalized labour and maintenance costs on owned aircraft for major maintenance overhauls; and
- an increase in other expenses of $1.2 million.

Adjusted net income was $15.9 million, for the quarter, a decrease from the first quarter of 2016 of $4.4 million, or 21.7%. The change was a result of the $3.2 million increase in Adjusted EBITDA previously disclosed, offset by:

- $1.1 million increase in income taxes;
- $3.4 million of additional depreciation related to new aircraft; and
- $2.9 million of added interest costs on higher average term loans during the quarter.

Net income was $26.7 million for the quarter, a reduction of $28.7 million, or 51.7% from the first quarter of 2016. The decrease was due to the previously noted $4.4 million decline in adjusted net income and:

- a decrease of $30.2 million in unrealized foreign exchange gains on long-term debt;
- $4.7 million of realized foreign exchange gains on US dollar denominated cash held on deposit for investment in the aircraft leasing business; and
- $4.3 million in employee separation program costs in the first quarter of 2017, versus $5.5 million in signing bonuses in the first quarter of 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 unaudited interim condensed consolidated financial statements of Chorus and the notes therein for the three months ended March 31, 2017, the audited consolidated financial statements of Chorus for the year ended December 31, 2016, Chorus' annual MD&A dated February 15, 2017, and Chorus' Annual Information Form dated February 15, 2017. All financial information has been prepared in accordance with GAAP, as set out in the CPA Canada Handbook, except for any financial information specifically denoted otherwise. Except as otherwise noted or where the context may otherwise require, this MD&A is prepared as of May 11, 2017.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 8 – 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 anticipated transactions referred to in this MD&A; energy prices, general industry, market, credit, and economic conditions (including a severe and prolonged economic downturn which could result in reduced payments under the CPA); increased competition affecting Chorus and/or Air Canada; insurance issues and costs; supply issues and costs; the risk of war, terrorist attacks, aircraft incidents and accidents; fraud, cybersecurity attacks or other criminal behaviour by internal or external parties; epidemic diseases, environmental factors or acts of God; changes in demand due to the seasonal nature of Chorus' business or general economic conditions; the ability to reduce operating costs and employee counts; the ability of Chorus to secure financing; the ability of Chorus to attract and retain the talent required for its existing operations and future growth; the ability of Chorus to remain in good standing under and to renew and/or replace the CPA and other important contracts; employee relations, labour negotiations or disputes; pension issues and costs; currency exchange and interest rates; leverage and restrictive covenants contained in debt facilities; uncertainty of dividend payments; managing growth; changes in laws; adverse regulatory developments or proceedings in countries in which Chorus and its subsidiaries operate or will operate; pending and future litigation and actions by third parties; the risks referred to in Section 8 - 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 2017 outlook discussion in Section 7 - 2017 Outlook. The statements containing forward-looking information in this MD&A represent Chorus' expectations as of May 11, 2017 and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

3 THE CHORUS BUSINESS

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

Jazz

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

1. Air Canada Express: Pursuant to the CPA with Air Canada, Jazz provides service using the Air Canada Express brand to and from lower-density markets as well as higher-density markets at off-peak times throughout North America, with a fleet of 115 Canadian-made Bombardier aircraft.
2. Jazz Technical Services: Established in May 2016 as a separate division, JTS is dedicated to heavy maintenance, repair and overhaul (MRO) of Bombardier aircraft. JTS provides MRO services to third parties while maintaining the dedication and commitment to its primary customer, Air Canada.
3. Jazz: Under the Jazz brand, the airline offers charters throughout North America with a dedicated fleet of three Bombardier aircraft for corporate clients, governments, other organizations and individuals seeking the convenience of a customized flight schedule. Jazz also has the ability to offer airline operators services such as ground handling, dispatching, flight load planning, training and consulting.

Voyageur

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

As the parent company of Voyageur Airways, Voyageur Aerotech, and Voyageur Avparts, Voyageur Aviation provides common support services to its group of companies including: administrative support services, finance and accounting, human resources, payroll, commercial services, safety and risk management, facilities. 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

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 mission flying. The ACMI contracts often involve medical, logistical and humanitarian flights to customers comprised primarily of government entities and international non-governmental organizations.

Voyageur Aerotech

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

Voyageur Avparts

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

Chorus Aviation Capital

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

Chorus' Diversification and Growth Strategy

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

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

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

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

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

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

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

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

Chorus is targeting the regional aircraft leasing sector because:

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

Each of Chorus' three lines of business brings unique expertise and capabilities in regional aviation. Their combined capabilities afford Chorus the opportunity to deliver a full suite of flight, maintenance, repair, overhaul, modification and leasing solutions to regional aircraft owners and operators around the globe. Leveraging the collective strength of its businesses, Chorus is uniquely positioned to deliver regional aviation to the world.

Jazz's CPA with Air Canada

Jazz is party to the CPA with Air Canada, under which Air Canada purchases the capacity of Covered Aircraft operated by Jazz under the Air Canada Express brand on routes determined by Air Canada. Under the CPA, Jazz is required to provide Air Canada with the capacity of Covered Aircraft, all crews and applicable personnel, aircraft maintenance, some airport, flight operations and general overhead support for such flights. Air Canada determines routes and controls scheduling, sets ticket prices, determines seat inventories, and performs marketing and advertising for these flights. Air Canada bears all of the commercial risk, retains all revenue derived from the sale of seats to passengers and cargo services, and pays Jazz for the capacity provided. The term of the CPA runs until December 31, 2025.

Jazz provides a significant part of Air Canada's domestic and transborder regional network to 59 destinations in Canada and 13 destinations in the United States, using 115 Covered Aircraft as at March 31, 2017. In addition, Jazz also provided airport services at 38 airports in Canada as at March 31, 2017.

Jazz earns revenue under the CPA in five ways:

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

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

Chorus is also compensated by the industry standard approach of fixed fees. There are two Fixed Fees which establish the minimum level of compensation under the CPA: Fixed Margin per Covered Aircraft and Infrastructure Fee per Covered Aircraft. The Fixed Margin per Covered Aircraft does not vary regardless of network size, complexity or hours flown. The Infrastructure Fee per Covered Aircraft compensates for the additional services Chorus provides in support of Air Canada's regional flying network such as airport operations. Combined, these Fixed Fees based on the Covered Aircraft were set at approximately $111.3 million for 2017, and once all incremental aircraft are received the fixed fees increase to approximately $111.7 million per year until the year 2020. From the years 2021 to 2025 these fees are also fixed but at a lower annual amount. (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 a lower amount for the years 2021 to 2025. (Please refer to Section 2 - Introduction, “Caution regarding forward-looking information".)

Jazz Leasing leases owned Q400s and Q400 engines into the Jazz operation under the CPA. Jazz earns aircraft leasing revenue under the CPA from the aircraft and spare engines owned by it and Jazz Leasing. For the quarter ended March 31, 2017, Jazz earned aircraft leasing revenue under the CPA of $27.5 million.

Jazz incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

Controllable Costs	Operating expense line	Rate Period
Crew wages & benefits[(1)]	Salaries, wages and benefits	Fixed
All other salaries, wages and benefits[(2)]	Salaries, wages and benefits	Annually
Depreciation and amortization	Depreciation and amortization	3 years
Aircraft maintenance, materials and supplies	Aircraft maintenance, materials and supplies	Annually
Chorus Q400s leased through CPA	Aircraft rent	Lease term
Third party operating leases	Aircraft rent	3 years
Air Canada and subsidiary leases to Chorus	Aircraft rent	3 years
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.

Fleet

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

(unaudited)	December 31, 2016	2017 Fleet Changes			March 31, 2017	Owned(1)
		Additions	Removals	Transfers		
Covered Aircraft						
CRJ200s	13	—	—	—	13	—
CRJ705s	16	—	—	—	16	—
Dash 8-100s	19	—	(3)	—	16	16
Dash 8-300s	26	—	—	—	26	19
Q400s (leased from third parties)	5	5	—	—	10	—
Q400s (owned and leased under the CPA)	34	—	—	—	34	34
Total Covered Aircraft	113	5	(3)	—	115	69
Jazz Charter Aircraft						
CRJ200s	1	—	—	—	1	—
Dash 8-300s	2	—	—	—	2	2
Charter Aircraft	3	—	—	—	3	2
Voyageur Operational Aircraft						
CRJ200s	7	—	—	—	7	7
King Air 200s	2	—	—	—	2	2
Dash 8-100s	1	—	—	—	1	1
Dash 8-300s	5	—	—	—	5	5
Total Voyageur Operational Aircraft	15	—	—	—	15	15
Leased to a third party						
CRJ1000s	2	—	—	—	2	2
Dash 8-100s	1	—	—	—	1	1
Dash 8-300s	1	—	—	—	1	1
Total Leased to a third party	4	—	—	—	4	4
Non-Operational Aircraft						
CRJ900s(2)	5	—	—	—	5	5
Dash 7-100s	2	—	—	—	2	2
Dash 8-100s(3)	10	3	—	—	13	13
Total Non-Operational Aircraft	17	3	—	—	20	20
Total Aircraft	152	8	(3)	—	157	110

(1) Denotes aircraft owned by Chorus versus leased from third parties.
(2) These aircraft are expected to enter service in the second quarter of 2017.
(3) Two of these aircraft will be leased to a third party in the second quarter of 2017.

4 FIRST QUARTER ANALYSIS

Revenue

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31, 2017 $	 2016 $	 Change $
Controllable Revenue	180,676	189,113	(8,437)
Aircraft leasing revenue under the CPA	27,484	23,206	4,278
Fixed Margin and Infrastructure Fee per Covered Aircraft	27,668	27,418	250
Incentive revenue	4,771	5,700	(929)
CPA Pass-Through Revenue	55,326	57,347	(2,021)
Charter and other contract flying revenue	12,026	11,245	781
Passenger revenue	307,951	314,029	(6,078)
Other revenue	12,639	6,521	6,118
	320,590	320,550	40

Operating revenue was in line with the same period in 2016.

Controllable Revenue

Controllable Revenue decreased by $8.4 million or 4.5%. The decrease was mainly attributable to decreases under the CPA, related to cost reductions, such as flight crew salaries, wages and benefits and fleet transitions.

Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $4.3 million. The increase was mainly attributable to six additional Q400s added in 2016 and is consistent with Chorus' revenue diversification strategy. There were 34 Q400s in the fleet of Covered Aircraft as at March 31, 2017, compared to 28 Q400s as at March 31, 2016.

CPA Pass-Through Revenue

CPA Pass-Through Revenue decreased by $2.0 million or 3.5%. 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 $2.5 million.

Other revenue

Other revenue increased by $6.1 million. The increase was mainly attributable to increased third party leasing revenue and maintenance, repair and overhaul.

Expenses

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31, 2017 $	 2016 $	 Change $
Operating expenses			
Salaries, wages and benefits	114,220	115,971	(1,751)
Aircraft fuel	619	819	(200)
Depreciation and amortization	22,049	18,647	3,402
Food, beverage and supplies	3,368	3,057	311
Aircraft maintenance materials, supplies and services	44,289	46,969	(2,680)
Airport and navigation fees	39,393	39,432	(39)
Aircraft rent	24,729	23,708	1,021
Terminal handling services	9,329	11,516	(2,187)
Other	34,820	33,646	1,174
	292,816	293,765	(949)

Operating expenses decreased by $0.9 million or 0.3%, compared with the same period in 2016. Additional information regarding operating expenses is provided below.

Salaries, wages and benefits

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31, 2017 $	 2016 $	 Change $
Adjusted salaries, wages and benefits	107,668	108,202	(534)
Signing bonuses	—	5,500	(5,500)
Stock-based compensation	3,481	3,929	(448)
Employee separation program costs	4,263	—	4,263
Capitalized major maintenance overhaul labour	(1,192)	(1,660)	468
	114,220	115,971	(1,751)

Adjusted salaries, wages and benefits decreased $0.5 million related primarily to a reduction of wages and salaries mostly attributable to a reduction in Block Hours and 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 decreased by $0.4 million as compared to the same period in 2016 primarily due to a smaller change in share price in the current year. Employee separation program costs incurred during the quarter were $4.3 million as Chorus continues to focus on cost reductions related to demographic changes. Salaries and wages were also affected by fewer labour costs being capitalized on owned aircraft for major maintenance overhauls of $0.5 million.

Depreciation and amortization

Depreciation and amortization expense increased by $3.4 million from $18.6 million to $22.0 million. The purchase of additional aircraft during the year 2016 accounted for $2.6 million. As well, depreciation associated with capitalized major maintenance overhauls increased $0.6 million and other depreciation expense increased $0.2 million.

Aircraft maintenance materials, supplies and services

Aircraft maintenance expense decreased by $2.7 million from $47.0 million to $44.3 million. Fewer engine overhauls accounted for a $4.0 million decrease, decreased Block Hours accounted for $0.4 million, and a change in the US dollar exchange rate on certain maintenance material purchases accounted for a $0.4 million decrease. Decreasing maintenance costs in the Jazz operation is consistent with the fleet modernization initiative. These decreases were partially offset by an increase in the Voyageur operation of $0.9 million, other maintenance costs of $0.8 million, and increased cost of sales of consignment inventory accounted for $0.4 million.

Aircraft rent

Aircraft rent increased by $1.0 million from $23.7 million to $24.7 million, consistent with Chorus' planned fleet modernization initiative. The increase was mainly due to the addition of ten Q400s subleased from Air Canada for $4.0 million. This increase was offset by the return of four CRJ200s in the first quarter of 2016 of $2.2 million and a change in the US dollar exchange rate accounted for a $0.8 million decrease.

Terminal handling services

Terminal handling costs decreased by $2.2 million from $11.5 million to $9.3 million. Costs incurred at certain airports by Chorus were $nil in the period compared to $2.5 million for the same period last year. Costs incurred at certain airports related to certain terminal handling services are now paid directly by Air Canada. This decrease was offset by changes in aircraft deployment which accounted for $0.3 million.

Other

Other expenses increased by $1.2 million from $33.6 million to $34.8 million. The increase was related to increased general overhead such as business development, travel and training.

Non-operating income (expenses)

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31, 2017 $	 2016 $	 Change $
Non-operating income (expenses)			
Net interest expense	(8,014)	(5,031)	(2,983)
(Loss) gain on disposal of property and equipment	(187)	37	(224)
Foreign exchange gain	13,377	38,754	(25,377)
	5,176	33,760	(28,584)

Non-operating income decreased by $28.6 million from $33.8 million to $5.2 million.

Net interest expense increased by $3.0 million. Interest expense increased due to incremental aircraft debt taken on in 2016.

The strengthening of the Canadian dollar for the three months ended March 31, 2017 contributed to a foreign exchange gain of $13.4 million, compared to a foreign exchange gain of $38.8 million in the same period of the previous year. The US dollar exchange rate at March 31, 2017 was $1.3299 while the US dollar exchange rate at December 31, 2016 was $1.3427. The US dollar exchange rate at March 31, 2016 was $1.2987 while the US dollar exchange rate at December 31, 2015 was $1.3840. These rates are based on the closing day rate from the Bank of Canada. Chorus manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure. As a result, due to the nature of the underlying associated revenue stream provided by the CPA, the unrealized foreign exchange gains/losses on long-term debt and finance leases do not affect current or future cash flows.

5 CAPITAL STRUCTURE

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

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

Chorus uses leverage to lower its cost of capital. The amount of debt available to Chorus is a function of adjusted EBITDAR (refer to Section 15 - Non-GAAP Financial Measures). Adjusted EBITDAR can be impacted by known and unknown risks, uncertainties, and other factors outside Chorus' control (refer to Section 8 - Risk Factors).

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

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

(unaudited) (expressed in thousands of Canadian dollars)	**March 31, 2017** **$**	**December 31 2016** **$**	**Change** **$**
Equity			
Capital	16,819	16,819	—
Contributed surplus	1,041,574	1,041,345	229
Deficit	(897,495)	(919,201)	21,706
Equity component of Convertible Units	2,981	—	2,981
	163,879	138,963	24,916
Finance leases	12,166	13,633	(1,467)
Long-term debt	864,085	888,497	(24,412)
Convertible Units	193,003	—	193,003
Consideration payable	18,693	18,533	160
Total capital	1,251,826	1,059,626	192,200

As at May 5, 2017 and December 31, 2016, the issued and outstanding Shares of Chorus were as follows:

(unaudited)	May 5, 2017	December 31, 2016
Total issued and outstanding Shares	122,182,168	122,182,168
Shares potentially issuable Stock-based compensation plans	3,241,702	3,275,113
Total outstanding and potentially dilutive shares	125,423,870	125,457,281

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

Long-term debt

The terms and conditions of EDC financing are consistent with those disclosed in Section 6 of Chorus' annual MD&A dated February 15, 2017. As at March 31, 2017, Chorus was in compliance with all specified covenants.

Please refer to Chorus' annual MD&A dated February 15, 2017 for information regarding Chorus' contractual obligations and other commitments. Except as noted below, there have been no material changes to debt during the three months ended March 31, 2017.

On February 28, 2017, Chorus drew EDC financing in the amount of $2.2 million in relation to a Q400 engine.

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, will beneficially own 24,242,424 of the issued and outstanding Shares of Chorus, representing approximately 16.5% of all issued and outstanding Shares after the exercise of all of the Warrants (assuming no other issuances of Shares by Chorus or any adjustments to the

Shares issuable upon the exercise of the Warrants pursuant to the applicable anti-dilution provisions).

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

Credit facilities

As at March 31, 2017, Chorus' subsidiaries had a combined total of $40.0 million in undrawn secured credit facilities and an additional US$8.0 million secured facility specifically for letters of credit. Under these facilities, Chorus has provided letters of credit totaling $4.7 million to third parties. The letters of credit mature at various dates ranging from April 2017 to March 2018.

Interest rate risk

Chorus has 46 term fixed interest rate loans with EDC and the Nova Scotia Jobs Fund loan and consideration payable which does not bear interest. These debts are not subject to interest rate volatility. Nine term loans with EDC bear floating interest rates. This debt is therefore subject to interest rate volatility. The allocation of fixed rate debt to floating rate debt at March 31, 2017 is 97.4% fixed and 2.6% floating.

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

A 1% change in the interest rate would not have had a material impact on net income for the three months ended March 31, 2017.

6 LIQUIDITY

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

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

Liquidity

As of March 31, 2017 Chorus had $210.8 million in cash, and $40.0 million in uncommitted revolving loans, all of which were available. The cash balance, together with available credit on the revolving loan, is 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.

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 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 EBITDAR) was 3.6 as of March 31, 2017 (December 31, 2016 - 3.7). Refer to Section 15 - Non-GAAP Financial Measures.

Cash Flows

Chorus continues to generate positive operating income and cash flows from operations before net changes in non-cash balances, producing $48.2 million in 2017 compared to $41.6 million in 2016.

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

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31, 2017 $	 2016 $	 Change $
Sources of Cash:			
Cash provided by operating activities before net changes in non-cash balances related to operations	48,159	41,648	6,511
Long-term borrowings	2,189	48,464	(46,275)
Convertible Units, net of transaction costs	195,972	—	195,972
Other	—	141	(141)
Total sources	**246,320**	**90,253**	**156,067**
Uses of Cash:			
Net changes in non-cash balances related to operations	(13,744)	(20,891)	7,147
Repayment of long-term debt and obligations under finance leases	(20,275)	(12,222)	(8,053)
Dividends	(14,663)	(14,667)	4
Additions to property and equipment	(9,743)	(60,547)	50,804
Other	7	—	7
Total usage	**(58,418)**	**(108,327)**	**49,909**
Effect of foreign exchange on cash	**(617)**	**(717)**	**100**
Net change in cash during the periods	**187,285**	**(18,791)**	**206,076**
Cash – Beginning of periods	**23,491**	**32,677**	**(9,186)**
Cash – End of periods	**210,776**	**13,886**	**196,890**

Sources of cash

Sources of cash for the three months ended March 31, 2017 totalled $246.3 million, an increase of $156.1 million. The increase was mainly the result of proceeds received for the Convertible Units (refer to Section 5 Capital Structure for further discussion); partially offset by a decrease in long-term borrowings.

Uses of cash

Uses of cash for the three months ended March 31, 2017 totalled $58.4 million, a decrease of $49.9 million. Capital expenditures were $9.7 million, compared to $60.5 million in the same period of 2016. The 2016 amount related to the purchase of two Q400 aircraft. In addition, a positive change in non-cash working capital decreased uses of cash. These decreases in uses of cash were offset by increased payments of $8.1 million related to incremental long-term debt.

Capital expenditures

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

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31, 2017 $	 2016 $	 Change $
Capital expenditures, excluding aircraft acquisitions and ESP	5,360	5,191	169
Capitalized major maintenance overhauls	3,644	4,389	(745)
Aircraft acquisitions and ESP	739	50,967	(50,228)
Total capital expenditures	9,743	60,547	(50,804)

Dividends

Chorus pays a monthly dividend of $0.04 per share. For the three months ended March 31, 2017, Chorus declared and paid dividends of $14.7 million (2016 - $14.7 million).

Capital commitments

Chorus has entered into an agreement with Bombardier to be the launch customer for the ESP, which is expected to extend the service life of the Dash 8-300s by 50% (or approximately 15 years). This agreement covers a minimum of 19 aircraft and the program began in April 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 2017, 2018 and 2019 is expected to be approximately $14.2 million, $24.0 million and $6.0 million, respectively (US dollar amounts were converted to Canadian dollars at $1.3299, the March 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 17 Dash 8-300s by no later than December 31, 2019 and a further two Dash 8-300s by no later than December 31, 2022 for a total investment commitment of at least $60.0 million, which includes amounts previously spent in 2015 and 2016.

7 2017 OUTLOOK

The discussion that follows includes forward-looking information (refer to Section 2 - Introduction, "Caution regarding forward-looking information"). This outlook is provided for the purpose of providing information about current expectations for 2017. This information may not be appropriate for other purposes.

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

The progress made in advancing the diversification strategy through growth in aircraft leasing is expected to continue with the addition of five new CRJ900s under the CPA and with the establishment of CAC. Further, Chorus expects to acquire and lease two additional new CRJ1000s to Air Nostrum by the end of September 2017, bringing the total number of CRJ1000s leased under this arrangement to four.

On April 24, 2017 Chorus announced an agreement to acquire six ATR 72-600s with attached leases from Avation PLC. Three of these aircraft are currently on lease to U.K. carrier, Flybe, and three to Virgin Australia. The aircraft are between one and four years old. The aggregate purchase price for the aircraft is consistent with current market values for similar aircraft, and Chorus intends to finance the purchase utilizing a combination of debt financing and cash. The transactions are expected to close by the end of June 2017 and are subject to customary conditions precedent to closing, including novation of the existing leases and receipt of debt financing.

Chorus intends to grow its regional aircraft leasing business through CAC by leveraging the proceeds received from the private placement of convertible debt units to acquire aircraft for lease to regional aircraft operators. CAC intends to deploy the capital within the next 12 to 18 months in a manner consistent with prevailing market returns on leases for new and mid-life aircraft, leveraging that capital with further debt financing at a ratio ranging between three and four to one.

Given the breadth of its expertise and capabilities in regional aviation, Chorus believes it has the opportunity to become one of the world's largest regional aircraft lessors.

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

Based on the 2016-2017 winter schedule, the 2017 summer schedule and updated planning assumptions received from Air Canada, Billable Block Hours for 2017 are expected to be between 360,000 and 370,000 hours based on 117 Covered Aircraft as at December 31, 2017. The actual number of Billable Block Hours for 2017 may vary from this anticipated range due to a number of factors, see Section 8 - Risk Factors. However, the CPA fleet transition to larger aircraft will generate approximately 10% more available seat miles in fiscal 2017 over the same period in 2016.

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

(unaudited) (expressed in thousands of Canadian dollars)	**Planned 2017** **$**	**Actual** **Year to date March 31, 2017** **$**	**Actual** **Year ended December 31, 2016** **$**
Capital expenditures, excluding aircraft acquisitions and ESP	19,000 to 24,000	5,360	22,986
Capitalized major maintenance overhauls	26,000 to 31,000	3,644	21,627
Aircraft acquisitions and ESP(1)	228,000 to 238,000	739	394,004
	273,000 to 293,000	9,743	438,617

(1) Planned 2017 includes the acquisition of two CRJ1000s, six ATR 72-600s and ESP. Planned 2017 aircraft acquisitions have been converted using a foreign exchange rate of $1.3299. Excludes any additional capital for CAC.

8 RISK FACTORS

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

9 ECONOMIC DEPENDENCE

For a detailed description of the CPA, please refer to Section 2 and Section 15 of Chorus' annual MD&A dated February 15, 2017.

Chorus is economically and commercially dependent on Air Canada and one of its subsidiaries as, in addition to being Chorus’ primary source of revenue, these entities currently provide services and aircraft to Jazz. Chorus is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity (refer to Section 8 - Risk Factors).

10 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, estimates and judgments may change in light of new facts and circumstances in the internal and external environment and actual results can differ from those estimates (refer to Section 2 – Introduction, “Caution regarding forward-looking information”). The significant accounting policies of Chorus are described in note 3 of the audited consolidated financial statements of Chorus for the year ended December 31, 2016. Information regarding Chorus’ critical accounting estimates is disclosed in Section 11 of Chorus’ annual MD&A dated February 15, 2017. There are no changes regarding critical accounting estimates for the three months ended March 31, 2017.

11 CHANGES IN ACCOUNTING STANDARDS

The significant accounting policies of Chorus are described in note 3 of the December 31, 2016 consolidated financial statements of Chorus.

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. The adoption of this standard had no impact on 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.

The IASB issued IFRS 16 Leases("IFRS 16") effective for annual periods beginning on or after January 1, 2019 with early adoption permitted for entities that have also adopted IFRS 15. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases("IAS 17"). This will impact Chorus' statement of financial position and statement of income. Qualifying leases will be recorded 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.

Chorus is continuing to evaluate the impact of IFRS 15 on its consolidated financial statements in conjunction with evaluating the expected impact of IFRS 16. In particular, the effect on the CPA under which Chorus provides services to Air Canada. Chorus is focusing its analysis on the identification of lease and non-lease components and the allocation of the transaction price to those components in the CPA and plans to provide additional information in the second quarter. Chorus has not yet selected a transition method for either standard.

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

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

12 OFF-BALANCE SHEET ARRANGEMENTS

Information regarding Chorus' off-balance sheet arrangements is disclosed in Section 7 of Chorus' annual MD&A dated February 15, 2017. There have been no material changes to Chorus' off-balance sheet arrangements from what was disclosed at that time.

13 RELATED PARTY TRANSACTIONS

As at March 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 personnel involved.

14 CONTROLS AND PROCEDURES

Chorus' disclosure controls and procedures ("DC&P") have been designed to provide reasonable assurance that the relevant information is recorded, processed, summarized and reported to its President and Chief Executive Officer ("CEO"), its Executive Vice President and Chief Financial Officer ("CFO") and its Disclosure Policy committee in a timely basis to ensure appropriate and timely decisions are made regarding public disclosure.

The internal controls over financial reporting ("ICFR") have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

In the Chorus' 2016 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and operational effectiveness of both the DC&P and the ICFR.

In Chorus' first quarter 2017 filings, the CEO and CFO also certified, as required by National Instrument 52-109, the appropriateness of the financial disclosures, the design of both the DC&P and the ICFR based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO - 2013).

Due to inherent limitations, ICFR and DC&P can only provide reasonable assurance and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

There has been no change in Chorus' internal control over financial reporting that occurred during the first quarter of fiscal 2017 that has materially affected, or is reasonably likely to affect, Chorus' ICFR.

The Audit, Finance and Risk Committee of the Board of Directors of Chorus reviewed this MD&A and the unaudited interim condensed consolidated financial statements of Chorus for March 31, 2017, and approved these documents prior to their release.

15 NON-GAAP FINANCIAL MEASURES

Chorus uses certain non-GAAP financial measures, described below, to evaluate and assess performance. These non-GAAP measures are generally numerical measures of a company's financial performance, financial position or cash flows, that include or exclude amounts from the most comparable GAAP measure. As such, these measures are not recognized for financial statement presentation under GAAP, do not have a standardized meaning, and are therefore not likely to be comparable to similar measures presented by other public entities.

EBITDA and Adjusted EBITDA

EBITDA is defined as earnings before net interest expense, income taxes, and depreciation and amortization and is a non-GAAP financial measure. Adjusted EBITDA (net income before net interest expense, income taxes, depreciation and amortization, signing bonuses, employee separation program costs, strategic advisory fees and other items such as asset impairment and foreign exchange gains or losses) is a non-GAAP financial measure used by Chorus, and commonly by other regional airlines in the industry, as a supplemental financial measure of operational performance. Management believes Adjusted EBITDA assists investors in comparing Chorus' performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and factors such as historical cost. During the quarter, 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.

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31, 2017 $	 2016 $	 Change $
Net income	26,731	55,398	(28,667)
Add:			
Net interest expense	8,014	5,031	2,983
Income tax expense	6,219	5,147	1,072
Depreciation and amortization	22,049	18,647	3,402
EBITDA	**63,013**	**84,223**	**(21,210)**
Loss (gain) on disposal of property and equipment	187	(37)	224
Foreign exchange gain	(13,377)	(38,754)	25,377
Signing bonuses	—	5,500	(5,500)
Employee separation program	4,263	—	4,263
Adjusted EBITDA	**54,086**	**50,932**	**3,154**

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, 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 quarter, 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 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")

	Three months ended March 31,		
(unaudited) (expressed in thousands of Canadian dollars, except per Share amounts)	**2017** **$**	**2016** **$**	**Change** **$**
Net income for the periods	26,731	55,398	(28,667)
Unrealized foreign exchange gain	(10,415)	(40,638)	30,223
Realized foreign exchange gain on cash held for deposit	(4,712)	—	(4,712)
Signing bonuses	—	5,500	(5,500)
Employee separation program	4,263	—	4,263
Adjusted net income	**15,867**	**20,260**	**(4,393)**
Adjusted net income per Share - basic	**0.13**	**0.17**	**(0.04)**

Adjusted Net Debt to 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 in order to assist readers in this review. Leverage should not be construed as a measure of cash flows.

(unaudited) (expressed in thousands of Canadian dollars)	March 31, 2017 $	December 31, 2016 $	Change $
Long-term debt and finance leases	876,251	902,130	(25,879)
Convertible Units	193,003	—	193,003
Consideration payable	18,693	18,533	160
Total debt (including current portion)	1,087,947	920,663	167,284
Less: Cash	(210,776)	(23,491)	(187,285)
Net debt	877,171	897,172	(20,001)
Capitalized operating leases	39,031	41,269	(2,238)
Adjusted net debt	916,202	938,441	(22,239)
Adjusted EBITDA	251,214	248,060	3,154
Add:			
Aircraft rent	5,204	5,502	(298)
Adjusted EBITDAR	256,418	253,562	2,856
Leverage ratio	3.6	3.7	(0.1)

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 $92.1 million and $91.0 million for the trailing twelve months ended March 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 $86.9 million and $85.5 million for the trailing twelve months ended March 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 4.6 and 4.7, respectively.

As at March 31, 2017, adjusted net debt decreased from $938.4 million to $916.2 million, representing a decrease of $22.2 million or 2.4% from December 31, 2016. The decrease was primarily the result of a lower US dollar exchange rate which decreased long-term debt by approximately $7.9 million and debt repayments of $20.3 million. These decreases were partially offset by new long-term debt of $2.2 million.

Adjusted Cash Provided by Operating Activities

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

(unaudited) (expressed in thousands of Canadian dollars)	Three months ended March 31, 2017 $	 2016 $	 Change $
Adjusted Cash Provided by Operating Activities before net changes in non-cash balance related to operations	48,159	41,648	6,511
Less:			
Capital expenditures, excluding aircraft acquisitions and ESP	(5,360)	(5,191)	(169)
Capitalized major maintenance overhauls	(3,644)	(4,389)	745
	(9,004)	(9,580)	576
Adjusted Cash Provided by Operating Activities	**39,155**	**32,068**	**7,087**

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 quarter, 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.

(unaudited) (expressed in thousands of Canadian dollars)	Trailing twelve months ended March 31, 2017 $	 December 31, 2016 $	Change $
Income before income taxes	116,832	144,427	(27,595)
Unrealized foreign exchange loss (gain)	5,208	(25,015)	30,223
Realized foreign exchange gain on cash held for deposit	(4,712)	—	(4,712)
Income before income taxes (and unrealized foreign exchange)	117,328	119,412	(2,084)
Add:			
Finance costs	25,699	22,667	3,032
Implicit interest in operating leases[1]	2,732	2,889	(157)
	145,759	144,968	791
Invested capital:			
Average long-term debt[2]	725,006	736,877	(11,871)
Average obligations under finance leases[3]	14,597	16,559	(1,962)
Average Convertible Units	96,502	—	96,502
Average consideration payable[4]	24,561	24,351	210
Average Shareholders' equity	146,985	124,880	22,105
Off-balance sheet aircraft leases[5]	39,031	41,269	(2,238)
	1,046,682	943,936	102,746
Return on invested capital	13.9%	15.4%	(1.5)%

(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 March 31, 2017 and December 31, 2016, these aircraft lease expenses totalled $5.2 million and $5.5 million respectively.
(6) Aircraft rent was $92.1 million and $91.0 million for the trailing twelve months ended March 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 $86.9 million and $85.5 million for the trailing twelve months ended March 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 11.3% and 12.2% respectively.

16 SUMMARY OF QUARTERLY FINANCIAL RESULTS

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

Unaudited	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Chorus								
Total revenue ($000)	320,590	315,103	331,097	310,104	320,550	357,368	412,157	400,055
Net income ($000)	26,731	12,656	20,555	23,657	55,398	12,512	6,320	31,411
Adjusted net income[(1)] ($000)	15,867	31,187	28,748	21,804	20,260	33,715	35,199	25.454
Adjusted EBITDA,[(1)] ($000)	54,086	69,348	69,965	57,815	50,932	65,686	68,835	53,684
Net income per Share, basic ($)	0.22	0.10	0.16	0.19	0.45	0.10	0.05	0.26
Net income per Share, diluted ($)	0.21	0.10	0.16	0.19	0.44	0.10	0.05	0.25
Adjusted net income,[(1)]per Share - basic ($)	0.13	0.26	0.24	0.18	0.17	0.28	0.29	0.21
FTE employees (end of period)	4,527	4,442	4,440	4,504	4,412	4,445	4,473	4,467
Number of Aircraft (end of period)	157	152	146	145	143	144	143	141
Jazz								
Departures	55,291	56,743	62,161	57,344	56,601	61,650	68,842	65,190
Block Hours	80,705	82,577	90,672	81,472	81,517	87,617	97,135	90,362
Billable Block Hours	84,515	84,362	91,067	82,964	84,375	89,365	98,209	91,559
Number of Covered Aircraft (end of period)	115	113	113	109	110	116	120	120

(1) This is a non-GAAP measurement. Refer to Section 15 – 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 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.

17 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.

18 GLOSSARY OF TERMS

"**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.;

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

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

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

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

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

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

"Fairfax" means Fairfax Financial Holdings Limited;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**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.