chorus
aviation inc.

First Quarter 2019

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

May 8, 2019

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.

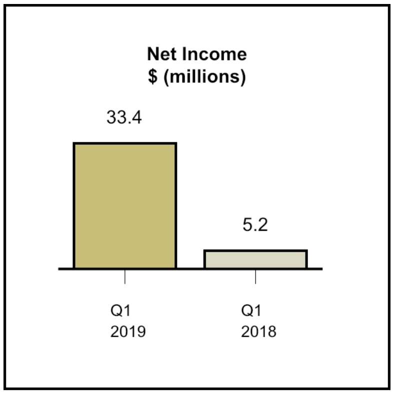
This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements of Chorus and the notes therein for the three months ended March 31, 2019, the audited consolidated financial statements of Chorus for the year ended December 31, 2018, Chorus' 2018 annual MD&A dated February 21, 2019 and Chorus' 2018 Annual Information Form dated February 21, 2019. 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 8, 2019.

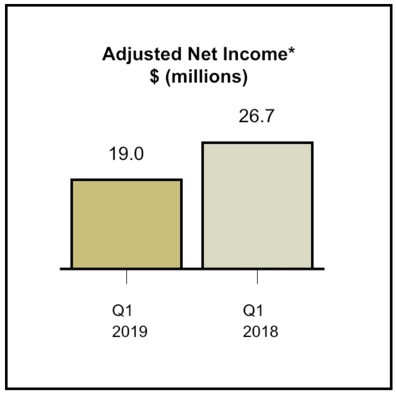
The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 10 – Risk Factors.

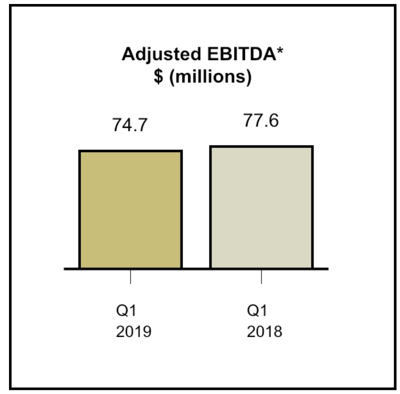
Except where the context otherwise requires, all amounts are stated in Canadian dollars.

On January 1, 2019, Chorus adopted IFRS 16 *Leases* using the retrospective transition approach with restatement to comparative periods. Please refer to Section 13 - Changes in Accounting Standards.

1 OVERVIEW







* These are non-GAAP financial measures. Refer to Section 17 – Non-GAAP Financial Measures.

Year-to-date 2019 Financial and Operational Highlights

- Net income of $33.4 million, inclusive of an unrealized foreign exchange gain of $16.8 million.
- Adjusted net income of $19.0 million, or $0.13 per basic Share, a decrease of $7.7 million.
- Adjusted EBITDA of $74.7 million, a decrease of $2.9 million inclusive of the changes under the 2019 CPA Amendments and a $7.7 million quarter-over-quarter increase in stock-based compensation due to the strengthening of the Share price.
- Amended and extended the capacity purchase agreement with Air Canada to 2035.
- Achieved an unprecedented 17-year collective agreement with Jazz pilots.
- Completed a $97.26 million equity investment by Air Canada to enable fleet modernization and leasing growth.
- Entered into a firm purchase order agreement with Bombardier for nine CRJ900s.
- Secured a US $300.0 million credit facility to support the growth of the Regional Aircraft Leasing segment.
- Diversified and grew the Regional Aircraft Leasing fleet to 45 regional aircraft valued at approximately US $960.0 million, inclusive of 10 transactions pending completion as of March 31, 2019.[1]
- Re-aligned executive team to support further growth and diversification.

On February 4, 2019, Chorus announced that the Air Canada Investment had been completed and that the 2019 CPA Amendments had become effective on a retroactive basis to January 1, 2019. These CPA Amendments are expected to generate incremental contracted fixed fees and lease revenue of approximately $940.0 million over the term of the CPA and enhance Jazz's relevance to Air Canada. Of the $940.0 million incremental revenue, $630.0 million relates to aircraft lease revenue with the remaining $310.0 million attributable to fixed fees. Total contracted revenue over the term of the CPA is estimated at approximately $2.5 billion, with approximately $1.6 billion being derived from aircraft leasing under the CPA[2] and $0.9 billion from fixed fee revenue.

Further information concerning the 2019 CPA Amendments and the Air Canada Investment is contained in the Corporation's Material Change Reports dated January 24, 2019 and February 13, 2019, which are available on SEDAR at www.sedar.com.

1 Of the 10 pending transactions as at March 31, 2019, three of these aircraft were received prior to May 8, 2019.
2 The revenue estimates are based on agreed aircraft lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA. A foreign exchange rate of 1.2600 (based on the long-term historical average rate) was used in the calculation of the estimates.
3 Refer to Section 23 - Caution regarding forward-looking information.

On April 2, 2019, Chorus announced the completion of the acquisition of a portfolio of six aircraft with leases attached from Elix Aviation Capital. The portfolio consists of two ATR72-600s on lease to Azul Airlines of Brazil, two Q400s on lease to Ethiopian Airlines, and two Q400s on lease to Jambojet of Kenya.

On April 17, 2019, Chorus announced agreements to deliver five new Q400s to SpiceJet of India under a purchase and leaseback transaction. CAC has completed the delivery of three aircraft prior to May 8, 2019 and anticipates the remaining aircraft will be delivered by the end of June 2019.

With the completion of these acquisitions, CAC has grown its fleet to 45[1] aircraft (inclusive of 10 transactions pending completion as at March 31, 2019[1]) valued at approximately US $960.0 million. To date, Chorus' customers consist of Aeromexico Connect, Air Nostrum, Azul Airlines, CityJet, Ethiopian Airlines, Falcon Aviation Services, Flybe, Jambojet, KLM Cityhopper, Lion Air Group, Philippine Airlines, SpiceJet and Virgin Australia. The current average aircraft age of the leased fleet is 3.7 years with a current weighted average remaining lease term of six years. (Refer to Section 23 - Caution regarding forward-looking information.) When the aircraft earning lease revenue under the CPA are added, Chorus' total portfolio of leased aircraft grows to 92.[1]

On March 11, 2019, Chorus announced senior executive appointments to support its growth and diversification. This re-alignment of chief executives puts dedicated emphasis on strategic and corporate planning, and the promotion and execution of its technical expertise, to bolster all its lines of business.

First Quarter Summary

In the first quarter, Chorus reported Adjusted EBITDA of $74.7 million, a decrease of $2.9 million or 3.7% relative to the first quarter of 2018.

The Regional Aviation Services segment decreased by $9.3 million quarter-over-quarter. The results of the first quarter of 2019 reflects the 2019 CPA Amendments which reduced the Fixed Margin and incentive revenue as Chorus moves to market-based compensation rates. These reductions were offset by the implementation of the Controllable Cost Guardrails that mitigated the expected first quarter CPA margin shortfall related to reduced fees. Beyond the changes related to the amended CPA, the first quarter results were impacted by:

- increased stock-based compensation of $7.7 million due to the strengthening of the Share price;
- decreased capitalization of major maintenance overhauls on owned CPA aircraft over the previous period; offset by
- increased aircraft leasing under the CPA.

The decrease in the Regional Aviation Services segment was partially offset by an increase of $6.5 million in the Regional Aircraft Leasing segment related to the growth in aircraft acquired and under lease.

Adjusted net income was $19.0 million for the period, a decrease from 2018 of $7.7 million or 28.8% due to:

- the $2.9 million decrease in Adjusted EBITDA previously described;
- an increase in depreciation of $3.1 million related to additional aircraft in the Regional Aircraft Leasing segment;
- an increase in interest costs of $1.9 million related to additional aircraft debt; offset by
- other of $0.2 million.

Net income was $33.4 million for the period, an increase of $28.2 million over the 2018 period. The increase was primarily due to the quarter-over-quarter change in unrealized foreign exchange gains on long-term debt of $34.7 million and decreased employee separation program costs of $3.1 million; offset by the previously noted $7.7 million decrease in Adjusted net income and one-time signing bonuses of $2.0 million related to the ALPA pilot collective agreement.

[1] Of the 10 pending transactions as at March 31, 2019, three of these aircraft were received prior to May 8, 2019.

2 ABOUT CHORUS

Chorus' vision is to deliver regional aviation to the world. Chorus achieves this vision by focusing on three lines of business, all of which build on its expertise in regional aviation and provide opportunities for synergies among the businesses:

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

Chorus groups these businesses into two reporting segments:

a) **Regional Aviation Services**: this segment includes all three sectors of the regional aviation industry in which Chorus currently operates:

- Contract flying: Jazz is the largest regional airline in Canada and operates more flights into more airports in Canada through its scheduled services pursuant to the CPA with Air Canada than any other regional airline. Jazz provides substantially all of its capacity to Air Canada under the Air Canada Express brand. Air Canada is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft, 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 also operates charter flights for a variety of customers. Voyageur provides specialized contract flying, such as medical, logistical and humanitarian flights, to international and Canadian customers.

- Aircraft leasing under the CPA: Jazz currently earns leasing revenue under the CPA from 34 Q400s, five CRJ900s, eight Dash 8-300s and five spare engines, and as a result of the 2019 CPA Amendments is expected to grow by a further nine CRJ900s in 2020. The 2019 CPA Amendments also contemplate that Chorus will acquire five additional 75-78 seat aircraft for operation by Jazz under the CPA in 2025. Voyageur also earns revenue from aircraft leasing.

- Maintenance, repair and overhaul (MRO), part sales and technical services: Jazz through its Jazz Technical Services division provides 24/7 MRO services and is certified on Bombardier products as well as Embraer 135 and 145 aircraft. Voyageur provides specialty, customized MRO services on Bombardier products and is Transport Canada, Federal Aviation Administration and European Aviation Safety Agency certified. Capabilities also include technical advisory support as well as aircraft disassembly and part sales.

b) **Regional Aircraft Leasing**: this segment consists of aircraft leasing by CAC to third-party lessees. CAC's portfolio of leased aircraft, inclusive of 10 transactions pending completion[1] as at March 31, 2019, consists of 45 aircraft comprising 13 ATR 72-600s, 20 Q400s, four CRJ1000s, two CRJ900s, four E190s and two E195s.

[1] Of the 10 pending transactions as at March 31, 2019, three of these aircraft were received prior to May 8, 2019.

Jazz earns revenue under the CPA in five ways:[2]

Fixed Margin

Jazz earns a Fixed Margin which is set for 2019 and 2020 as an aggregate amount irrespective of the number of Covered Aircraft and thereafter based on the number of Covered Aircraft operated by Jazz under the CPA. As a result of the 2019 CPA Amendments, the Fixed Margin per Covered Aircraft was reduced and restructured as described in the preceding sentence, and the Infrastructure Fee per Covered Aircraft was eliminated, both with effect on January 1, 2019.[2]

Performance Incentives

Performance incentives are available under the CPA for achieving established performance targets in relation to controllable on-time performance, controllable flight completion, incidences of mishandled luggage at airports where Jazz is responsible for luggage handling, and other customer satisfaction measures related to the in-flight and check-in experience. The maximum annual performance incentives available have been reduced effective January 1, 2019 due to the 2019 CPA Amendments.

Controllable Revenue

Jazz is paid Controllable Revenue rates based on Controllable Costs that are estimated using certain variables. The 2019 CPA Amendments which took effect on January 1, 2019 introduced provisions which limit Jazz's exposure to $2.0 million annually for variances between the Controllable Revenue Jazz receives from Air Canada to cover annually negotiated Controllable Costs and Jazz's actual Controllable Costs incurred in performing its services for Air Canada (referred to as the "Controllable Cost Guardrail"). Controllable Revenue rates will continue to be set annually, and Jazz and Air Canada will complete an annual reconciliation and payment once the variance, if any, between the Controllable Revenue paid by Air Canada and Jazz's actual Controllable Costs is determined. If Jazz's Controllable Costs exceed the revenue received from Air Canada by more than $2.0 million, Air Canada will pay to Jazz an amount equal to the excess over $2.0 million. Conversely, if the Controllable Revenue paid by Air Canada to Jazz exceeds Jazz's actual Controllable Costs by more than $2.0 million, Jazz will pay to Air Canada an amount equal to the excess over $2.0 million.

Controllable Costs include such costs as wages and benefits, certain depreciation and amortization, certain aircraft maintenance, materials and supplies, third party operating leases, and other general overhead expenses, such as crew variable expense, professional fees, travel, and training. Substantially all of the Controllable Costs are subject to the Controllable Cost Guardrail and related reconciliation.

Pass-Through Revenue

Chorus receives Pass-Through Revenue, which is based on Pass-Through Costs reimbursed by Air Canada. As a result of the 2019 CPA Amendments, costs relating to capital expenditures incurred by Jazz at certain airports and hangar facilities are now treated as Pass-Through Costs.

Pass-Through Costs include food and beverage, airport and navigation fees, third party ground handling, certain aircraft maintenance, materials and supplies, aircraft parking, interrupted trips and baggage delivery, station supplies for processing passengers, certain third party facilities and capital expenditures incurred by Jazz at certain airports and hangar facilities. Jazz does not incur fuel costs related to CPA flying, as fuel is charged directly to Air Canada.

[2] Refer to Section 23 - Caution regarding forward-looking information.

Aircraft leasing under the CPA

Chorus earns aircraft leasing revenue under the CPA from the following owned assets: 34 Q400s, five CRJ900s, eight Dash 8-300s and five spare engines. Chorus is investing in the life extension program on its owned Dash 8-300s and as each life extension is completed the aircraft start to earn aircraft leasing under the CPA. Chorus will complete an additional four Dash 8-300s life extensions in 2019, five Dash-300s in 2020, with an additional two completed by the end of 2022, resulting in a total of 19 Dash 8-300s earning leasing revenue under the CPA (refer to Section 4 - Outlook).

Pursuant to the 2019 CPA Amendments, Chorus will purchase an additional nine CRJ900s for operation and lease by Jazz under the CPA, which will be phased in by the end of 2020. Chorus has also agreed to acquire five additional 75-78 seat aircraft for operation and lease by Jazz under the CPA in 2025.

Over the term of the CPA, a minimum of $1.6 billion in aircraft leasing revenue is expected to be generated, accounting for approximately 65% of the total minimum revenues anticipated over the remaining term. The revenue estimates are based on agreed lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA. A foreign exchange rate of $1.2600 was used in the calculation of the estimates.[2]

Jazz incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

Aircraft fleet under the CPA

The 2019 CPA Amendments, which became effective on a retroactive basis to January 1, 2019, resulted in changes to the fleet plan under the CPA. Effective January 1, 2019 through December 31, 2025, Jazz will gradually reduce the minimum number of Covered Aircraft to 105. The composition of the fleet of Covered Aircraft during that period, specifically years 2019 and 2020, may vary to accommodate an agreed upon transition plan. From January 1, 2026 through December 31, 2035, Air Canada will determine the composition of the fleet of Covered Aircraft on the condition that the fleet must have a minimum of 80 aircraft with 75-78 seats.

[2] Refer to Section 23 - Caution regarding forward-looking information.

3 STRATEGY

Chorus' growth strategy is focused on providing a comprehensive suite of regional aviation services, including aircraft leasing and support services, to customers around the world by drawing on our expertise in all areas of regional operations.

Over 90% of our current revenues are secured through long-term contracts which provide a quantifiable and predictable revenue stream and positions Chorus to continue to execute on its growth strategy.

Chorus' business was founded on the CPA, a contract pursuant to which Jazz provides substantially all of its capacity to Air Canada and operates regional airline services under the Air Canada Express brand. The CPA was most recently amended and extended effective January 1, 2019 and has a term expiring on December 31, 2035. Chorus currently provides approximately three-quarters of the Air Canada Express network capacity. Chorus' share of the Air Canada Express network is anticipated to increase as a result of the fleet changes agreed upon in the 2019 CPA Amendments. For further information, refer to Section 2 - About Chorus.

Chorus intends to grow its Regional Aviation Services by leveraging the synergies and expertise across our lines of business to drive further diversification and growth. The Chorus team is highly experienced in managing every stage of a regional aircraft's life-cycle, and in every facet of regional aviation operation which is what differentiates Chorus from its competition. Chorus offers a full suite of flying operations, including special mission services, maintenance, repair and overhaul modifications, and parts provisioning to regional aircraft owners and operators around the world.

The growth in Regional Aircraft Leasing will be achieved through a combination of purchase and leaseback transactions, portfolio acquisitions, and skyline transactions. As the leasing business grows, it is anticipated that the synergies between the Regional Aircraft Leasing and the Regional Aviation Services will grow as each of those businesses leverages the other's relationships with customers to provide Chorus' full suite of services.

Chorus is focused on growing the Regional Aircraft Leasing segment because:

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

Chorus continues to see significant opportunity to grow its leasing business and intends to continue investing in its future growth. (Refer to Section 23 - Caution regarding forward-looking information.)

The regional aviation sector is typically more stable through economic cycles and as such Chorus is well positioned in the event of an economic downturn. Historically, mainline carriers contract more flying to their regional partners in a downturn because of their lower costs and the smaller aircraft they operate, which are better suited to serve reduced market demand, which supports Chorus' two main business, its CPA and the regional leasing segment. Further, in such times, airlines will look to the benefits of leasing aircraft versus acquiring them to allow for better operational flexibility, and reduced financing requirements.

Under the CPA, Air Canada manages all commercial aspects of the Air Canada Express operation and assumes the related risks, including ticket prices and passenger demand. Costs such as fuel, navigation fees, airport landing and terminal fees are all borne by Air Canada. The risk of erosion to Chorus' profit margin under the CPA is minimized by the +/- $2.0 million Controllable Cost Guardrail, combined with the minimum fleet and aircraft leasing commitments to 2035 with opportunities for growth.

Chorus takes a process-driven, conservative approach to building its leasing business and utilizes several risk mitigation strategies that analyze the risks associated with a potential aircraft transaction. Risk mitigation is employed throughout an aircraft leasing transaction by ensuring, wherever possible, the following:

- on a portfolio basis, the term of the aircraft debt payout is aligned with the term of the first lease;
- the economics of the transaction is preserved by swapping variable rate debt to fixed interest rates or by aligning lease rates with changes in variable interest rates;
- aircraft leases and the associated debt are denominated in the same currency thus reducing foreign exchange risk to a minimum; and
- aircraft residual value risk is mitigated by vigorous upfront consideration as to the aircraft types purchased, limiting aircraft type concentration and maintaining a diversified customer base operating in various geographic locations, as follows:

Customer	Aircraft committed	Turboprops		Regional Jets	
		Q400	ATR	CRJ	Embraer
Ethiopian Airlines	5	✓			
Azul Airlines(1)	5		✓		✓
SpiceJet	5	✓			
Air Nostrum	4			✓	
Lion Air Group	4		✓		
Jambojet	4	✓			
Philippine Airlines	3	✓			
Falcon	3	✓			
Aeromexico	3				✓
Flybe	3		✓		
Virgin Australia	3		✓		
CityJet	2			✓	
KLM Cityhopper	1				✓
Total	45	20	13	6	6

(1) Azul Airlines aircraft breakdown: 3 ATRs and 2 Embraers.

In addition to our risk management practices, regional aircraft are mature, efficient, and unlike narrow-body aircraft, have a lower prospect of technological obsolescence. For example, extended service life programs are currently available for Dash 8-100/300 aircraft, and Chorus has completed eight of these programs on Dash 8-300s to date.

4 OUTLOOK

The discussion that follows includes forward-looking information (refer to Section 23 - Caution regarding forward-looking information). This outlook is provided for the purpose of providing information about current expectations for 2019 and beyond. This information may not be appropriate for other purposes.

On February 4, 2019, the 2019 CPA Amendments became effective on a retroactive basis to January 1, 2019. Further information concerning the 2019 CPA Amendments and the Air Canada Investment is contained in the Corporation's Material Change Reports dated January 24, 2019 and February 13, 2019, which are available on SEDAR at www.sedar.com. The 2019 CPA Amendments results in a near term reduction in fixed fees starting in 2019, as Chorus accelerates its transition to market-based rates. The reduction was implemented by eliminating the Infrastructure Fee per Covered Aircraft and the Fixed Margin per Covered Aircraft which were replaced with a single Fixed Margin (see Section 2 - About Chorus). As a result, Fixed Fee revenue in each of 2019 and 2020 is anticipated to be $75.5 million per year as compared to $111.3 million in 2018. In addition, the maximum future available performance incentives reduce from $23.4 million in 2019 and 2020 to an annual average maximum available amount of $3.4 million for the full term of the CPA. The near-term reductions are more than offset over the term of the CPA by incremental contracted revenue secured with the extension of the agreement including fixed fees and aircraft leasing.

Since the start of 2017, Chorus has raised net proceeds of CAD $401.0 million in capital from both the issuance of Convertible Units and Shares, which if levered at 3:1 provides approximately $1.6 billion of investment capital. As at March 31, 2019, Chorus has invested approximately 75% of this capital. As of May 8, 2019, Chorus' total committed available capital was approximately 90%. Chorus anticipates committing the remaining balance by early 2020 in new to mid-life aircraft with long-term leases to a diverse group of high quality customers located around the world. Subsequent to March 31, 2019, Chorus has refinanced or plans to refinance aircraft which it had funded entirely with cash and as a result expects to received $95.0 million in cash.

The following table provides the number of closed and pending transactions for the Regional Aircraft Leasing segment:

Customer	Committed Aircraft	Closed Transactions					Planned Future Transactions			
		2016	2017	2018	2019	Total closed	Q2 2019(1)	Q3 2019	Q4 2019	2020 and Beyond
Ethiopian Airlines	5		2	1	2	5				
Azul Airlines	5		2	1	2	5				
SpiceJet	5					—	3	2		
Air Nostrum	4	2	2			4				
Lion Air Group	4			1		1	2			1
Jambojet	4				2	2		2		
Philippine Airlines	3			3		3				
Falcon	3		3			3				
Aeromexico	3		3			3				
Flybe	3		3			3				
Virgin Australia	3		3			3				
CityJet	2			2		2				
KLM Cityhopper	1		1			1				
Total	45	2	19	8	6	35	5	4	—	1

(1) Of the 10 pending transactions as at March 31, 2019, three of these aircraft were received prior to May 8, 2019.

Capital expenditures for 2019, excluding those for the acquisition of aircraft and the ESP, and including capitalized major maintenance overhauls, are expected to be between $34.0 million and $40.0 million. Aircraft related acquisitions and the extended service program capital expenditures in 2019 are expected to be between $428.0 million and $433.0 million. As a result of fleet changes associated with the 2019 CPA Amendments, the eight ESPs planned for 2019 have been reduced to four. The remaining seven ESPs will be completed by 2022.

(unaudited) *(expressed in thousands of Canadian dollars)*	Planned 2019(1) $	Actual Three months ended March 31, 2019 $	Actual Year ended December 31, 2018 $
Capital expenditures, excluding aircraft acquisitions and ESP	26,000 to 29,000	9,311	19,624
Capitalized major maintenance overhauls	8,000 to 11,000	2,147	22,542
Aircraft related acquisitions and ESP	428,000 to 433,000	153,099	284,546
	462,000 to 473,000	164,557	326,712

(1) The 2019 plan includes ESP as well as previously announced commitments related to the investment in eleven Q400s and five ATR 72-600s for the Regional Aircraft Leasing segment, all of which have been converted using a foreign exchange rate of $1.3363. It excludes any potential additional investments in third-party aircraft, beyond that already announced. All pending acquisitions and lease commitments are subject to satisfaction of customary conditions precedent to closing.

5 FLEET

The following table provides the total number of aircraft in Chorus' fleet as at March 31, 2019 and December 31, 2018.

(unaudited)	December 31, 2018	2019 Fleet Changes			March 31, 2019	Owned
		Additions	Removals	Transfers		
Regional Aircraft Leasing						
Third Party Leased Aircraft						
CRJ900s	2	—	—	—	2	2
CRJ1000s	4	—	—	—	4	4
Q400s	9	4	—	—	13	13
E190s	4	—	—	—	4	4
E195s	2	—	—	—	2	2
ATR 72-600s	8	2	—	—	10	10
Total Regional Aircraft Leasing	29	6	—	—	35	35
Regional Aviation Services						
Covered Aircraft Leased Under the CPA						
Q400s	34	—	—	—	34	34
CRJ900s	5	—	—	—	5	5
Dash 8-300s	8	—	—	—	8	8
	47	—	—	—	47	47
Other Covered Aircraft						
CRJ200s	10	—	—	—	10	—
CRJ900s	16	—	—	—	16	—
Dash 8-100s	15	—	—	(5)	10	10
Dash 8-300s	17	—	—	—	17	13
Q400s	10	—	—	—	10	—
Total Other Covered Aircraft	68	—	—	(5)	63	23
Voyageur Aircraft						
CRJ200s	7	—	—	—	7	7
King Air 200s	2	—	—	—	2	2
Dash 8-100s(1)	5	—	—	—	5	5
Dash 8-300s(2)	6	—	—	—	6	6
Total Voyageur Aircraft	20	—	—	—	20	20
Non-Operational Aircraft						
CRJ200s	1	—	(1)	—	—	—
Dash 8-100s	9	—	—	5	14	14
Total Non-Operational Aircraft	10	—	(1)	5	14	14
Total Regional Aviation Services	145	—	(1)	—	144	104
Total Aircraft	174	6	(1)	—	179	139

(1) Includes four aircraft leased to a third party.
(2) Includes one aircraft leased to a third party.

6 CONSOLIDATED FINANCIAL ANALYSIS

This section provides detailed information and analysis about Chorus' performance for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. It focuses on Chorus' consolidated operating results and provides financial information for Chorus' operating segments. For further discussion and analysis of Chorus' business segments, refer to Section 7 - Segmented Analysis.

	Three months ended March 31,			
(unaudited) *(expressed in thousands of Canadian dollars)*	**2019** $	**2018** $	**Change** $	**Change** %
Operating Revenue	343,867	323,663	20,204	6.2
Operating Expenses	303,748	278,675	25,073	9.0
Operating income	40,119	44,988	(4,869)	(10.8)
Net interest expense	(15,741)	(13,839)	(1,902)	(13.7)
Foreign exchange gain (loss)	14,250	(19,793)	34,043	172.0
Other(1)	36	8	28	350.0
Earnings before Income tax	38,664	11,364	27,300	240.2
Income tax expense	(5,217)	(6,134)	917	14.9
Net income	33,447	5,230	28,217	539.5
Adjusted EBITDA(2)	74,724	77,553	(2,829)	(3.6)
Adjusted EBT(2)	24,266	32,797	(8,531)	(26.0)
Adjusted Net Income(2)	19,049	26,663	(7,614)	(28.6)

(1) Other includes gain on disposal of property and equipment.
(2) These are non-GAAP financial measures – refer to Section 17 for disclosures on Non-GAAP financial measures.

For the three months ended March 31, 2019 consolidated operating revenue increased 6.2% compared to the same period last year.

Growth in revenue in the first quarter of 2019 over the previous period was attributable to 46.6% growth in the Regional Aircraft Leasing segment related to additional aircraft under lease and a 3.9% increase in the Regional Aviation Services segment related to an increase in CPA revenue.

Operating expenses increased 9.0% for the three months ended March 31, 2019 compared to the same period last year. The increase quarter-over-quarter was primarily attributable to the Regional Aviation Services segment related to increased stock-based compensation costs and maintenance expenses as a result of increased scheduled engine overhauls. The Regional Aircraft Leasing segment expenses increased quarter-over-quarter due to higher depreciation related to new aircraft purchases and due to increased salaries, wages and benefits as the staffing complement increased to support the growth.

Net interest expense increased 13.7% for the three months ended March 31, 2019 compared to the same period last year due to additional long-term borrowings related to aircraft purchases throughout 2018 and 2019 in the Regional Aircraft Leasing segment; partially offset by a decrease in the Regional Aviation Services segment's interest expense due to amortizing debt balances.

Foreign exchange gains increased 172.0% for the three months ended March 31, 2019 compared to the same period last year. The increase was primarily related to the change in unrealized foreign exchange on long-term debt of $34.7 million in the Regional Aviation Services segment. The Regional Aviation Services segment manages most of 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 losses/gains on long-term debt and lease liability do not materially affect current or future cash flows. The Regional Aircraft Leasing segment's functional currency is USD.

Income taxes decreased by 14.9% for the three months ended March 31, 2019 compared to the same period last year. The decrease is primarily due to a decrease in taxable income after the impact of non-taxable foreign exchange gains and losses on pre-tax net income.

7 SEGMENTED ANALYSIS

Information regarding the financial results of each reportable operating segment is as follows:

(unaudited) *(in thousands of Canadian dollars)*	For the three months ended March 31, 2019			For the three months ended March 31, 2018		
	Regional Aviation Services $	Regional Aircraft Leasing $	Total $	Regional Aviation Services $	Regional Aircraft Leasing $	Total $
Operating revenue	317,994	25,873	343,867	306,017	17,646	323,663
Operating expenses	290,636	13,112	303,748	270,071	8,604	278,675
Operating income	27,358	12,761	40,119	35,946	9,042	44,988
Net interest expense	(8,952)	(6,789)	(15,741)	(9,445)	(4,394)	(13,839)
Foreign exchange gain (loss)	14,406	(156)	14,250	(19,997)	204	(19,793)
Other(1)	36	—	36	8	—	8
Earnings before income tax	32,848	5,816	38,664	6,512	4,852	11,364
Income tax expense	(4,509)	(708)	(5,217)	(5,691)	(443)	(6,134)
Net income	**28,339**	**5,108**	**33,447**	**821**	**4,409**	**5,230**
Operating income	27,358	12,761	40,119	35,946	9,042	44,988
Depreciation and amortization(2)	23,041	9,209	32,250	22,676	6,430	29,106
Employee separation(2)	355	—	355	3,459	—	3,459
Signing bonus	2,000	—	2,000	—	—	—
Adjusted EBITDA(3)	**52,754**	**21,970**	**74,724**	**62,081**	**15,472**	**77,553**
Earnings before income tax	32,848	5,816	38,664	6,512	4,852	11,364
Unrealized foreign exchange (gain) loss	(16,753)	—	(16,753)	17,974	—	17,974
Employee separation program	355	—	355	3,459	—	3,459
Signing bonus	2,000	—	2,000	—	—	—
Adjusted EBT(3)	**18,450**	**5,816**	**24,266**	**27,945**	**4,852**	**32,797**

(1) Other includes gain on disposal of property and equipment and other income.
(2) Included in operating expenses.
(3) These are non-GAAP financial measures – refer to Section 17 for disclosures on Non-GAAP financial measures.

Regional Aviation Services Analysis

Operating Income

In the first quarter, Chorus reported operating income of $27.4 million, a decrease of $8.5 million relative to the first quarter of 2018. The results of the first quarter reflects the 2019 CPA Amendments which reduced the Fixed Margin and incentive revenue as Chorus moves to market-based compensation rates. These reductions were offset by the implementation of the Controllable Cost Guardrails that mitigated the expected first quarter CPA margin shortfall related to reduced fees. Beyond the changes related to the amended CPA, the first quarter results were impacted by:

- increased stock-based compensation of $7.7 million due to a change in the price of the Corporation's Shares;
- increased one-time signing bonuses as a result of collective agreement changes resulting from the 2019 Amended CPA; and
- increased salaries, wages and benefits and maintenance expense on owned CPA aircraft over the previous year due to decreased capitalization of labor and materials; offset by
- increased aircraft leasing under the CPA attributable to additional revenue earned from eight Dash 8-300s in 2019 versus revenue earned on five Dash 8-300s, inclusive of the positive impact of foreign exchange translation on this USD denominated revenue stream; and
- a decrease in employee separation program costs related to the 2015 pilot mobility program.

Non-Operating Expenses

The strengthening of the Canadian dollar versus the US dollar resulted in foreign exchange gains (primarily unrealized) in the quarter versus foreign exchange losses (primarily unrealized) in the same period quarter-over-quarter. These gains relate primarily to US dollar loans, but also includes foreign exchange changes on working capital. 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 lease liabilities do not materially affect current or future cash flows.

Adjusted EBITDA

Adjusted EBITDA decreased for the three months ended March 31, 2019 compared to the same period last year due to:

- decreased operating income described above;
- increased depreciation and amortization expense; and
- increased one-time signing bonuses; offset by
- the impact of a decrease in employee separation program costs.

Portfolio of Aircraft Leasing under the CPA

- Current fleet of 47 aircraft and five spare engines
- Current net book value of $840.0 million(1)
- Approximately $1.6 billion in future contracted lease revenue(2)(3)
- Current weighted average fleet age of 6 years(1)(4)
- Current weighted average remaining lease term of 8 years(1)(4)
- 100% debt is fixed rate or hedged with swap
- Current weighted average cost of borrowing of 3.6%

(1) This includes only the 47 aircraft and five spare engines.
(2) The estimates are based on agreed lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA as at January 1, 2019. A foreign exchange rate of $1.2600 (based on the long-term average historical rate) was used in the calculation of the estimates.
(3) Refer to Section 23 - Caution regarding forward-looking information.
(4) Fleet age and remaining lease term is calculated based on the weighted-average of the aircraft net book value.

Regional Aircraft Leasing Analysis

Operating Income

Operating income increased for the three months ended March 31, 2019 compared to the same period last year primarily due to:

- the growth in additional aircraft on lease, earned from the equivalent of 31 aircraft (2018 - 21) which resulted in increased revenue; offset by
- increased depreciation expense as a result of additional aircraft; and
- increased salaries, wages and benefits of $1.1 million as staffing complement increased to support the segment's growth.

Non-Operating Income (Expenses)

Net interest expenses increased for the three months ended March 31, 2019 compared to the same period last year related to funding of new aircraft for the Regional Aircraft Leasing segment.

For the three months ended March 31, 2019, foreign exchange gains increased as a result of changes in the foreign exchange rate.

Adjusted EBT

Adjusted EBT increased for the three months ended March 31, 2019 due to the growth in additional aircraft on lease.

Portfolio

Committed Fleet [(1)]

- Committed fleet of 45 aircraft[(1)]
- Approximately $960.0 million USD aircraft portfolio[(1)(3)]
- Approximately $745.0 million USD in future contracted lease revenue[(1)(3)]

Current Fleet *(as at March 31, 2019)*

- Current weighted average fleet age of 4 years[(2)]
- Current weighted average remaining lease term of 6 years[(2)]
- Chorus has no net exposure to changes in the interest rates due to its debt and contract terms of 87.2% fixed rate debt (inclusive of floating rate debt that is fixed through the use of swaps) and 12.8% floating rate debt (with leases that float on the same basis as the debt)
- Current weighted average cost of borrowing of 4.61%[(4)]

(1) Includes all aircraft which have been delivered as well as pending acquisitions and future deliveries for which CAC has received lease commitments.
(2) Fleet age and remaining lease term is calculated based on the weighted-average of aircraft net book value.
(3) Refer to Section 23 - Caution regarding forward-looking information.
(4) Reflects actual borrowings as at March 31, 2019 only.

8 CAPITAL STRUCTURE

Chorus' capital structure consists primarily of a combination of equity and debt including Shares, Convertible Units, lease liability and amortizing secured debt facilities.

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 in its capital structure 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 debt leverage to lower its cost of capital. The amount of debt available to Chorus is a function of earnings, typically measured at the Adjusted EBITDA level (refer to Section 17 - Non-GAAP Financial Measures) and market accepted norms for businesses in its sector. Adjusted EBITDA can be impacted by known and unknown risks, uncertainties, and other factors outside Chorus' control (refer to Section 10 - 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 issuing or repurchasing equity, issuing new debt, modifying the term of existing debt facilities or repaying existing debt from surplus cash or proceeds from the sale of surplus assets.

Chorus' capital structure was as follows as at March 31, 2019 and December 31, 2018.

(unaudited) *(expressed in thousands of Canadian dollars)*	**March 31, 2019** **$**	**December 31 2018** **$**	**Change** **$**
Equity			
Capital	259,687	153,669	106,018
Contributed surplus	1,040,836	1,041,100	(264)
Deficit	(759,272)	(783,793)	24,521
Exchange differences on foreign operations	9,424	15,850	(6,426)
Equity component of Convertible Units	2,981	2,981	—
	553,656	429,807	123,849
Convertible Units	194,490	194,294	196
Lease liabilities	20,617	22,629	(2,012)
Long-term debt	1,200,913	1,245,435	(44,522)
Total capital	1,969,676	1,892,165	77,511

As at May 2, 2019 and December 31, 2018, the issued and outstanding Shares of Chorus were as follows:

(unaudited)	**May 2, 2019**	**December 31, 2018**
Total issued and outstanding Shares	157,659,475	140,210,174
Shares potentially issuable		
Stock-based compensation plans and warrants - previous methodology	1,748,343	2,745,104
Change in reporting methodology(1)	2,178,654	2,317,860
Total outstanding and potentially dilutive Shares	161,586,472	145,273,138

(1) In prior periods, Chorus used the treasury stock method to calculate the portion of issued and outstanding shares potentially issuable from stock-based compensation plans and warrants. Chorus has updated this methodology in the current period to reflect actual issued and outstanding shares at May 2, 2019 which more accurately reflects the total number of outstanding and potentially dilutive shares. A reconciliation between previous and current period methodology is shown in the above table.

In addition, 24,242,242 Shares are issuable at an exercise price of $8.25 upon the exercise of the Warrants (as defined below). Furthermore, Shares are issuable to participants in the Corporation's DRIP (as defined below) each time a dividend is declared and paid on the Corporation's Shares.

On February 4, 2019, Chorus issued 15,561,600 Class B Voting Shares to Air Canada at a price of $6.25 per Share by way of a private placement for total gross proceeds of $97.26 million. Upon closing this transaction, Chorus and Air Canada entered into an Investor Rights Agreement pursuant to which Air Canada acquired the right to nominate a member to Chorus' Board of Directors and agreed, for a period of 60 months and subject to limited exceptions, to hold its Shares in Chorus, participate in the dividend reinvestment plan and abide by customary standstill provisions, all as more particularly set out in the Investor Rights Agreement (a copy of which is available on SEDAR at www.sedar.com).

Dividend Reinvestment Plan ("DRIP")

Chorus implemented a DRIP effective February 1, 2018, which 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.

During the three months ended March 31, 2019, 555,066 Shares were issued under the DRIP at a weighted average price of $6.83 per Share. As of May 8, 2019, Chorus has issued 2,427,274 Shares under the DRIP. Chorus may issue a maximum of 6,270,500 Shares under the DRIP before it must seek further approval from the TSX.

Long-term debt

Long-term debt consists of the following:

(unaudited) *(expressed in thousands of Canadian dollars)*	**March 31, 2019** **$**	**December 31, 2018** **$**
Amortizing term loans		
Secured by aircraft	1,189,274	1,227,716
Secured by engines	10,330	10,937
Secured by office building	9,000	9,000
	1,208,604	1,247,653
Less: Deferred Financing Fees	(7,691)	(2,218)
	1,200,913	1,245,435
Current portion(1)	140,517	142,652
	1,060,396	1,102,783

(1) The current portion of long-term debt in the table above includes deferred financing fees of $2.0 million for the period ended March 31, 2019 (year ended December 31, 2018 - $0.3 million).

Chorus' aircraft amortizing term loans are repayable in monthly, quarterly, or semi-annual instalments, bearing fixed, floating, and floating interest fixed via swap agreements, at a weighted average rate of 4.067%, maturing between April 2020 and December 2030, each secured primarily by its respective aircraft and engines.

The engine loans are repayable in quarterly instalments, bearing fixed and floating interest at a weighted average rate of 4.4433%, maturing between February 2022 and May 2028, each secured primarily by one PW150A engine.

The office building loan is 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.

Total scheduled principal payments on long-term debt, excluding deferred financing fees, are as follows:

(unaudited) *(expressed in thousands of Canadian dollars)*	$
No later than one year	142,501
Later than one year and no later than five years	635,431
Later than five years	430,672
	1,208,604

Covenants

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.

A description of the principal financial covenants is set out below:

Amortizing term loans totaling CAD $916.1 million, as at March 31, 2019, have covenants which apply separately to the "Jazz Group" (comprising Jazz and Jazz Leasing and any entity controlled directly or indirectly by either of them), Voyageur (as successor by amalgamation to the "North Bay Leasing Group" which was comprised of North Bay Leasing Inc., Voyageur Aerotech Inc., Voyageur Airways Limited, Voyageur Aviation Corp. and Voyageur Avparts Inc.), and various subsidiaries of CAC (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 agreements with the lender also contain 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. Furthermore, the loans may become immediately repayable if Jazz undergoes a change of control without the lender's consent (however, a change of control of the Corporation is deemed not to be a change of control of Jazz for purposes of these financing agreements so long as the Corporation's Shares are publicly traded),

- Voyageur is required to maintain prescribed liquidity levels. Prior to its amalgamation on January 1, 2019, the North Bay Leasing Group was also required to maintain a minimum lease coverage ratio.

- Subsidiaries of CAC have entered into financing agreements in connection with the acquisition of aircraft. CAC and/or Jazz Leasing have guaranteed the indebtedness under a substantial number ($687.9 million) of these financing agreements. Where CAC has provided a guarantee of indebtedness, it 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. The indebtedness under these agreements is cross-defaulted to any payment default by Jazz Leasing under its other debt facilities with the lender and is also cross-defaulted and cross-collateralized to any other debt of CAC or its subsidiaries supported by that lender (except debt in respect of which such lender's recourse is generally limited to the borrower entity). Other financing agreements entered into by subsidiaries of CAC are guaranteed by either CACIL ($14.6 million) or Chorus Aviation Leasing ($31.3 million) and contain similar restrictions on the payment of dividends or other distributions as well as net worth covenants from the guarantor or the right to match financial covenants given by the guarantor to other lenders. Amortizing term loans totaling CAD $108.1 million as at March 31, 2019 have minimum lease rent coverage ratio requirements which apply directly to certain subsidiaries of Chorus Aviation Capital.

As at March 31, 2019, Chorus (or as applicable, certain subsidiaries) was in compliance with all of these financial covenants.

Revolving loan facilities

<u>Operating Credit - up to CAD $75.0 million</u>

On August 30, 2017, Chorus entered into a three-year committed operating credit facility and on June 7, 2018, extended the term of that facility for a further year ending August 30, 2021. 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 certain eligible accounts receivable, inventory and equipment.

The facility bears interest for Canadian dollar advances at USD LIBOR plus 1.75% - 2.25% and for US dollar advances at LIBOR plus 2.75% - 3.25%. As at March 31, 2019, no amounts were drawn on the facility, however, Chorus has provided letters of credit totaling $9.0 million that reduce the amount available under this facility.

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.

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. As at March 31, 2019, Chorus was in compliance with these covenants.

Any outstanding balance under this facility may become immediately repayable if the Corporation undergoes a change of control without the lender's consent.

Revolving credit facility for aircraft acquisitions - US $300.0 million

On January 21, 2019, Chorus secured a US $300.0 million committed, revolving credit facility to finance future aircraft acquisitions for its regional aircraft leasing business. The facility provides a revolving period of between 24 and 36 months (depending on the level of utilization in the first 24 months) and a 48-month term out period. The facility also provides an uncommitted option to expand by US $100.0 million to US $400.0 million.

The revolving portion of the facility matures in January 2021 with an option to convert to an amortizing term loan for a further four years maturing in January 2025. During the revolving period, amortization will be 5% annually. During the term-out period, the loans will amortize based on a 12-year straight-line full pay-out schedule, adjusted for the age of the aircraft at the time of addition to the facility. The facility may be prepaid in part or in full subject to a US $5.0 million minimum prepayment.

The facility bears interest at USD LIBOR plus 2.75% during the revolving period and ranging from LIBOR plus 3.00% - 4.75% during the term-out period. As of March 31, 2019 no amounts were drawn on the facility.

The facility is secured by the aircraft financed under the facility, as well as an assignment of the leases, insurance proceeds and other collateral security customary for financings of this nature. All loans under this facility are cross-defaulted, cross-collateralized, and are guaranteed by CACIL.

The facility contains covenants that must be met on an ongoing basis. The financial covenants include a minimum amount of cash, tangible net worth, and a maximum debt to equity ratio in certain subsidiaries. As at March 31, 2019, Chorus was in compliance with these covenants.

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 the funds from the investment, with the net proceeds after deduction of expenses being approximately $196.0 million.

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 Share 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. The Debentures are listed on the TSX 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

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

The majority of Chorus' debt, including the majority of the amortizing term loans, the Nova Scotia Jobs Fund Loan, and the Convertible Units, 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. As at March 31, 2019, 93.8% of Chorus’ debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 6.2% floating rate debt. Approximately 81% of the floating rate debt relates 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.

Chorus has four term loans which bear floating interest rates, and has entered into interest rate swaps to convert those floating interest rates to fixed rates for the duration of each loan. Each interest rate swap is intended to hedge the variability of future interest rates and related interest payments on its respective loan. All interest rate swaps are designated and effective as cash flow hedges. The fair value of interest rate swaps was $0.5 million at March 31, 2019 and is recorded in other long-term assets. Changes in the fair value of interest rate swaps are recorded in other comprehensive income. During the three months ended March 31, 2019, Chorus recognized other comprehensive (loss) income of ($0.7) million, net of tax (March 31, 2018 - $1.5 million).

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 a material impact on net income for the period ended March 31, 2019.

9 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 those related to liquidity, leverage, cash flows and dividends, foreign exchange risk and interest rate risk.

As of March 31, 2019, Chorus had $67.6 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 March 31, 2019, however, Chorus has provided letters of credit totaling $9.0 million that reduce the amount available under this facility.

Chorus' cash declined in the first quarter of 2019 as a result of funding of the purchase of six aircraft entirely with cash. Subsequent to March 31, 2019, Chorus refinanced or plans to refinance these aircraft and as a result will receive approximately $95.0 million in cash. Refer to Section 23 - Caution regarding forward-looking information.

Chorus' cash balance will be used to fund the growth of its business, as well as for working capital requirements and general corporate purposes. Chorus is satisfied that it has ample liquidity to satisfy its requirements. Refer to Section 23 - 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 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.

Chorus' leverage ratio (Adjusted net debt to trailing 12-month Adjusted EBITDA) was 4.0 as at March 31, 2019 (December 31, 2018 - 4.0). Leverage remains stable in 2019 compared to 2018. Refer to Section 17 - Non-GAAP Financial Measures. As the regional aircraft leasing business continues to grow, Chorus' overall leverage will shift to be more in line with market acceptable levels for regional aircraft leasing businesses. Refer to Section 23 - Caution regarding forward-looking information.

Cash Flows

The following table provides information on Chorus' cash flows for the three months ended March 31, 2019 and March 31, 2018.

(unaudited) *(expressed in thousands of Canadian dollars)*	**Three months ended March 31,** **2019** **$**	**2018** **$**
Cash provided by operating activities before net changes in non-cash balances related to operations	55,965	59,369
Net changes in non-cash balances related to operations	(6,007)	(23,089)
Cash provided by operating activities	49,958	36,280
Cash provided by financing activities	68,120	107,697
Cash used in investing activities	(141,990)	(68,199)
Cash flow from operating, financing and investing activities	(23,912)	75,778
Effect of foreign exchange rate changes on cash	(1,085)	2,132
Net change in cash during the periods	(24,997)	77,910
Cash – Beginning of periods	92,592	78,007
Cash – End of periods	67,595	155,917

Cash provided by operating activities

Chorus continues to generate positive operating income and cash flows from operations producing $50.0 million for the three months ended March 31, 2019, compared to $36.3 million for the three months ended March 31, 2018. The $13.7 million increase was due primarily to large changes in working capital primarily related to the timing of commodity tax payments.

Cash provided by financing activities

Cash provided by financing activities for the three months ended March 31, 2019 was $68.1 million, comprised primarily of net proceeds received from the issuance of Shares in the amount of $97.3 million, $15.0 million of borrowings on new loans related to aircraft acquisitions and $4.3 million from proceeds on stock options exercised; offset by scheduled payments on long-term borrowings of $32.9 million and dividends paid of $13.7 million (net of $3.9 million related to the DRIP).

Cash provided by financing activities for the three months ended March 31, 2018 was $107.7 million comprised primarily of net proceeds received from the issuance of Shares in the amount of $107.0 million and $45.2 million of borrowings on new loans related to aircraft acquisitions; partially offset by scheduled payments on long-term borrowings of $28.8 million and dividends of $14.5 million (net of $0.6 million related to the DRIP).

Cash used in investing activities

Cash used in investing activities for the three months ended March 31, 2019 was $142.0 million, which includes capital expenditures of $164.6 million for the acquisition of six aircraft as well as major maintenance overhauls and other capital expenditures. This was offset by increased security deposits and maintenance reserves of $20.8 million related to leased aircraft.

Cash used in investing activities for the three months ended March 31, 2018, was $68.2 million which includes capital expenditures of $71.3 million for the acquisition of two CRJ900s, the completion of one ESP aircraft as well as major maintenance overhauls and other capital expenditures. This was offset by increased security deposits and maintenance reserves of $2.3 million related to leased aircraft.

Capital expenditures

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

	Three months ended March 31,		
(unaudited) *(expressed in thousands of Canadian dollars)*	**2019** **$**	**2018** **$**	**Change** **$**
Capital expenditures, excluding aircraft acquisitions and ESP	9,311	5,856	3,455
Capitalized major maintenance overhauls	2,147	4,358	(2,211)
Aircraft acquisitions and ESP (1)(2)	153,099	61,096	92,003
Total capital expenditures	164,557	71,310	93,247

(1) 2019 includes the acquisition of four Q400s, two ATR 72-600s and aircraft deposits.
(2) 2018 includes the acquisition of two CRJ900s and one ESP.

Commitments for capital expenditures

Chorus 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. The program began in April 2017 and eight aircraft were completed by end of March 31, 2019. 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 2019, 2020, 2021 and 2022 is expected to be approximately $11.0 million, $4.8 million, $3.6 million and $3.6 million, respectively (US dollar amounts were converted to Canadian dollars at $1.3363, the March 31, 2019 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, 2020 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 to 2018.[1] Refer to Section 23 - Caution regarding forward-looking information.

[1] Terms of ESP completions were amended and approved in Q1 2019 by the aircraft security holders to accommodate fleet changes as a result of the 2019 CPA Amendments.

Chorus has entered into the following agreements:

- An agreement to lease four new ATR 72-600s to the Lion Air Group. The first of these aircraft was delivered on October 26, 2018, and the agreement currently contemplates delivery of the remaining three aircraft in 2019 and 2020.
- An agreement to acquire two new Q400s and lease them to Jambojet Limited, a subsidiary of Kenya Airways PLC. These aircraft are expected to be delivered in the second half of 2019.
- An agreement with Bombardier to purchase nine CRJ900s which are scheduled to be delivered in 2020 for operation by Jazz under the CPA.
- Agreements to acquire and lease five new Q400s to SpiceJet. Three of these aircraft have been delivered with delivery of the remaining two aircraft by the end of June 2019.

The aggregate amount to be paid on account of the foregoing capital commitments for the years 2019 through 2022 is expected to be between $565.0 million and $575.0 million funded from new debt facilities and available cash resources. (US dollar amounts were converted to Canadian dollars at $1.3363, the March 31, 2019 closing day rate from the Bank of Canada.) Refer to Section 23 - Caution regarding forward-looking information.

Dividends

Chorus pays a monthly dividend of $0.04 per Share.

Chorus declared dividends of $18.3 million for the three months ended March 31, 2019 (2018 - $15.6 million).

For the three months ended March 31, 2019, Chorus paid dividends net of the DRIP of $13.7 million (2018 - $14.5 million). The DRIP was initiated in February 2018. See Section 8 - Capital Structure for details of Chorus' dividend reinvestment plan. Dividends are subject to the discretion of Chorus' Board of Directors.

10 RISK FACTORS

Due to Chorus' economic exposure to Air Canada (refer to Section 11 - Economic Dependence), Chorus is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity. For a more detailed description of the possible risk factors associated with Chorus' business, including its dependence on the CPA, the aviation 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 21, 2019.

11 ECONOMIC DEPENDENCE

Chorus and Air Canada are parties to the CPA under which Air Canada currently purchases substantially all of Jazz's fleet capacity on the Covered Aircraft. As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on the CPA. (Refer to Section 2 - About Chorus and note 22 of the audited consolidated financial statements of Chorus for the years ended December 31, 2018 and 2017.)

12 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, estimates and judgments may change in light of new facts and circumstances in the internal and external environment and actual results can differ from those estimates[1].

Operating revenue

Under the CPA, Chorus and Air Canada are to re-set certain rates applicable to the year ending December 31, 2019. The new rates will be retroactive to January 1, 2019. The negotiation of these rates has not been completed. As a result, Chorus used interim rates for certain Controllable Costs to estimate CPA operating revenues during the three-month period ended March 31, 2019. Once the new rates are established, Chorus and Air Canada will reconcile amounts already recorded to those rates now under negotiation. Any upward or downward adjustment to CPA operating revenue will be made in the quarter in which the negotiations conclude. As such, Chorus' revenue is subject to judgement and estimate uncertainty. If the negotiated rates were to differ 1% from the current estimate being used, the amount of operating revenue recognized under the CPA for the three months ended March 31, 2019 would change by $2.2 million.

[1](Refer to Section 23 - "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, 2018 and 2017.

13 CHANGES IN ACCOUNTING STANDARDS

The significant accounting policies of Chorus are described in note 3 of the December 31, 2018 consolidated financial statements.

New accounting standards adopted during the period

<u>IFRS 16 - *Leases*</u>

On January 1, 2019, Chorus adopted IFRS 16 *Leases* ("IFRS 16") using the retrospective transition approach with restatement to comparative periods. The impacts from adoption of the new standard are outlined below.

Aircraft leased from Air Canada and subleased to Air Canada under the CPA - Refer to adjustment (a) in the transition impact table below.

Lease components embedded in the CPA related to providing Air Canada the right to use the Covered Aircraft were previously accounted for as operating leases. The associated lease income generated was included in revenue in the statement of income.

Chorus leases 35 aircraft and six spare engines from Air Canada that are used as part of the Covered Aircraft to fulfill its obligations under the CPA. Chorus has determined that these lease agreements with Air Canada and the CPA meet the contract combination requirements in IFRS 16 and therefore should be accounted for as a single contract. When viewing the agreements as one contract, Chorus does not have the right to direct the use of the aircraft and therefore, no leases have been identified. This conclusion resulted in revenue and operating expenses being reduced by equal amounts, corresponding to the amount of lease payments.

Chorus previously recorded leasehold improvements, deferred lease inducements, deferred transaction fees and prepaid rent related to certain of these 35 aircraft and six engines. Given that a lease no longer exists, these assets and liabilities have been re-characterized. On application of IFRS 16, work performed related to these leasehold improvements is viewed as services provided by Chorus to Air Canada that are accounted for under IFRS 15. The deferred transaction costs, deferred lease inducements and prepaid rent have been recognized on a net basis as a receivable from or payable to Air Canada. These changes primarily impacted certain classifications of assets and liabilities on the balance sheet.

Aircraft leased from third parties and subleased to Air Canada under the CPA - Refer to adjustment (b) in the transition impact table below.

Chorus supplies Air Canada with five aircraft that are leased from third parties under the CPA. These third party leases were previously classified as a mix of operating and finance leases. Chorus has determined that it is subleasing the aircraft to Air Canada and therefore assessed the classification of these leases by reference to the right-of-use asset arising from the head lease rather than the underlying asset. As a result, the classification of the operating subleases changed to finance leases.

As the lessee, Chorus has a right-of-use asset and lease liability related to the head lease. However, as the intermediate lessor to Air Canada, Chorus derecognized the right-of-use asset and recognized a lease receivable. Due to the change in classification of the sublease, interest income is recognized rather than lease income from Air Canada. In addition, due to the recognition of the lease liability, interest expense is recognized rather than straight-line lease expense.

The new standard did not result in any adjustments in relation to the remainder of the Covered Aircraft used under the CPA, which are owned by Chorus.

Facilities - Refer to adjustment (c) in the transition impact table below.

Chorus has leases related to airport terminal operations that represent Chorus' right to use designated facility space at airport locations. On adoption of IFRS 16, right-of-use assets and lease liabilities have been recognized in relation to facilities that are not short-term leases.

Impacts on financial statements

The following tables summarize the impacts of adopting IFRS 16 on Chorus' consolidated financial statements.

Consolidated Statements of Financial Position
January 1, 2018

(expressed in thousands of Canadian dollars)	As previously reported	IFRS 16 adoption	Adjustments	As restated
Prepaid expenses and deposits	12,920	(6,397)	*(a),(b)*	6,523
Current portion of lease receivables	—	4,511	*(b)*	4,511
Lease receivables	—	17,522	*(b)*	17,522
Property and equipment	1,742,674	(5,747)	*(b),(c)*	1,736,927
Other long-term assets	33,647	(1,494)	*(a),(b)*	32,153
Accounts payable and accrued payables	215,196	(1,765)	*(a)*	213,431
Current portion of lease liabilities	2,762	3,417	*(b),(c)*	6,179
Lease liabilities	5,219	15,713	*(b),(c)*	20,932
Deferred income tax liability	135,740	(163)		135,577
Other long-term liabilities	65,679	(8,385)	*(a)*	57,294
Equity	282,022	(422)		281,600

Consolidated Statements of Financial Position
December 31, 2018

(expressed in thousands of Canadian dollars)	As previously reported	IFRS 16 adoption	Adjustments	As restated
Prepaid expenses and deposits	13,535	(5,734)	*(a),(b)*	7,801
Current portion of lease receivables	—	5,190	*(b)*	5,190
Lease receivables	—	13,865	*(b)*	13,865
Property and equipment	2,001,099	(3,547)	*(b),(c)*	1,997,552
Other long-term assets	41,693	(1,471)	*(a),(b)*	40,222
Accounts payable and accrued payables	190,311	(1,789)	*(a)*	188,522
Current portion of lease liabilities	3,117	3,602	*(b),(c)*	6,719
Lease liabilities	2,558	13,352	*(b),(c)*	15,910
Deferred income tax liability	172,254	8		172,262
Other long-term liabilities	67,595	(6,890)	*(a)*	60,705
Equity	429,787	20		429,807

Consolidated Statements of Income

Three months ended March 31, 2018 *(expressed in thousands of Canadian dollars)*	As previously reported	IFRS 16 adoption	Adjustments	As restated
Operating revenue	347,550	(23,887)	*(a),(b)*	323,663
Depreciation and amortization	29,655	(549)	*(a),(b),(c)*	29,106
Aircraft rent (1)	24,247	(22,959)	*(a),(b)*	1,288
Other	31,611	(418)	*(c)*	31,193
Foreign exchange loss	(20,000)	207	*(b)*	(19,793)
Deferred income tax	(5,618)	(68)		(5,686)
Net income	5,052	178		5,230
Earnings per share, basic	0.04	—		0.04
Earnings per share, diluted	0.04	—		0.04

(1) The remainder of aircraft rent, after the IFRS 16 adjustments, relates to short-term and/or variable engine lease contracts and as a result has been reclassified to other expense.

Consolidated Statements of Cash Flows

Three months ended March 31, 2018 *(expressed in thousands of Canadian dollars)*	As previously reported	IFRS 16 adoption	Adjustments	As restated
Net income	5,052	178		5,230
Depreciation and amortization	29,655	(549)	*(a),(b),(c)*	29,106
Amortization of prepaid aircraft rent and related fees	648	(395)	*(a)*	253
Deferred income tax expense	5,618	68		5,686
Net changes in non-cash balances related to operations	(23,681)	592		(23,089)
Net cash from operating activities	36,386	(106)		36,280
Repayment of lease liabilities	(687)	(415)	*(b),(c)*	(1,102)
Net cash from financing activities	108,112	(415)		107,697
Payments received on lease receivables	—	521	*(b)*	521
Net cash from investing activities	(68,720)	521		(68,199)

Leases

At the inception of a contract, Chorus assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This includes the identification of embedded leases in service contracts. Chorus' lease arrangements relate to aircraft, engines and facilities. Chorus is either the lessor or intermediate lessor in aircraft and engine leases and typically is the lessee in facilities leases.

Aircraft and engines - As a lessee and intermediate lessor

Chorus leases aircraft and engines from third parties to provide charter and contract flying services to Air Canada and third parties. Under the CPA, Chorus has determined that it is subleasing aircraft to Air Canada.

When Chorus is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. Upon subleasing a right-of-use asset that is classified as a finance sublease, a lease receivable will be recognized and the underlying asset that is leased from the head lessor will be derecognized. Interest income is recognized on the lease receivable balance.

Aircraft and engines - As a lessor

Chorus leases owned aircraft and engines to Air Canada and third parties in its contract flying services as well as leases owned aircraft to third parties in its Regional Aircraft Leasing segment. As a lessor, Chorus determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, Chorus makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, Chorus considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, Chorus applies IFRS 15 to allocate the consideration in the contract. Chorus recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of operating revenue.

Facilities

Chorus' leased facilities are designated spaces at airports, for which it makes fixed monthly payments. Shared spaces for which Chorus' capacity portion does not represent substantially all of the capacity of the asset are not identified assets under IFRS 16 and therefore no lease exists. Leases with reciprocal termination rights with no more than an insignificant penalty, subject to a notice period of less than 12 months, are considered short-term leases.

Chorus recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term and adjusted for certain remeasurements of the lease liability. Chorus presents right-of-use assets in property and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Lease payments included in the measurement of the lease liability comprise of fixed payments, variable lease payments that depend on an index or a rate, lease payments in a renewal period if Chorus is reasonably certain to renew, and penalties for early termination unless Chorus is reasonably certain not to terminate early. Chorus' leases do not provide an implicit rate, Chorus uses its incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments and if there is a change in Chorus' assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Chorus has elected not to recognize right-of-use assets and lease liabilities for facility leases that have a lease term of 12 months or less and for leases of low-value assets. Chorus recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Critical accounting estimates and judgments

Leases

Management makes assumptions and estimations in the determination of the incremental borrowing rates used to calculate the present value of lease payments. Chorus exercises judgment when assessing whether renewal options are reasonably certain to be exercised and when assessing whether an arrangement contains a lease.

14 OFF-BALANCE SHEET ARRANGEMENTS

Information regarding Chorus' off-balance sheet arrangements is disclosed in Section 9 of Chorus' annual MD&A dated February 21, 2019. There have been no material changes to Chorus' off-balance sheet arrangements from what was disclosed at that time.

15 RELATED PARTY TRANSACTIONS

As at March 31, 2019, 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 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' 2018 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 2019 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 2019 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, 2019, 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.

Adjusted Net Income, Adjusted EBT and Adjusted EBITDA

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 lease liability related to aircraft, foreign exchange gains or losses on cash held on deposit for investment in the regional aircraft leasing business, one-time 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. (Refer to Section 23 - Caution regarding forward-looking information.)

EBT is defined as earnings before income tax. Adjusted EBT (EBT before one-time signing bonuses, employee separation program costs, strategic advisory fees and other items such as foreign exchange gains and losses) is a non-GAAP financial measure used by Chorus as a supplemental financial measure of operational performance. Management believes Adjusted EBT assists investors in comparing Chorus' performance by excluding items, which it does not believe will occur over the longer-term (such as one-time 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.

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 one-time 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 one-time signing bonuses, employee separation program costs and strategic advisory fees) as well as items that are non-cash in nature such as foreign exchange gains and losses. 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, except per share amounts)*	**Three months ended March 31,**		
	2019 **$**	**2018** **$**	**Change** **$**
Net income	33,447	5,230	28,217
Add (Deduct) items to get to Adjusted net income			
Unrealized foreign exchange (gain) loss	(16,753)	17,974	(34,727)
Employee separation program	355	3,459	(3,104)
Signing bonuses	2,000	—	2,000
	(14,398)	21,433	(35,831)
Adjusted net income	**19,049**	**26,663**	**(7,614)**
Adjusted net income per Share - basic	**0.13**	**0.21**	**(0.08)**
Add items to get to Adjusted EBT			
Income tax expense	5,217	6,134	(917)
Adjusted EBT	**24,266**	**32,797**	**(8,531)**
Add (Deduct) items to get to Adjusted EBITDA			
Net interest expense	15,741	13,839	1,902
Depreciation and amortization	32,250	29,106	3,144
Foreign exchange loss	2,503	1,819	684
Gain on disposal of property and equipment	(36)	(8)	(28)
	50,458	44,756	5,702
Adjusted EBITDA	**74,724**	**77,553**	**(2,829)**

Adjusted Net Debt to Adjusted EBITDA

Adjusted net debt to trailing 12-month Adjusted EBITDA 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 EBITDA. 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.

(unaudited) *(expressed in thousands of Canadian dollars)*	**March 31, 2019** **$**	**December 31, 2018** **$**	**Change** **$**
Long-term debt and lease liabilities	1,221,530	1,268,064	(46,534)
Convertible Units	194,490	194,294	196
Total debt (including current portion)	1,416,020	1,462,358	(46,338)
Less: Cash	(67,595)	(92,592)	24,997
Net debt	1,348,425	1,369,766	(21,341)
Adjusted net debt	1,348,425	1,369,766	(21,341)
Adjusted EBITDA[1]	337,731	340,560	(2,829)
Leverage ratio	4.0	4.0	—

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.`

As at March 31, 2019, Adjusted net debt decreased from $1,369.8 million to $1,348.4 million, representing a decrease of $21.3 million or 1.6% from December 31, 2018. The decrease was related to the impact of a lower US dollar exchange rate which decreased long-term debt by approximately $29.7 million and $34.8 million in scheduled payments on long-term borrowings; offset by decreased cash related to the acquisition of six aircraft that have not yet been funded and increased long-term borrowings of $15.0 million.

Chorus' leverage ratio (Adjusted net debt to trailing 12-month Adjusted EBITDA) was 4.0 as at March 31, 2019 (December 31, 2018 - 4.0). Leverage remained stable for March 31, 2019 compared to year ended December 31, 2018. Leverage as measured on an Adjusted net debt to Adjusted EBITDA 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.

[1] As a result of the implementation of IFRS 16, aircraft rent was eliminated from the statement of income. (Refer to section 13 Changes in Accounting Standards for further information.)

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 Chorus' capacity to invest in growth investments and service debt and dividend payments.

(unaudited) *(expressed in thousands of Canadian dollars)*	Three months ended March 31,		
	2019 **$**	**2018** **$**	**Change** **$**
Adjusted Cash Provided by Operating Activities before net changes in non-cash balance related to operations	55,965	59,369	(3,404)
Less:			
Capital expenditures, excluding aircraft acquisitions and ESP	(9,311)	(5,856)	(3,455)
Capitalized major maintenance overhauls	(2,147)	(4,358)	2,211
	(11,458)	(10,214)	(1,244)
Adjusted Cash Provided by Operating Activities	**44,507**	**49,155**	**(4,648)**

Return on Invested Capital

Return on Invested Capital is a non-GAAP financial 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 lease liabilities obligations, average Shareholders' equity and off-balance sheet aircraft operating leases for aircraft for which Chorus holds the head lease.

	Trailing twelve months ended		
(unaudited) *(expressed in thousands of Canadian dollars)*	**March 31, 2019 $**	**December 31, 2018 $**	**Change $**
Income before income taxes	132,075	104,774	27,301
Unrealized foreign exchange loss	14,755	49,482	(34,727)
	146,830	154,256	(7,426)
Add:			
Finance costs	61,526	59,209	2,317
	208,356	213,465	(5,109)
Invested capital:			
Average long-term debt(1)	1,181,996	1,179,532	2,464
Average lease liabilities(2)	23,418	24,870	(1,452)
Average Convertible Units	194,107	193,917	190
Average consideration payable(3)	—	2,194	(2,194)
Average Shareholders' equity	474,135	355,704	118,431
	1,873,656	1,756,217	117,439
Return on invested capital	11.1%	12.2%	(1.1)%

(1) Average long-term debt includes the current portion and long-term portion.
(2) Average lease liabilities includes the current portion and long-term portion.
(3) Average obligations under consideration payable includes the current portion.

During the first quarter of 2019, the average return on invested capital decreased from 12.2% to 11.1%. The decrease is due to higher long-term debt for the regional aircraft leasing segment; partially offset by higher aircraft leasing income in the trailing 12 months of March 2019 versus December 2018 relative to the invested capital. 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. The information in the last three quarters of 2017 is reported on an IAS 17 basis (prior to the adoption of *IFRS 16*) while the information for the four quarters of 2018 and the first quarter of 2019 is reported on an *IFRS 16* basis. Accordingly, the financial information for the three quarters for 2017 may not be comparable to subsequent periods.

(unaudited)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Chorus								
Total revenue ($000)	343,867	333,702	341,970	353,886	323,663	356,033	343,685	332,721
Net income ($000)	33,447	2,236	43,649	16,315	5,230	20,003	79,305	41,052
Adjusted net income(1) ($000)	19,049	35,322	30,765	29,526	26,663	23,618	48,800	26,914
Adjusted EBITDA(1) ($000)	74,724	92,054	86,852	84,101	77,553	82,915	83,744	65,846
Net income per Share, basic ($)	0.22	0.01	0.31	0.12	0.04	0.16	0.64	0.34
Net income per Share, diluted ($)	0.22	0.01	0.31	0.11	0.04	0.15	0.63	0.33
Adjusted net income,(1) per Share - basic ($)	0.13	0.25	0.22	0.21	0.21	0.19	0.39	0.22
FTE employees (end of period)	4,851	4,826	4,949	4,985	4,921	4,882	4,870	4,737
Number of aircraft (end of period)	179	174	171	169	169	168	167	163
Jazz								
Departures	54,738	57,798	62,584	60,233	55,376	58,347	63,087	59,278
Block Hours	83,799	87,838	95,891	89,394	83,522	87,347	94,741	87,055
Billable Block Hours	88,386	89,980	96,879	90,639	88,153	89,353	96,674	88,795

(1) These are non-GAAP financial measures. 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 REGIONAL AVIATION SERVICES REVENUE

(unaudited (expressed in thousands of Canadian dollars)	Three months ended March 31, 2019 $	2018 $	Change $	Change %
Controllable Revenue	191,006	171,405	19,601	5.4
Pass-Through Revenue	51,892	50,517	1,375	2.3
Fixed Margin and Infrastructure Fee per Covered Aircraft	18,810	27,918	(9,108)	(32.6)
Incentive Revenue	608	3,913	(3,305)	(84.5)
	262,316	253,753	8,563	3.4
Aircraft leasing under the CPA	32,441	29,770	2,671	9.0
Other(1)	23,237	22,494	743	(5.8)
	317,994	306,017	11,977	3.7

(1) Other includes charter, contract flying, MRO and other.

20 CONSOLIDATED STATEMENTS OF INCOME

(unaudited) (expressed in thousands of Canadian dollars)	For the three months ended March 31, 2019 $	2018 $ (Restated)
Operating revenue	343,867	323,663
Operating expenses		
Salaries, wages and benefits	127,962	117,487
Depreciation and amortization	32,250	29,106
Aircraft maintenance materials, supplies and services	59,327	53,770
Airport and navigation fees	40,294	39,573
Terminal handling services	6,124	6,258
Other	37,791	32,481
	303,748	278,675
Operating income	40,119	44,988
Non-operating (expenses) income		
Interest revenue	796	371
Interest expense	(16,537)	(14,210)
Loss on disposal of property and equipment	36	8
Foreign exchange gain (loss)	14,250	(19,793)
	(1,455)	(33,624)
Income before income taxes	38,664	11,364
Income tax expense		
Current income tax	(2,220)	(448)
Deferred income tax	(2,997)	(5,686)
	(5,217)	(6,134)
Net income	33,447	5,230

21 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".

22 GLOSSARY OF TERMS

"**2015 CPA**" means the amended and restated capacity purchase agreement effective January 1, 2015, between Air Canada and Jazz, as amended;

"**2019 CPA Amendments**" means the amendments to, including the extension of the term of, the 2015 CPA described in the Corporation's Material Change Report dated January 24, 2019;

"**Air Canada Investment**" means the $97.26 million equity investment in the Corporation by Air Canada described in the Corporation's Material Change Report dated February 13, 2019;

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

"**ATR72-600**" means the ATR 72-600 aircraft manufactured by Avions de Transport Régional G.I.E.;

"**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.;

"**CACC**" means Chorus Aviation Capital Corp. (formerly, Chorus Aviation Holdings Inc.), a corporation incorporated under the *Canada Business Corporations Act* on November 28, 2013, including its subsidiaries. CACC is a subsidiary of the Corporation;

"**Chorus**" means, as the context may require, the Corporation and its current and former subsidiaries;

"**Chorus Aviation Capital**" or "**CAC**" means CACC and its subsidiaries;"**CACIL**" means Chorus Aviation Capital (Ireland) Limited, a private company limited by shares incorporated under the *Companies Act 2014* (Ireland) on March 15, 2017. CACIL is a subsidiary of the Corporation;

"**Chorus Aviation Leasing**" means Chorus Aviation Leasing Inc., a corporation incorporated under the *Canada Business Corporations Act* on November 28, 2013. Chorus Aviation Leasing is a subsidiary of the Corporation;

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

"**Controllable Cost Guardrail**" means the provision which limits Jazz's exposure to $2.0 million annually for variances between the Controllable Revenue Jazz receives from Air Canada to cover annually negotiated Controllable Costs and Jazz's actual Controllable Costs incurred in performing its services for Air Canada;

"**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;

"**Corporation**" means Chorus Aviation Inc., a corporation incorporated under the *Canada Business Corporations Act* on September 27, 2010;

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

"**CPA**" means the 2015 CPA, as amended and extended by the 2019 CPA Amendments, and as may be further amended;

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

"**CRJ200**", "**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;

"**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 and/or certain of its subsidiaries;

"**Fixed Margin**" means the fixed fee under the CPA that commencing January 1, 2019, is paid to Jazz by Air Canada for the operation of the Covered Aircraft under the CPA;

"**Fixed Margin per Covered Aircraft**" means the fixed fee that, prior to January 1, 2019, was 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 that, prior to January 1, 2019, was 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 the Corporation;

"**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 the Corporation;

"**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;

"**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;

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval;

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

"**Shares**" mean the Class B Voting Shares and Class A Variable Voting Shares in the capital of the Corporation;

"**TSX**" means the Toronto Stock Exchange; and

"**Voyageur**" means Voyageur Aviation Corp., the successor by amalgamation to Voyageur Aviation Corp., Voyageur Airways Limited, Voyageur Aerotech Inc., Voyageur Avparts Inc., Chorus Holdings II Inc., and North Bay Leasing Inc. under the *Business Corporations Act* (Ontario) on January 1, 2019. Voyageur is a subsidiary of the Corporation.

23 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. Actual results may differ materially from anticipated results indicated in forward-looking information for a number of reasons, including without limitation, the development of circumstances which differ from the assumptions under the heading “Outlook” or the failure to close pending aircraft acquisitions or lease commitments relating to future aircraft deliveries. Other risks that could cause actual results to differ materially from those indicated in forward-looking information include: 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); risks relating to 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; future changes (if any) to Chorus' dividend policy; 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 10 - 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 discussion of term sheets for transactions that remain subject to the execution of definitive agreements, 2019 outlook discussion in Section 4 - 2019 Outlook, and in the discussion throughout this MD&A concerning Chorus' expectations for CAC's future potential. The statements containing forward-looking information in this MD&A represent Chorus’ expectations as of the date of this MD&A 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.