TERM SHEET

TERM SHEET with effect as of January 1, 2019.

Parties **AIR CANADA**, a corporation existing under the laws of Canada, with its head office at 7373 Cote-Vertu West, St-Laurent, Quebec, H4S 1Z3 ("**Air Canada**");

and

JAZZ AVIATION LP, a limited partnership established under the laws of the Province of Ontario, herein acting through and represented by its general partner Aviation General Partner Inc. ("**Jazz**");

(Individually referred to as "**Party**" and collectively as "**Parties**").

WHEREAS the Parties are parties to an Amended and Restated Capacity Purchase Agreement (the "**CPA**") that expires on December 31, 2025; and

WHEREAS this term sheet (the "**Term Sheet**") sets out the principal terms and conditions under which (i) the Parties have agreed to enter into a further amendment and restatement of the CPA (the "**Second Restated CPA**"), (ii) Air Canada has agreed to purchase newly issued Class B voting shares in the capital of Chorus Aviation Inc. ("**Chorus**") as set forth in paragraph 17 (the "**Investment**") of this Term Sheet, and (iii) **[text relating to paragraph 18 omitted]**.

IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which the Parties hereby acknowledge, the Parties agree as follows:

1. Binding Intent

The Parties hereby confirm certain terms and conditions negotiated between the Parties which are legally binding in accordance with their terms. This Term Sheet will be subject to and incorporate Sections 8.01 *(Confidential Agreement)*, 8.02 *(Confidentiality)*, 8.03 *(Due Diligence Disclosure)*, 14.09 *(Counterparts)*, 14.10 *(Severability)*, 14.13 *(Governing Law)*, 14.14 *(Further Assurances),* 14.16 *(Enurement)*, 14.17 *(Expenses)*, 14.19 *(Currency)*, 14.20 *(Headings)* and 14.22 *(Language)*, and Article XIII *(Dispute Resolution)* of the CPA. The Parties further agree that, notwithstanding Sections 8.01 to 8.03 of the CPA, each Party may disclose this Term Sheet to its professional advisors and, in the case of Chorus its financiers and significant investors, provided that it obtains customary confidentiality assurances from third parties.

2. Conditions Precedent

Except for paragraph 1 above, which will be binding upon execution of this Term Sheet, the binding nature of this Term Sheet is conditional on the following:

a. The ratification of a collective agreement between Jazz and ALPA no later than February 2, 2019 which does not materially modify the terms of the economic and operational outline presented by Jazz to Air Canada **[text relating to the dates and times of submissions omitted]**; and

b. Completion of the equity investment contemplated in the subscription agreement entered into as of the date hereof between Air Canada and Chorus (the "**Subscription Agreement**"), including the entry into of the investor rights agreement (attached as Schedule III to the Subscription Agreement) on the date of the completion of such equity investment.

3. CPA.

a. Subject to paragraph 2, as and from January 1, 2019, the CPA will be amended by the terms and conditions contained in this Term Sheet. The CPA will be further negotiated in good faith by the Parties for the purpose of amending and adapting the terms of the CPA to reflect and incorporate the applicable terms and conditions of this Term Sheet and any other terms and conditions as may be required as a consequence of this Term Sheet, in order to conclude and execute the Second Restated CPA by 6:00 pm Eastern Standard Time on June 30, 2019 or by another date thereafter mutually agreed by the Parties.

b. In the event the Second Restated CPA is not executed by 6:00 pm Eastern Standard Time on June 30, 2019 or by another date thereafter mutually agreed by the Parties, the applicable terms of this Term Sheet shall be deemed to be incorporated by reference into the CPA and the CPA shall be deemed amended to reflect the terms hereof, and all provisions of the CPA not specifically altered by this Term Sheet will remain in effect in the CPA except to the extent that this Term Sheet requires consequential changes to the CPA to give further effect to this Term Sheet's terms and conditions.

4. Certain Definitions

For the purposes of this Term Sheet:

a. "**2019 ALPA Agreement**" means the ALPA Agreement resulting from the ALPA Ratification.

b. "**Administrative Overhead**" means Jazz's costs incurred as a result of the CPA attributable to executive, finance, audit, human resources, labour relations, payroll, information systems, corporate communications, facilities management, purchasing, strategic procurement, aircraft programs, crew planning, safety and non-aircraft depreciation.

c. **[definition omitted]**.

d. "**ALPA Ratification**" means ratification of a collective agreement between Jazz and ALPA as referenced in paragraph 2.a of this Term Sheet which **[text relating to details of the matters to be ratified omitted]**.

e. "**Extension CRJ200s**" means collectively **[text describing the aircraft omitted]**.

f. "**Extension Term**" means extension of the Term for 10 years from January 1, 2026 to December 31, 2035.

g. **[definition omitted]**.

h. "**Incremental Aircraft**" means the aircraft described in the letter agreements dated September 28, 2015 and April 22, 2016 between the Parties.

i. **[definition omitted]**.

j. "**Subscription Agreement**" has the meaning specified in paragraph 2.b of this Term Sheet.

k. **[definition omitted**].

l. **[definition omitted]**.

5. Capitalized Terms

All capitalized terms used in this Term Sheet and not otherwise defined shall have the same meanings as ascribed to them in the CPA.

6. Extension of the Term

The Parties will extend the term of the CPA for the Extension Term, such that the CPA shall expire on December 31, 2035.

7. Fleet of Covered Aircraft

a. Subject to an agreed upon transition plan, the Parties will amend Schedule F *(Long Range Fleet Plan and Flight Crew Model and Cabin Crew Model Block Hours)* of the CPA as described in Attachment 1 to this Term Sheet. At no time during the Extension Term will the fleet of Covered Aircraft drop below 80 aircraft with 75 to 78 seats.

b. The maximum number of seats in each Covered Aircraft that is a jet aircraft will be the greater of:

   i. 76 seats; or

   ii. the applicable scope limits in the Air Canada Pilot Association collective agreements as amended from time to time.

c. During the Extension Term, Jazz will earn the Fixed Margin per Covered Aircraft on the first 80 aircraft and earn the Fixed Margin per Additional Covered Aircraft on every aircraft over 80.

8. Compensation Structure

a. Schedule E-2 *(Compensation Structure)* of the CPA will be deleted in its entirety and replaced with the revised Schedule E-2 attached to this Term Sheet as Attachment 2.

b. The Parties will eliminate all existing references to the "Infrastructure Fee" in the CPA.

9. Performance Incentive Payments

The Parties will:

a. Modify the amount of Performance Incentive Payments available but will apply those payments to the Total Fleet described in Attachment 1 to this Term Sheet. **[text related to performance incentive payments omitted.]**

b. **[text relating to changes to delay codes omitted]**

10. Overhead Rates

The Parties will eliminate the existing Fixed Cost Rate – CAD and Fixed Cost Rate – USD, and replace them with the following rates:

a. Operational Overhead Fixed Rate – CAD;

b. Operational Overhead Fixed Rate – USD;

c. Administrative Overhead Fixed Rate – CAD; and

d. Administrative Overhead Fixed Rate – USD.

[for greater certainty language omitted].

11. Flight Crew and Cabin Crew Block Hour Rates

[text relating to flight crew and cabin crew Block Hour Rates omitted].

12. Minimization of Costs

a. The Parties will set the Rates on a one-year basis with an annual margin reconciliation such that Jazz will never lose or make more than $2,000,000 CAD per calendar year on the difference between actual revenue received from Air Canada based on the Rates and controllable costs in the Rates as set forth in Schedule D *(Rate Components)* of the CPA **[text relating to specified exclusions omitted]**.

b. If:

  i. Jazz's controllable costs in the Rates exceed the revenue received from Air Canada based on the Rates by more than $2,000,000 CAD, Air Canada will pay Jazz an amount equal to 100% of the difference that exceeds $2,000,000 CAD; or

  ii. the revenue received from Air Canada based on the Rates exceeds Jazz's controllable costs in the Rates by more than $2,000,000 CAD, Jazz will pay Air Canada an amount equal to 100% of the difference that exceeds $2,000,000 CAD.

c. The Parties will complete an annual margin reconciliation in a manner consistent with current practice and the applicable Party will pay the reconciled amount to the other Party by **[date omitted]** of the following calendar year. Air Canada will have the right to audit that reconciliation and will report any discrepancies to Jazz as soon as possible but in any event, no later than **[date omitted]**of the calendar year following the period subject to reconciliation. Any discrepancy not reported in writing by **[date omitted]** of the calendar year following the period subject to reconciliation, or by such other date agreed to in writing by the Parties, will be deemed waived. Any costs not paid in the Rates such as fleet deployment, transition costs, regulatory changes or network changes will be billed monthly as Pass-Through Costs.

d. Upon request by either party, the Parties will meet quarterly during the Term to review Jazz's costs and projected costs for the calendar year. If the difference between the revenue to be received from Air Canada and Jazz's projected costs for the calendar year are expected to exceed an amount equal to $2,000,000 CAD, then Jazz will use commercially reasonable efforts to mitigate such costs and submit a mitigation plan to Air Canada. For greater certainty, this does not amend, nor do the Parties intend to amend, Section 5.27 *(Cost Reduction Principles)* of the CPA.

e. The Parties will use commercially reasonable efforts to minimize costs related to removal of aircraft from the fleet of Covered Aircraft [text relating to cost minimization plans omitted].

13. Economic Downturn

The Parties will not amend Schedule A *(Minimum Average Daily Utilization Guarantee)* of the CPA.

14. Right to Bid

The Parties will amend Section 7.11 *(Right to Bid)* of the CPA to permit any Person in the Chorus Group to bid for any aircraft leasing opportunity under the CPA in addition to those aircraft described in paragraph 15 of this Term Sheet.

15. Leasing of Certain Aircraft

A Person in the Chorus Group will:

a. lease an additional nine new CRJ900s to either Air Canada or Jazz (lessee at Chorus' discretion) **[text relating to terms of the leases omitted]** Subject to delivery by the manufacturer, three of those nine new CRJ900s will enter service by July 1, 2020 and six of those nine new CRJ900s will enter service by December 31, 2020; and

b. lease the next five additional aircraft with 75 to 78 seats to be integrated into the Covered Aircraft to either Air Canada or Jazz (lessee at Chorus' discretion) at market competitive rates.

16. Leasing of Certain Q400s

Chorus will cause Jazz Leasing Inc. to:

a. **[text relating to amendment rights in favour of Chorus omitted]**

b. extend the terms of those leases at **[lease rates omitted]** from the current **[lender name omitted]** debt expiry date for each aircraft to December 31, 2025; and

c. on January 1, 2026, further extend the terms of those leases to December 31, 2030 at market rate lease rates determined by December 31, 2024 using the methodology specified in clause 2(d) *(Lease Rate)* of Schedule L *(Fleet and Leasing)* of the CPA.

17. Purchase of Chorus Shares

Air Canada will purchase Class B Voting Shares in the capital of Chorus in accordance with the Subscription Agreement.

18. Certain Third Party Flying

[text relating to terms and conditions under which Air Canada would consent to Jazz undertaking certain third party flying omitted]

19. Other Items

a. Capital Expenditures – Airports and Hangar Facilities. Air Canada will reimburse Jazz for capital expenditures relating to airports or hangar facilities, **[text relating to facility omitted]**, as Pass-Through Costs, and excluding costs related to **[text relating to facilities omitted]**. Air Canada will be entitled to approve all major expenditures in writing in advance.

b. Dash 8-100s. Air Canada will determine in its sole discretion when the Dash 8-100 Aircraft will exit the fleet of Covered Aircraft. **[text relating to yield payments omitted]**

c. Pilot Flow and Efficiencies. Air Canada will offer Jazz pilots, on an annual basis, subject to Air Canada's applicable hiring policies and provided that Jazz can supply the required number of qualified candidates, a minimum of 60% of total course capacity for all Air Canada new hire course dates that occur in the applicable calendar year. The Parties will facilitate the transition of pilots from Jazz to Air Canada's new hire course in a coordinated fashion and the Parties will work jointly together on the following: **[text relating to further efforts to be undertaken by the parties to improve pilot flow and realize efficiencies omitted]**

d. 2019 ALPA Agreement. **[text relating to specifics of the proposed 2019 ALPA Agreement omitted]**

e. Cost Certainty. **[text relating to reimbursement of certain wage costs omitted]**

f. **[text relating to Air Canada's commitment to increase the scope of the flying to be performed by Jazz under the CPA omitted]**

g. Future Capacity Purchase Agreement with Aircraft with 50 seats or less.

   i. The Parties will amend Section 7.11 *(Right to Bid)* of the CPA to reflect that Air Canada will invite any Person in the Chorus Group to bid for the operation of aircraft with 50 seats or less under a capacity purchase agreement for Air Canada (the "**Chorus Bid**").

   ii. [**text relating to right to match third-party offers omitted.]**

   iii. If Air Canada decides to enter into a capacity purchase agreement following such competitive bid process and if a Person in the Chorus Group exercises the Chorus Right to Match, Air Canada will award such operation to the applicable Person in the Chorus Group.

   iv. The Chorus Right to Match excludes **[text describing certain exclusions omitted]**.

h. Public Announcements. Neither Party will make any initial disclosure of this Term Sheet or make any initial disclosure of the ALPA Ratification (in either case, whether by news release or otherwise) without the prior written consent of the other Party except as required by Governmental Regulation.

i. No Third-Party Restrictions. Air Canada will not enter into any agreement with any third party that would restrict the rights under this Term Sheet of any Person in the Chorus Group.

[signature page follows]

THIS TERM SHEET is executed by the Parties by their duly authorized representatives as of the 14th day of January, 2019.

AIR CANADA

By: *"Michael Rousseau"* (signed)
Michael Rousseau
Deputy Chief Executive Officer and Chief Financial Officer

JAZZ AVIATION LP, as represented by its general partner, Aviation General Partner Inc.

By: *"Colin Copp"* (signed)
Colin Copp
President

Chorus hereby agrees to be bound by all of the obligations, terms and conditions in this Term Sheet which by their nature apply to Chorus, including, without limitation, paragraphs 15 *(Leasing of Certain Aircraft)*, 16 *(Leasing of Certain Q400s)*, 17 *(Purchase of Chorus Shares)* and 19.g *(Future Capacity Purchase Agreement with Aircraft with 50 seats or less)*. Subject to making the necessary changes, Chorus also agrees to be bound by Sections 8.01 *(Confidential Agreement)*, 8.02 *(Confidentiality)*, 8.03 *(Due Diligence Disclosure)*, 14.13 *(Governing Law)*, 14.14 *(Further Assurances),* 14.16 *(Enurement)*, 14.17 *(Expenses)*, 14.20 *(Headings)* and 14.22 *(Language)* of the CPA.

CHORUS AVIATION INC.

By: *"Joseph Randell"* (signed)
Joseph Randell
President and CEO

Attachment 1
Covered Fleet

Fleet of Covered Aircraft	January 1, 2019 to December 31, 2025[1]	Extension Term[2]
CRJ900s	30	
Q400s[3]	31	
Dash 8-300s	19	
Total	80	
Incremental Aircraft		
CRJ900s	5	
Q400s	5	
Total	10	
Extension CRJ200s		
CRJ200s	15	
Total Covered Aircraft	105	80

[1] Composition of the fleet of Covered Aircraft during 2019 and 2020 may vary to accommodate fleet transition plan.

[2] Air Canada, in its sole discretion, will determine the composition of the fleet of Covered Aircraft during the Extension Term provided that the total number of Covered Aircraft does not fall below 80 aircraft in accordance with paragraph 7 of this Term Sheet.

[3] There will be 34 Q400s from January 1, 2019 until July 20, 2023 which may bring the Total Covered Aircraft to 108. Jazz will use best efforts to remove three Q400s from the fleet of Covered Aircraft as soon as practicable and no later than July 20, 2023. **[text relating to removal conditions omitted]**

Attachment 2

SCHEDULE "E-2"
COMPENSATION STRUCUTURE
(effective January 1, 2019)

[text omitted]

Attachment 3
Performance Incentive Payments

[text omitted]

Attachment 4
Restructuring of 12 Q400 Leases

[text omitted]