Chorus Aviation Inc.

2016 Annual Information Form

February 15, 2017

chorus
aviation inc.

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EXPLANATORY NOTES

The information in this AIF is stated as at December 31, 2016, unless otherwise indicated.

Corporation - References herein to the "Corporation" refer solely to Chorus Aviation Inc.

Chorus - References herein to "Chorus" include references, as the context may require, to Chorus Aviation Inc. and one or more of its current and former subsidiaries. In the context of the CPA, references to Chorus are intended to refer to Jazz.

Management - References herein to “management” refer to the management of Chorus.

Subsidiaries - References herein to the term "subsidiary" or "subsidiaries" refer, in relation to any entity, to any other entity, including a corporation or a limited partnership, which is controlled, directly or indirectly, by that entity.

Defined Terms - Capitalized terms are defined in the "Glossary of Terms” section at the end of this AIF, if not defined when first used.

Currency - Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars.

Forward-looking information - Forward-looking information is included in this AIF. Forward-looking information is identified by the use of terms and phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, “would”, and similar terms and phrases, including references to assumptions. Such information may involve but is not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking information relates to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking information, by its nature, is based on assumptions, including those described below, and is subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, among other things, external events, changing market conditions and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from those expressed in the forward-looking information. Results indicated in forward-looking information may differ materially from actual results for a number of reasons, including without limitation, risks relating to Chorus’ economic dependence on and relationship with Air Canada; risks relating to the airline industry (including the international operation of aircraft in developing countries and areas of unrest); aircraft leasing (including the financial condition of lessees, availability of aircraft, access to capital, fluctuations in aircraft market values, competition and political risks); the failure of Chorus or any other party to satisfy the conditions precedent to closing future aircraft deliveries to Air Nostrum and/or the private placement of convertible debt units; energy prices, general industry, market, credit, and economic conditions (including a severe and prolonged economic downturn which could result in reduced payments under the CPA); increased competition affecting Chorus and/or Air Canada; insurance issues and costs; supply issues and costs; the risk of war, terrorist attacks, aircraft incidents and accidents; fraud, cybersecurity attacks or other criminal behaviour by internal or external parties; epidemic diseases, environmental factors or acts of God; changes in demand due to the seasonal nature of Chorus' business or general economic conditions; the ability to reduce operating costs and employee counts; the ability of Chorus to secure financing; the ability of Chorus to attract and retain the talent required for its existing operations and future growth; the ability of Chorus to remain in good standing under and to renew and/or replace the CPA and other important contracts; employee relations, labour negotiations or disputes; pension issues and costs; currency exchange and interest rates; leverage and restrictive covenants contained in debt facilities; uncertainty of dividend payments; managing growth; changes in laws; adverse regulatory developments or proceedings in countries in which Chorus and its subsidiaries operate or will operate; pending and future litigation and actions by third parties; the risks referred to in the Risk Factors section of this AIF as well as the factors identified throughout this AIF. Examples of forward-looking information in this AIF include the discussion under the headings “Chorus’ Diversification and Growth Strategy”, "The Jazz Business – Capacity Purchase Agreement with Air Canada", "The Chorus Aviation Capital Business", and "Financing – Convertible Units". The forward-looking information contained in this AIF represents Chorus' expectations as of February 15, 2017 and is 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.

CORPORATE STRUCTURE

Chorus is a holding company with various aviation interests incorporated on September 27, 2010 pursuant to the *Canada Business Corporations Act*.

The registered office of Chorus is located at 100 King Street West, 1 First Canadian Place, Suite 6200, P.O. Box 50, Toronto, Ontario M5X 1B8. The chief executive office of Chorus is located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia, B3B 1W8.

Additional information regarding Chorus' corporate structure is provided in the consolidated financial statements for the year ended December 31, 2016 and the 2016 MD&A dated February 15, 2017, both of which are available on Chorus' website at www.chorusaviation.ca and on SEDAR at www.sedar.com.

Organizational Structure

The table below shows Chorus' main and operating subsidiaries, where they are incorporated or registered, and the percentage of shares or units of such subsidiaries that Chorus beneficially owns or directly or indirectly exercises control or direction over. Chorus has other subsidiaries, but they have not been included in the table because each represents 10% or less of each of Chorus' total consolidated assets or total consolidated operating revenues for the year ended December 31, 2016. These other subsidiaries together represented 20% or less of each of Chorus' total consolidated assets or total consolidated operating revenues for the year ended December 31, 2016.

Subsidiary	Jurisdiction of Incorporation or Registration	Percentage of shares or units directly or indirectly held by Chorus at February 15, 2017
Chorus Aviation Capital Corp. (formerly, Chorus Aviation Holdings Inc.)[1]	Canada	100%
Jazz Aviation LP	Ontario	100%
Jazz Leasing Inc.[2]	Canada	100%
Voyageur Aviation Corp.	Ontario	100%

1. Chorus Aviation Holdings Inc. changed its name to Chorus Aviation Capital Corp. on January 4, 2017.
2. Jazz Leasing Inc. is a wholly-owned subsidiary of Chorus Aviation Capital Corp.

THE CHORUS BUSINESS

Chorus currently operates in three sectors of the regional aviation industry.

Contract flying is Chorus' primary business and these flying operations are conducted through both its Jazz and Voyageur subsidiaries. Jazz operates scheduled service through a capacity purchase agreement with Air Canada, providing substantially all of its capacity to Air Canada under the Air Canada Express brand. Jazz also operates charter flights for a variety of customers. Voyageur Airways provides specialized contract flying, such as medical, logistical and humanitarian flights, to international and Canadian customers.

The second sector Chorus conducts business in is aircraft leasing. Chorus' aircraft leasing portfolio includes a fleet of 34 Q400s and 5 CRJ900s (which are currently operated, or planned to be operated, by Jazz under the CPA) and two CRJ1000s (currently leased to Air Nostrum). Voyageur Airways and North Bay Leasing also have a small amount of leasing activity.

In addition to contract flying and aircraft leasing, Chorus also provides certain aviation industry services through both Jazz and Voyageur. Maintenance, repair and overhaul, including the sale of parts, and airport handling operations (both passenger and ramp handling), are businesses of both subsidiaries.

Three-Year History

This Three-Year History section contains forward-looking statements. Please refer to the caution regarding forward-looking statements included in "Explanatory Notes" on page 3 of this AIF.

2016 (including subsequent events up to and including February 15, 2017)

On January 1, 2016, 519222 Ontario Limited and its subsidiaries were re-organized into three entities. Voyageur Aviation became the parent company for the group and provides common support services to its subsidiaries. Voyageur Aviation was created by the amalgamation of 519222 Ontario Limited, Hangar 6 Inc. and Voyageur Airport Services Inc. Voyageur Airways is a Transport Canada approved air operator with international and domestic contract flying operations. Voyageur Aerotech is a Transport Canada approved aircraft maintenance organization with advanced aircraft engineering and maintenance capabilities.

In 2016, Chorus took delivery of seven new Q400s and one spare PW150A engine, all of which were acquired using EDC financing. These aircraft are all currently operated by Jazz under the CPA.

On February 19, 2016, Chorus announced that Jazz's maintenance and engineering employees had ratified the tentative collective agreement reached on January 28, 2016. The term of the collective agreement expires on December 31, 2025.

On April 4, 2016, Chorus signed an agreement with EDC to provide a financing facility up to US$50.0 million. This new facility will allow Chorus to finance previously acquired aircraft, including one Dash 8-100, two Dash 8-300s, two King Air 200s, and three CRJ200s, none of which are Covered Aircraft. This facility will also be used to finance any refurbishment work required on the aircraft to operationalize them for deployment. The facility may also be used for the purchase of future aircraft and engines, as commercial opportunities arise. On June 29, 2016, Chorus made the initial draw down of the facility in the amount of US$16.8 million or CAD$21.9 million (see "Financing").

On May 12, 2016, Chorus announced that its Voting Shares and Variable Voting Shares would begin trading under a single ticker, "CHR", on the TSX effective May 24, 2016. This change was designed to improve the liquidity of the Variable Voting Shares which historically had lower trading volumes.

On October 12, 2016, Chorus announced the establishment of Voyageur Avparts, a subsidiary of Voyageur Aviation specializing in the provisioning of regional aircraft parts, inventory management, inventory consignment services, component repair and overhaul, and regional aircraft disassembly management.

On October 14, 2016, the Corporation received an exemption to treat its Variable Voting Shares and Voting Shares as a single class for the purposes of applicable take-over bid requirements and early warning reporting requirements contained under Canadian securities laws (see “Description of Capital Structure – Exemptive Relief from Take-Over Bid and Early Warning Rules”).

On each of November 17, 2016 and December 14, 2016, Chorus acquired one CRJ1000 using EDC financing. These aircraft are currently owned by a subsidiary of CACC and leased to Air Nostrum, and Chorus plans to acquire a further two CRJ1000s in 2017 for lease to Air Nostrum, all on substantially similar terms to those acquired in 2016 (see “Financing”).

On December 19, 2016, Chorus announced that it was establishing a new regional aircraft leasing subsidiary and that it had entered into an agreement pursuant to which Fairfax Financial Holdings Limited and certain of its subsidiaries (collectively, “**Fairfax**”) would be investing $200.0 million in Chorus through a private placement of Convertible Units that would be used primarily to, among other things, fund the growth of Chorus’ leasing business.

On December 29, 2016, Chorus acquired five CRJ900s using EDC financing secured primarily by the CRJ900s and associated engines. These aircraft are expected to begin service as Covered Aircraft under the CPA in the second quarter of 2017 (see “Financing”).

On January 4, 2017, Chorus Aviation Holdings Inc. was renamed Chorus Aviation Capital Corp.

2015

On January 30, 2015, Chorus announced that Jazz’s pilots, represented by ALPA, had ratified the tentative agreement reached on January 13, 2015 (see “Resources – People”). The ratification of the new collective agreement was a condition to establishing an amended CPA with Air Canada.

On February 2, 2015, Chorus announced that all terms and conditions had been met to establish an amended and restated CPA with Air Canada effective January 1, 2015 extending the CPA term to December 31, 2025 (the "**January 1, 2015 Amendment**"). For further information, see "The Jazz Business - Capacity Purchase Agreement with Air Canada".

Concurrent with agreeing to the January 1, 2015 Amendment, Chorus exercised its nine remaining options to purchase new Q400s under its purchase agreement with Bombardier and amended that purchase agreement to add firm orders for four additional Q400s and options for up to 10 additional Q400s.

Chorus also entered into an agreement with Bombardier to be the launch customer for the Dash 8-300 ESP. The ESP is expected to extend the service life of the Dash 8-300s by 50% (or approximately 15 years). This agreement covers a minimum of 19 aircraft and the ESP is expected to begin in early 2017.

On May 1, 2015, Chorus acquired all of the outstanding shares of 519222 Ontario Limited, a holding company that owned Voyageur Airways and its related companies.

On June 3, 2015, Chorus announced that Jazz's dispatchers, represented by CALDA, had ratified the tentative agreement reached on May 27, 2015. On September 23, 2015, Chorus announced that Jazz's flight attendants, represented by CFAU, had ratified the tentative agreement reached on August 27, 2015. See “Resources – People”.

On September 28, 2015, Chorus announced that an agreement had been reached with Air Canada to add ten incremental aircraft to the CPA fleet, comprising five 78-seat Q400s and five 76-seat CRJ900s.

During 2015, Chorus took delivery of six new Q400s and financed each of those acquisitions with EDC Financing. For further information, refer to "Financing - Aircraft and Engine Financing".

In addition, Chorus purchased the following aircraft in 2015: five Dash 8-100s previously leased from Air Canada Capital Ltd., two Dash 8-300s and five CRJ200s previously leased from third parties, and one King Air 200 aircraft purchased from a third party.

2014

On February 10, 2014 and on June 20, 2014, Chorus completed early redemptions of its $80.2 million principal amount of 9.50% convertible unsecured subordinated debentures. Following the completion of these early redemptions, no such debentures remained outstanding.

In August, 2014, Chorus converted to a monthly dividend.

Throughout the year ended December 31, 2014, Chorus focused on cost reduction programs, including the consolidation of heavy maintenance in Halifax, Nova Scotia, the outsourcing of certain airport services and employee separation programs.

Chorus' Diversification and Growth Strategy

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

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

1) Contracted flying operations;
2) Maintenance, repair and overhaul ("**MRO**"); and
3) Regional aircraft leasing.

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

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

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

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

Chorus commenced its diversification plan with the acquisition of Voyageur in May 2015. In December 2016, Chorus announced the launch of its new regional aircraft leasing subsidiary, Chorus Aviation Capital, through which it plans to build upon its aircraft leasing diversification strategy.

Chorus is targeting the regional aircraft leasing sector because:

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

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

THE JAZZ BUSINESS

Jazz is the largest regional airline in Canada, and operates more flights into more airports in Canada than any other airline. Jazz's operations provide a significant part of Air Canada's domestic and transborder network. Jazz and Air Canada are parties to the CPA under which Air Canada purchases the majority of Jazz's fleet capacity at pre-determined rates. Under the CPA, Jazz provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada and to and from certain destinations in the U.S. As at December 31, 2016, Jazz operated scheduled passenger service on behalf of Air Canada with approximately 658 departures per weekday to 58 destinations in Canada and 12 destinations in the U.S., using 113 Covered Aircraft. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and provide valuable traffic feed to Air Canada's mainline routes.

Jazz operates the CPA flights on behalf of 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 Cargo Services (refer to "Risk Factors" for a description of the risks relating to Jazz's relationship with Air Canada).

Chorus is economically and commercially dependent on Air Canada and one of its subsidiaries since (i) the CPA is Chorus' primary source of revenue and (ii) Air Canada and its subsidiaries currently provide certain services and aircraft to Jazz that could be difficult for Jazz to replace. As a result, Chorus is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity (refer to "Risk Factors" for a description of the risks relating to Jazz's relationship with Air Canada).

Capacity Purchase Agreement with Air Canada

Chorus derived approximately 94% of its revenues from Air Canada during 2016 (2015 - 95%, 2014 - 99%). On February 2, 2015, Jazz announced that all terms and conditions had been met to give effect to the January 1, 2015 Amendment, which, among other things, extended the term of the CPA to December 31, 2025. A copy of the CPA is available on SEDAR at www.sedar.com.

Revenues and costs under the CPA

Jazz earns revenue under the CPA in five ways:

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

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

Chorus is also compensated by the industry standard approach of fixed fees. There are two Fixed Fees which establish the minimum level of compensation under the CPA: Fixed Margin per Covered Aircraft and Infrastructure Fee per Covered Aircraft. The Fixed Margin per Covered Aircraft does not vary regardless of network size, complexity or hours flown. The Infrastructure Fee per Covered Aircraft compensates for the additional services Chorus provides in support of Air Canada's regional flying network such as airport operations. Combined, these Fixed Fees based on the Covered Aircraft were set at approximately $109.7 million for 2015, and once all incremental aircraft are received the fixed fees increase to approximately $111.7 million per year until the year 2020. From the years 2021 to 2025, these fees are also fixed but at a lower annual amount.

Performance incentives are available for achieving established performance targets under the CPA. The maximum annual available incentive for the years 2015 to 2020 is $23.4 million and fixed at a lower amount for the years 2021 to 2025. (Refer to the caution regarding forward-looking statements included in "Explanatory Notes" on page 3 of this AIF.)

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

1) Controllable Costs
2) Pass-Through Costs

Controllable Costs	Operating expense line	Rate Period
Crew wages & benefits(1)	Salaries, wages and benefits	Fixed
All other salaries, wages and benefits(2)	Salaries, wages and benefits	Annually
Depreciation and amortization	Depreciation and amortization	3 years
Aircraft maintenance, materials and supplies	Aircraft maintenance, materials and supplies	Annually
Chorus Q400s leased through CPA	Aircraft rent	Lease term
Third party operating leases	Aircraft rent	3 years
Air Canada and subsidiary leases to Chorus	Aircraft rent	3 years
All other terminal handling services	Terminal handling services	Annually
Other(3)	Other	Annually
Pass-Through Costs(4)	**Operating expense line**	
Third party food and beverage costs	Food, beverage and supplies	-
Airport and navigation fees	Airport and navigation fees	-
Third party ground handling	Terminal handling services	-
Aircraft maintenance materials, supplies	Aircraft maintenance materials, supplies	-
Aircraft parking	Other	-
Interrupted trips & baggage delivery	Other	-
Station supplies for processing passengers	Other	-
Third party facilities	Other	-

1) Adjusted for schedule efficiency, Block Hours, regulatory changes and pilot flow. Rates are in effect until December 31, 2025 (expiry of CPA).
2) Reset annually, subject to certain conditions.
3) Including but not limited to such costs as crew variable expense, professional fees, travel, training, etc.
4) Billed monthly to Air Canada.

Operating Plans and Scheduling

During the term of the CPA, Air Canada is obligated to annually deliver a high level operating plan for the upcoming calendar year for budget and planning purposes.

The CPA specifies that Air Canada and Jazz will jointly agree on a seasonal operating plan prior to the start of each summer and winter schedule period, which includes Air Canada's forecast regarding:

- Block Hours and departures by aircraft type, available seat miles and passenger volume;
- the airports to which Jazz will operate Scheduled Flights; and
- specific dates for the commencement or termination of service to or from new airports, if any.

There are two seasonal schedule periods: winter (from approximately November 1 to March 31) and summer (from approximately April 1 to October 31).

Under the CPA, Air Canada provides rolling Monthly Schedules which may vary from the final seasonal operating plan. Jazz operates based on such Monthly Schedules as long as the volume of flying required to meet the schedule change does not increase or decrease the total Block Hours for any aircraft type by more than 5%, as compared with the guaranteed Block Hours. If the variance is greater than 5%, Air Canada and Jazz are required under the CPA to agree on changes to rates.

Passenger and Ramp Handling Services

Airport handling includes both passenger handling and ramp handling services.

As at December 31, 2016, Jazz operated to 58 airports in Canada, and Jazz employees provided the passenger handling function at 37 of these airport locations and the ramp handling function at two. Jazz also provides passenger handling services to Air Canada for a fee.

Air Canada provides certain handling functions to Jazz at certain airport locations.

Facilities

Under the CPA, Air Canada is responsible for the costs associated with:

- opening, closing and moving maintenance and crew bases, where such changes are due to changes required by Air Canada to operate the Scheduled Flights;
- any additional facilities required as a result of increased frequency of Scheduled Flights; and
- any required relocation of Jazz to comparable airport facilities reasonably acceptable to Jazz contiguous to Air Canada leased premises, ramp, gate and office space.

Return of Aircraft

The CPA provides that Air Canada shall bear the cost and expense of the removal of aircraft from the Covered Aircraft fleet, the return of such aircraft to lessors and all return condition obligations contained in any lease, sublease or loan arrangement relating to the Covered Aircraft or the Spare Engines used to support the Covered Aircraft.

Term and Termination of Agreement

The CPA will expire on December 31, 2025. Either party is entitled to terminate the CPA at any time upon the occurrence of an event of default committed by the other party.

When the CPA expires, all leases from Air Canada (or any affiliate of Air Canada) to Jazz for Covered Aircraft and Spare Engines will automatically be terminated, and Air Canada (or the affiliate of Air Canada) will have the right to the return of those particular Covered Aircraft and Spare Engines. If the CPA is terminated as a result of an event of default committed by Jazz, many leases will not be terminated and Jazz will remain liable for its obligations under the leases for Covered Aircraft and Spare Engine. If the CPA is terminated as a result of an event of default committed by Air Canada, Jazz may terminate any such leases, which right must be exercised concurrently with termination of the CPA.

When the CPA expires or is terminated by either party, Jazz ceases to earn aircraft leasing revenue under the CPA from Covered Aircraft and Spare Engines.

Code-Sharing

The CPA requires Jazz to use Air Canada's two-letter flight designator code (AC), and any other code specified by Air Canada and belonging to a Star Alliance® partner or other partner of Air Canada, to identify Scheduled Flights.

Other Agreements with Air Canada

Master Services Agreement

Under a master services agreement dated September 24, 2004 between Jazz and Air Canada, Air Canada provides certain services to Jazz in support of Jazz's CPA operations, including information technology services, French language training and insurance claims services. The most significant services relate to information technology whereby Jazz accesses services under the agreements signed by Air Canada with certain information technology providers, as well as Air Canada's internal information technology resources.

The master services agreement will continue to be in effect until the termination or expiration of the CPA, but individual services can be amended or terminated earlier in accordance with the terms of the master services agreement.

Air Canada Ground Handling Agreement

Pursuant to a ground handling agreement between Jazz and Air Canada, Air Canada provides certain aircraft related ramp handling services to Jazz at no cost, including baggage handling and processing, cargo and mail loading and unloading, and aircraft servicing at 18 airports in Canada.

The ground handling services are provided by Air Canada in accordance with Jazz's procedures and instructions. Jazz may maintain a representative to supervise the services rendered by Air Canada. For passenger related handling services for charter flights operated by Jazz, Jazz and Air Canada are required to negotiate and agree on the specific services to be rendered by Air Canada and the fees payable by Jazz for any such charter flights.

Jazz Ancillary Business

Maintenance, Repair and Overhaul Operations

Jazz Technical Services is a division of Jazz that performs maintenance, repair and overhaul work on all Bombardier regional aircraft as well as aircraft modification programs in support of the Jazz operation. Jazz has gained considerable expertise maintaining one of the largest Bombardier fleets in the world and, through its technical services division, is currently providing these services to third party operators (Air Georgian and CommutAir).

Charter Operations

Jazz offers charter services to Canadian and international locations. Jazz has been able to attract a wide variety of charter customers, including sports teams, fishing lodges, oil and gas companies, various provincial forestry ministries, musical groups and corporate clients. All revenue from the charter operations accrue directly to Jazz as ancillary revenue. Generally, margins on charter services are higher as customers are prepared to pay a premium for flights that fit their particular needs and schedule.

Jazz has the ability to operate charter flights during the term of the CPA utilizing the Covered Aircraft (subject to the payment of a charter fee to Air Canada) or with other aircraft, provided that Jazz continues to meet its obligations under the CPA and does not market such flights as Air Canada flights. Jazz is responsible for all incremental costs and expenses associated with such flights and is entitled to all revenues. Jazz is required to obtain Air Canada’s consent in respect of certain charter program services, which consent may not be unreasonably withheld.

Airport Handling Operations

Jazz offers passenger and ramp handling services to other airlines. Jazz continues to look for new opportunities to expand the airport handling business further.

THE VOYAGEUR BUSINESS

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

Voyageur Aviation

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

Voyageur Airways

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

Voyageur Aerotech

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

Voyageur Avparts

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

THE CHORUS AVIATION CAPITAL BUSINESS

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

On December 19, 2016, Chorus announced that it would be raising $200.0 million by way of a private placement of Convertible Units to Fairfax for the primary purpose of funding the growth of its regional aircraft leasing business. Management expects a substantial majority of that funding to be invested in Chorus Aviation Capital which will in turn deploy the capital in a manner consistent with prevailing market returns on leases for regional aircraft.

Management expects that Chorus Aviation Capital and its subsidiaries will build diversified portfolios of regional aircraft manufactured by ATR, Bombardier and Embraer that will be leased to regional aircraft operators around the world.

RESOURCES

Fleet

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

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

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

People

As at December 31, 2016, Chorus had 4,442 FTE employees compared to 4,445 FTE employees for 2015. The 2016 number includes 277 Voyageur FTEs.

Currently, Jazz has the following collective agreements in place with its employees:

- Pilots, represented by ALPA, expires on December 31, 2025 with three open periods which exclude strikes or lockouts.
- Flight attendants, represented by CFAU, expires on December 31, 2025.
- Flight dispatchers, represented by CALDA, expires on December 31, 2025.
- Maintenance and engineering employees, represented by Unifor, expires on December 31, 2020 with automatic annual rollover provisions for five years expiring on December 31, 2025.
- Airport services employees, represented by Unifor, expired on January 13, 2017 (see "Risk Factors").
- Crew schedulers, represented by Unifor, expired on June 30, 2016 (see "Risk Factors").

The CPA established a pilot mobility agreement between Jazz and Air Canada, whereby Jazz pilots are able to access pilot vacancies at Air Canada. In turn, this provides Jazz the ability to transition to a less senior pilot demographic and to hire new pilots at industry competitive terms, thereby reducing operating costs. The pilot mobility agreement provides for pilots who participate in the arrangement to be placed on a pilot mobility list. Air Canada committed to hire a minimum of 80% of its new pilots from the pilot mobility list and to make job offers to a minimum of 495 of the pilots from this list. Since January 2015, more than 300 pilots have flowed to Air Canada through the pilot mobility program.

FACILITIES

Chorus currently owns an office building and land in Dartmouth, Nova Scotia. Jazz leases office space from Chorus at this location. Chorus also leases a portion of the Dartmouth building to third party tenants. (See "Financing - Nova Scotia Jobs Fund Loan" for details on financing).

Jazz currently owns an operations facility located at the Halifax Stanfield International Airport, which comprises office and hangar space. The land on which Jazz's Halifax airport facility is located is leased from the Halifax International Airport Authority.

The following is a description of the principal facilities leased by Jazz. The first three facilities listed below are leased by Jazz from Air Canada and are provided at no cost to Jazz under the CPA.

- Hangar, parking and office space at Toronto Pearson International Airport.
- Hangar and office space at Calgary International Airport.
- Hangar and office space at Montreal-Pierre Elliott Trudeau International Airport.
- Hangar and office space at Vancouver International Airport.
- Office space at Airways Centre in Mississauga, Ontario.

In addition to the foregoing, Jazz currently leases training, storage, maintenance shop, hangar, airport terminal building, office, counters, maintenance offices, baggage make-up and parking spaces throughout Canada from various lessors.

Voyageur holds over 200,000 square feet of aircraft hangars, workshops and office space consisting of four buildings located in the North Bay Aerospace Park. The land where these buildings are located is owned by Voyageur Aviation. These operations facilities support the business carried on by Voyageur.

Voyageur Airways currently owns a building in New Brunswick at the Greater Moncton International Airport. This facility comprises office and hangar space. The land on which this facility is located is leased from the Greater Moncton Airport Authority.

FINANCING

Convertible Units

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

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

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

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

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

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

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

Aircraft and Engine Financing

Q400s and CRJ900s for the Jazz CPA Operation

As at December 31, 2016, Chorus had loans outstanding with EDC for 34 Q400s, five PW150A Spare Engines and five CRJ900s. These loans provided financing for approximately 80% of the net purchase price of the aircraft and engines, have individual terms of 12 years, bear interest at a fixed rate and are primarily secured by the aircraft and engines financed by the loans. As at December 31, 2016, the aggregate principal amount outstanding under these loans was approximately US$597.2 million and the net book value of property and equipment pledged as collateral under EDC loans was US$657.4 million. In connection with the private placement of Convertible Units announced on December 19, 2016 (see "The Chorus Business – Three-Year History - 2016"), Chorus and EDC agreed to amend the financial covenants contained in the EDC loan agreements.

Under its EDC loan agreements (for both aircraft and engines), the Jazz Group is required to maintain:

- a maximum adjusted leverage ratio of 3.25:1 commencing with the fiscal quarter ended December 31, 2016 up to the fiscal quarter ending December 31, 2017 and a maximum adjusted leverage ratio of 2.75:1 for all fiscal quarters thereafter; and
- a ratio of consolidated EBITDAR to the sum of (i) consolidated interest expense, (ii) consolidated lease expense, and (iii) consolidated current portion of long-term debt as at the end of each fiscal quarter of not less than 1.25:1 (which replaced a previous minimum adjusted interest coverage ratio of 1.66:1).

As at December 31, 2016, the Jazz Group was in compliance with these covenants. Failure by the Jazz Group to comply with either such ratio at an applicable time would constitute an event of default under the loan agreements which could have a material adverse effect on Chorus.

The EDC loan agreements also contain a covenant respecting the continuation of business under the CPA which is specific to Jazz as the operator of the financed Q400s and CRJ900s. As at December 31, 2016, Jazz was in compliance with this covenant.

As additional security under these loan agreements with EDC, the leases with respect to the financed assets have been assigned to EDC, the shares of Jazz Leasing have been pledged to EDC, and Jazz has agreed to provide EDC with a second-ranking general security agreement over substantially the same collateral pledged by Jazz as security to its operating lender.

CRJ1000s for Lease to Air Nostrum

As at December 31, 2016, Chorus had loans outstanding with EDC for two CRJ1000s that were acquired for lease to Air Nostrum. These loans provided financing for approximately 80% of the net purchase price of the aircraft and associated engines, have individual terms of 10 years, bear interest at a fixed rate and are secured primarily by the aircraft and associated engines financed by the loans together with assignments of the leases in respect thereof. As at December 31, 2016, the aggregate principal amount outstanding under these loans was approximately €39.0 million and the net book value of property and equipment pledged as collateral under EDC loan was approximately €49.2 million. The principal and interest payments under the EDC loan are denominated in Euros in order to match the currency of the lease revenue stream from Air Nostrum.

The loan agreements (which are between Commuter Aircraft Leasing and EDC) are cross-defaulted to the lease agreements with Air Nostrum. If a specified event of default under the leases were to occur and EDC were to realize on its security under the loans, Chorus could lose all or part of its equity in the CRJ1000s. Except in limited circumstances set out in a certain parent support letter, the Corporation would not be liable for the debt outstanding under these loans.

Chorus plans to acquire a further two CRJ1000s in 2017 for lease to Air Nostrum, both on substantially similar terms to those acquired in 2016.

Other Aircraft and Engine Financing

As at December 31, 2016, Chorus had approximately US$15.2 million outstanding under a loan facility with EDC entered into on June 29, 2016. Under this facility, Chorus has the ability to draw individual loans to finance the acquisition of aircraft and engines or the refurbishment or conversion of existing aircraft and engines. Each loan is repayable within five years and is secured primarily by the aircraft and engines financed by the facility, full recourse guarantees by Voyageur Aviation and its subsidiaries, and a pledge of the shares of North Bay Leasing. The North Bay Leasing Group are required to maintain prescribed liquidity levels, a minimum lease coverage ratio of 1:1, and a minimum EBITDAR level, measured annually prior to the payment of consideration payable to the former owner of Voyageur. Failure by the North Bay Leasing Group to comply with its covenants would constitute an event of default under the EDC loan facility, which could have a material adverse effect on Chorus. As at December 31, 2016, the North Bay Leasing Group was in compliance with these covenants.

Capital Commitments

Chorus has entered into an agreement with Bombardier to be the launch customer for the ESP, which is expected to extend the service life of the Dash 8-300s by 50% (or approximately 15 years). This agreement covers a minimum of 19 aircraft and the program is anticipated to begin in early 2017. The cost for each aircraft that undergoes the program includes the Bombardier service bulletin and parts and anticipated labour costs to complete the service bulletin. The anticipated cost for the years 2017, 2018 and 2019 is expected to be approximately $14.6 million, $25.3 million and $6.4 million, respectively (U.S. dollar amounts were converted to Canadian dollars at $1.3427, the December 31, 2016 closing day rate from the Bank of Canada).

In connection with the issuance of the Convertible Units and the granting of certain aircraft security to the holders thereof, Chorus is required to complete the ESP for 17 Dash 8-300s by no later than December 31, 2019 and a further two Dash 8-300s by no later than December 31, 2022 for a total investment commitment of at least $60.0 million.

Credit Facilities

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

Consideration Payable

As part of the acquisition of Voyageur, the former owner provided Chorus with a non-interest bearing loan upon acquisition of $31.4 million, payable over three years. This consideration payable does not bear interest. As a result, an imputed interest rate of 3.5% was used to calculate fair value of interest savings of $2.0 million and record the loan at its fair value of $29.5 million.

Nova Scotia Jobs Fund Loan

Chorus purchased an office building on August 31, 2012 and made modifications to its existing Halifax hangar and building. To assist in funding for this purchase and modifications, the Province of Nova Scotia provided Chorus with a $12.0 million, interest-bearing, repayable loan. The Province's financial assistance also consisted of an additional $2.5 million forgivable loan (which will be forgiven if certain employment targets are achieved) and a $2.0 million employee grant to recruit, train and develop new employees or to upgrade current employees' skills. At December 31, 2016, the amount drawn on the interest-bearing repayable loan was $11.0 million.

In 2014, 2015 and 2016, Chorus met certain employment conditions required in order to obtain the forgiveness of a portion of a forgivable loan from the province of Nova Scotia for the year. For 2016 and 2015, $0.3 million and $0.5 million was recorded in other income, respectively.

COMPETITION

Jazz's fleet is significantly larger than that of the next largest Canadian regional airline. All other carriers in the Canadian regional airline market are smaller operators of turboprop and regional jet aircraft, most of which operate aircraft in the 19 to 75 seat range. Many of these regional carriers operate primarily independent services, flying in niche markets. Jazz competes with other Canadian regional airlines for additional capacity purchase flying for Air Canada, including Sky Regional, Air Georgian and Exploit Valley Air Services. Jazz also competes with a number of smaller regional carriers for charter business from other customers.

WestJet and WestJet Encore compete with Air Canada on certain routes in Canada and in the U.S. operated by Jazz. Porter Airlines, which operates from the Billy Bishop Toronto City Airport, competes with Air Canada in various domestic and transborder market pairs operated by Jazz.

Air Canada competes against a variety of U.S. network airlines and their regional carriers in respect of transborder markets, many of whom operate under capacity purchase agreements with various major U.S. network airlines. These carriers operate under their capacity purchase agreement partner brands such as United Express, Delta Connection, American Eagle and Alaska Horizon.

Voyageur Airways competes with a wide variety of ACMI operators from around the world when bidding on contracts. Some of these operators include: Swiftair from Spain, 748 Air Services from Kenya, UT Air from Russia, AAR Airlift from the U.S., and Trans Capital Air from Canada. Voyageur Airways' international ACMI operations competitive advantage is based on it being a Transport Canada approved air carrier and its reputation as a safe and highly reliable operator.

Chorus Aviation Capital competes primarily with regional aircraft lessors, such as Avation Commercial Aircraft Leasing, Elix Aviation Capital, GE Capital Aviation Services and Nordic Aviation Capital. Chorus Aviation Capital may also encounter competition from established lessors currently focused on narrow and wide-body aircraft as well as from entities that selectively compete with it, including airlines, aircraft manufacturers, financial institutions and aircraft brokers.

LOGOS AND TRADEMARKS

Chorus owns trademarks for Chorus, Chorus Aviation and associated design marks (logos) in Canada and the U.S.

Jazz™ is a trademark owned by Air Canada in Canada and the U.S., and is used by Jazz under license from Air Canada.

Air Canada has granted Jazz a royalty-free, non-exclusive, non-sublicensable, non-assignable right to use the "Jazz" trademark in association with the provision of regional airline services in Canada and the U.S. If the CPA is terminated or expires, that trademark license agreement provides for a termination of the license six months later. Under a special trademark license agreement, Jazz and Air Canada agreed that when the CPA is terminated or expires, Air Canada will transfer all rights to the "Jazz" trademark to Jazz, and Jazz will discontinue its use of any other Air Canada trademarks.

Chorus also owns additional trademarks in connection with Voyageur's business.

Chorus' trademarks and brand name assets are an important part of its business. Chorus benefits from the goodwill established for the Jazz, Voyageur and Chorus brand names. Chorus protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions and confidentiality procedures.

REGULATORY ENVIRONMENT

In Canada, commercial air transportation falls wholly within the jurisdiction of the federal government. The *Canada Labour Code* and associated regulations govern all of Jazz and Voyageur Airways' operations with respect to industrial relations, workplace health and safety, and employment standards. The commercial air transportation policy, maintenance standards, operations standards, aircraft airworthiness, pilot and cabin crew licensing and certification, safety, ground services, and navigation facilities are the responsibility of the Minister of Transport.

Chorus' aircraft, pilots, cabin crew, maintenance engineers, maintenance operations and all aspects of its commercial and charter air service operations are subject to the inspection, licensing, certification and compliance requirements of Transport Canada under the *Aeronautics Act, Canadian Aviation Regulations* and the standards issued under that Act and its regulations.

The Canadian Transportation Agency (the "**Agency**") is responsible under the *Canada Transportation Act* and the *Air Transport Regulations* for issuing air carrier licenses for both domestic and international services, and for regulating air charter operations, equipment and crew leasing (wet leases, block space and code share arrangements), certain air tariffs and the terms and conditions of carriage. The Agency may also investigate, mediate or hear air travel complaints. The commercial and charter air services of Chorus are subject to the licensing, charter operations, international fare, terms of carriage, insurance requirements and air travel complaint jurisdiction of the Agency, as further described below.

NAV Canada, a private sector, non-share capital corporation, is responsible for providing air navigation services in Canada. All major Canadian airports are operated by Canadian airport authorities that are not-for-profit corporations.

Due to the uncertainty of long-term regulatory requirements, Chorus cannot provide assurance that it will not incur substantial costs to meet those requirements or whether they will be material.

The 1987 deregulation of the domestic airline industry allowed carriers to establish fares as well as terms and conditions of carriage without government regulation. The CTA provides for free market entry to the extent that a carrier can demonstrate that (i) it is "Canadian", defined in the CTA as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians; (ii) it can operate safely; (iii) it is suitably insured; and (iv) it meets the minimum financial requirements set out in the *Air Transportation Regulations*.

On March 12, 2009 Bill C-10, the *Budget Implementation Act*, *2009*, which proposed amendments to the CTA relating to foreign ownership restrictions on domestic air carriers, received Royal Assent. One of these amendments provides the Governor in Council the authority to introduce regulations which set new foreign ownership limits up to a maximum of 49% foreign ownership. The regulations may specify that the new limits apply generally to all non-Canadian investors or, alternatively may specify increased foreign ownership limits available to specific classes of non-Canadians to be identified in the regulations. On November 3, 2016, the Minister of Transport announced the Government of Canada's intention to raise the foreign ownership limits to 49% (from the current 25%) but maintain a 25% sublimit on any single foreign investor. As of February 15, 2017, no regulations or legislative amendments giving effect to such changes have been passed or published for comment.

On August 2, 2015, Bill C-439, *An Act Respecting the Rights of Air Passengers* died on the order paper of the previous session of Parliament. However, in his announcement on November 3, 2016, the Minister of Transport stated the Government of Canada's intention to introduce an "Air Traveller's Passenger Rights Regime". If such a regime were to become law, it could impose obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. Such legislation could lead to significant costs for air carriers, including Chorus, which could have a material adverse effect on Chorus' business, results from operations and financial condition. As of February 15, 2017, no regulations or legislative amendments giving effect to such a regime have been passed or published for comment.

Transborder Services

Transborder services between Canada and the U.S. are provided pursuant to the 1995 Canada-U.S. Air Services Agreement. This agreement gives Canadian air carriers unlimited route rights to provide "own aircraft" services between points in Canada and points in the U.S., but does not permit the carriage of local traffic between points within one country by carriers of the other country (commonly known as cabotage).

Under the 1995 Canada-U.S. Air Services Agreement, carriers of both countries are free to set their own prices for transborder services according to market forces. Prices may only be disallowed under special circumstances if the authorities of both countries agree, for example in response to predatory or monopolistic pricing behaviour on specific routes. In November 1997, Canada and the U.S. concluded an agreement that allows Canadian and U.S. carriers to code-share to, from and via, each other's territory, with carriers from other countries provided the other country allows code-sharing and the carriers hold the underlying rights to serve that country. Air Canada code-shares with certain Star Alliance® partners via Canada and the U.S. and certain of these Star Alliance® partners' codes appear on some transborder Scheduled Flights.

On November 11, 2005, Transport Canada announced that the governments of Canada and the U.S. had negotiated an Open Skies Agreement which further liberalizes air transportation services. The agreement, which came into force on March 12, 2007, allows air carriers of both countries (i) to pick up passenger and/or cargo traffic in the other country and carry that traffic to a third country as part of a service to or from the carrier's home country, (ii) to operate stand-alone all-cargo services between the other country's territory and third countries, and (iii) greater pricing flexibility for services between the other country and a third country. Cabotage, the right to operate flights between two points within the other country, remains prohibited.

In the U.S., the FAA prohibits a U.S. certificated air carrier from wet leasing an aircraft from a foreign licensed air carrier. A wet lease is an arrangement under which a carrier leases an aircraft together with crew to operate the aircraft. However, contracts for non-U.S. airlines to provide aircraft and crew are permitted if, on application to the U.S. Department of Transportation, the non-U.S. air carrier meets the regulatory criteria. Flying operated under such newly permitted contracts cannot include point-to-point flying within the U.S.

Other International Services

No Chorus subsidiary currently has a license to operate a scheduled international service to any country other than the U.S., but the Canadian government has entered many bilateral air transport agreements with other countries under which a Chorus subsidiary would be eligible to apply for licensing and operate abroad on a reciprocal basis.

Charter Services

Jazz and Voyageur Airways both maintain licenses issued by the Agency to operate non-scheduled international service between Canada and any other country. Charter operations are generally not covered by bilateral agreements, although charter services are covered under the 1995 Canada-U.S. Air Services Agreement. Canadian government policy permits any Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other applicable regulatory authorities.

The policy does not contain restrictions relating to advance booking, minimum stay requirements and one-way travel. However, to preserve a distinction between charter and scheduled international services, the policy retains the requirements that the entire seating capacity of an aircraft be chartered and that charter customer be prohibited from selling seats directly to the public.

Official Languages Act

Air Canada is subject to the *Official Languages Act* (the "**OLA**"), which among other things, requires it to ensure that any member of the traveling public can communicate with and obtain services in either official language, French and English, where there is significant demand for those services in that language (Part IV of the OLA) and to allow employees to work in either official language (Part V of the OLA).

In addition, the *Air Canada Public Participation Act* imposes on Air Canada the obligation to ensure any of its subsidiaries' customers can communicate with the subsidiary in respect of air services and incidental services, and obtain those services, in either official language, where the number of customers warrants such services. Jazz is not a subsidiary of Air Canada, but under the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language. The OLA does not currently apply directly to Chorus, but management cannot predict how future changes to this legislation might affect its business.

Security and Safety

Chorus' first priority is the safety and security of all passengers, crew members and all employees in all aspects of its operations. Chorus strives to build a positive security culture that promotes improvement and solicits ideas from all stakeholders.

Chorus works with Transport Canada and other federal and U.S. agencies to continuously improve security measures and to enable innovations adopted by Chorus to maintain the highest degree of security. Chorus' internal safety management system includes security related processes, including threat assessment protocols that allow the operation to address any number of potential threats.

On June 18, 2015, the *Secure Air Travel Act* (Canada) received Royal Assent. That Act provides a new legislative framework for identifying and responding to persons who may engage in an act that poses a threat to transportation security or who may travel by air for the purpose of committing a terrorism offence. It also authorizes the Minister of Public Safety and Emergency Preparedness to establish a list of such persons and to direct air carriers to take any necessary actions to prevent the commission of such acts. Such legislation could lead to increased costs for air carriers, including Jazz and Voyageur Airways, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

The *Canadian Aviation Regulations* require air operators to implement safety management systems in their organizations and appoint executives who are accountable for safety. The goals of safety management systems are to increase the sophistication and proactiveness of safety practices, to instill a consistent and positive safety culture, and to help improve upon the already high safety performance of Canadian airline operators. Management cannot predict if or when future amendments to this safety legislation will be introduced or enacted. Jazz, Voyageur Airways and Voyageur Aerotech have each fully implemented a safety management system.

The President of Jazz, Colin Copp, serves as the Accountable Executive for Jazz, and Jazz's Vice President of Safety, Quality & Environment has responsibility for the implementation and ongoing management of the safety management system. Jazz's highly integrated safety management system model is considered to be industry leading and has attracted a degree of international attention through several forums, including the International Aviation Safety Seminar. Jazz is committed to complying with and, where possible, surpassing applicable regulatory requirements.

The Chairman of Voyageur, Max Shapiro, serves as the Accountable Executive for Voyageur Airways and Voyageur Aerotech and oversees an independent department called Safety and Risk Management System, dedicated to promoting a culture of safety within Voyageur. Scott Tapson assumed the role of President of Voyageur Airways and Voyageur Aerotech from Max Shapiro on January 1, 2017 and is expected to assume the role of Accountable Executive for those entities. Employees are focused on incident prevention through critical self-assessment and proactive identification of potential deficiencies. Voyageur Airways and Voyageur Aerotech are committed to complying with and, where possible, surpassing applicable regulatory requirements.

Environmental Matters

In June 2012, the Government of Canada and the Canadian aviation industry released *Canada's Action Plan to Reduce Greenhouse Gas Emissions from Aviation* (the "**Action Plan**"). The Action Plan superseded the 2005 agreement between Transport Canada and the Air Transport Association of Canada and formed the basis for the Government of Canada's response to the International Civil Aviation Organization's ("**ICAO**") Assembly Resolution A37-19, which encouraged member states to submit national action plans by June 2012 setting out measures each state is taking or will take to address international aviation emissions. The Action Plan set a target to improve fuel efficiency of Canada's air carriers by 2 percent per year until 2020, from a baseline of 40.46 litres per 100 Revenue Tonne-Kilometres. The Action Plan further supports the goals of carbon neutral growth from 2020 onwards and absolute greenhouse gas ("**GHG**") emission reduction by 2050. The Action Plan identified the following measures as the greatest opportunities to improve fuel efficiency and reduce GHG emissions: fleet renewal and upgrades; more efficient air operations; and improved capabilities in air traffic management.

In December 2015, parties to the United Nations Framework Convention on Climate Change, which includes Canada, adopted the Paris Agreement, a global agreement to keep the global temperature increase below 2 degrees Celsius. The threshold for entry into force of the Paris Agreement was achieved on October 5, 2016, with 122 of the parties, including Canada, ratifying the Paris Agreement. The Paris Agreement entered into force on November 4, 2016.

On October 6, 2016, ICAO resolved to implement a global market-based measure for reducing greenhouse gas emissions from international aviation known as the Carbon Offsetting and Reduction Scheme for International Aviation ("**CORSIA**"). CORSIA will be phased in starting in 2021 on a voluntary basis and, subject to certain limited exceptions, will become mandatory starting in 2027 for all member states with an individual share of international aviation activities above 0.5% of the total or whose cumulative share equals 90% of the total. Under the terms of the agreement, international flights between participating countries will be subject to the agreed carbon offset requirements. As of October 12, 2016, 66 states, including Canada, representing more than 86.5% of international aviation activity have indicated their intent to participate in the voluntary phase of CORSIA.

Chorus believes that it is in compliance in all material respects with the terms of current government regulations applicable to its business. Chorus is committed to conducting its operations in a manner that complies with all legal requirements relating to health and safety and the environment, and regularly evaluates and monitors its related activities.

To date, environmental laws and regulations have not had a material adverse effect on the business or financial condition of Chorus. However, changes in such government laws and regulations, including the implementation of new international commitments, may make environmental compliance increasingly expensive. Chorus is not able to predict future costs which may be incurred in order to comply with future environmental regulations. Chorus considers the environment a component of business decisions in planning for and making changes to materials, processes, equipment and facilities. Chorus communicates with customers, governments, local communities, unions, employees and suppliers to identify and resolve environmental issues, and it conducts business in compliance with applicable environmental law. Chorus proactively conducts ongoing environmental audits and takes corrective action to enable compliance with environmental law and continuous improvement to its management system, policies and procedures.

Privacy

Chorus and each of its subsidiaries are subject to a variety of privacy laws regarding the collection, use, disclosure and protection of personal information in their course of commercial activities. The *Personal Information Protection and Electronic Documents Act* governs federally-regulated Chorus subsidiaries such as Jazz and Voyageur Airways, and provincial privacy legislation governs Chorus subsidiaries which are not federally regulated (such as Voyageur companies other than Voyageur Airways). Whether federally or provincially regulated, applicable privacy legislation requires notice to, and informed consent by, the individuals whose personal information is collected, used or disclosed. The personal information may then only be used for the purposes for which it was originally collected and for which consent from individuals has been obtained or for limited other purposes specified in, or allowed by, applicable legislation. Chorus has a privacy policy which is designed to meet or exceed the requirements of such privacy legislation.

RISK FACTORS

The risks described below are not intended to be an exhaustive list of all risks facing Chorus. Other risks of which Chorus is not currently aware or which Chorus currently deems immaterial may arise and have a material adverse impact on Chorus' business, results from operations and financial condition.

Risks Relating to Chorus' Dependence on the CPA

Dependence on Air Canada

Approximately 94% of the Corporation's consolidated revenues for the year ended December 31, 2016 were derived from the CPA. As a result, Chorus is directly affected by the financial and operational strength of Air Canada and its competitive position. Air Canada has, like other network carriers, sustained significant operating losses in the past and may sustain significant losses in the future. Air Canada's business, results from operations and financial condition are subject to a number of risks, including:

- Air Canada has substantial ongoing capital commitments, including for the acquisition of new aircraft.
- Efforts to improve or maintain adequate liquidity by raising equity capital, securing or amending credit facilities and/or realizing cost efficiencies may be difficult to achieve and their contribution to Air Canada's liquidity may be uncertain.
- Fuel costs, despite recent lows, continue to constitute a significant portion of Air Canada's operating expenses.
- The airline industry is highly competitive and subject to price discounting.
- Labour conflicts or disruptions.
- The risk factors described under "Risks Relating to the Air Transportation Industry".

In the event of any material decrease in its financial or operational strength, Air Canada's ability to make full payment of amounts owing to Chorus may be adversely affected. Such events could result in the inability of Air Canada to pay all amounts owing to Jazz under the CPA or other defaults by Air Canada of its obligations under the CPA or other contracts with Chorus, which would have a material adverse effect on Chorus' business, results from operations and financial condition.

Management is committed to diversifying Chorus' business in order to reduce the risk of Chorus' economic dependence on the CPA and, to this end, Chorus acquired Voyageur in May 2015 and announced the establishment of Chorus Aviation Capital in December 2016. Management also continually evaluates opportunities in the market to further diversify Chorus' business. Notwithstanding these efforts, management expects that Chorus will remain economically dependent on the CPA for the foreseeable future and there can be no assurance that efforts to diversify Chorus' business will materially reduce Chorus' economic dependence on the CPA over the long-term.

Termination of the CPA

Substantially all of the Corporation's revenues on a consolidated basis are currently derived from the CPA, and the Covered Aircraft are dedicated to that operation. During the term of the CPA, which expires December 31, 2025, the non-defaulting party is entitled to terminate the CPA at any time upon the occurrence of an event of default by the other party. Events of default include, without limitation:

- bankruptcy or insolvency of the other party;
- suspension or revocation of any of Jazz's regulatory authorizations and licenses required for Jazz to perform the air services required by the CPA;
- failure by Air Canada or Jazz to pay amounts when due where such default continues for a period of 30 days after notice;
- failure by Air Canada or Jazz to comply with any of its obligations under the CPA, where such default continues for a period of 30 days after notice;
- more than 50% of the Covered Aircraft (and certain substitutes therefor) do not operate any Scheduled Flights for more than seven consecutive days or 25% of those aircraft do not operate any Scheduled Flights for more than 21 consecutive days, other than as a result of an order of a governmental authority affecting the industry generally or as a result of any action by Air Canada, any strike by Air Canada employees or any force majeure (including any cessation, slow-down, interruption of work or any other labour disturbance);
- default by Air Canada or Chorus with respect to a material term of any other material agreement between Chorus and Air Canada if such default continues for more than the applicable period, if any;
- default by Jazz with respect to a material term of any other material agreement to which it is a party if such default continues for more than the applicable period, if any;
- failure by Jazz to maintain adequate insurance;
- failure of Jazz to maintain specified critical service levels for four consecutive quarters or five of the prior eight quarters; and
- failure by Jazz to comply with Air Canada's audit and inspection rights.

If the CPA were terminated, Chorus' revenue and earnings would be significantly reduced or eliminated unless Chorus were able to enter into satisfactory substitute arrangements. There is no assurance that Chorus would be able to enter into satisfactory substitute arrangements or that such arrangements would be as favourable to Chorus as the CPA. A termination of the CPA, or any failure of Chorus to enter into satisfactory substitute arrangements in the event of any such termination, would have a material adverse effect on Chorus' business, results from operations and financial condition.

Under the CPA, if a change of control of Jazz occurs without the consent of Air Canada that results in Jazz being directly or indirectly controlled by, or under common control with (a) certain air carriers operating out of Vancouver, Calgary, Toronto, Montreal, or (b) entities which own or operate a loyalty program which provides its members the ability to redeem points in exchange for air transportation services, Air Canada may terminate the CPA. The existence of this right may limit Chorus' ability to negotiate or consummate the sale of all or part of its business to another entity or otherwise participate in any consolidation in the airline industry.

If the CPA were terminated as a result of Chorus' default, all leases from Air Canada (or any affiliate of Air Canada) to Chorus in respect of Covered Aircraft and Spare Engines (of which there are approximately 113 and 5, respectively) would not be automatically terminated. In such event, Chorus would remain liable for its obligations under such leases with no corresponding ability to earn income under the CPA to cover its lease obligations, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus owns and operates (or expects to operate) Q400s, CRJ900s, Dash 8-300s and Dash 8-100s under the CPA. There can be no assurance that Chorus will be able to deploy these aircraft on terms as favourable as the terms of the CPA if Air Canada terminates the CPA as a result of Chorus' default. Any inability to redeploy these aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

If the CPA were terminated as a result of Chorus' default, Air Canada would have the option to purchase 19 Q400s and five CRJ900s owned by Chorus subject to certain terms and conditions specified in the CPA. If Air Canada were to exercise such option, there could be no assurance that Chorus would be able to purchase replacement Q400s and CRJ900s on favourable terms and Chorus would be prevented from redeploying the affected aircraft. Any inability to purchase replacement aircraft or redeploy the affected aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

Early termination of the CPA, a material adverse change to the CPA or any default under the CPA constitutes an event of default under Chorus' financing arrangements with EDC in respect of certain Q400s and CRJ900s. Upon the occurrence of one of those events, EDC would have the right to require Chorus to immediately repay all amounts financed in respect of those aircraft, which could trigger cross-defaults under other Chorus credit facilities. A requirement to repay all debt outstanding to EDC prior to its maturity would, and any associated defaults under other credit facilities could reasonably be expect to, have a material adverse effect on Chorus' liquidity and financial condition.

Upon the expiration or termination of the CPA, Jazz may lose access to airport facilities at key locations where Air Canada supplies facilities and other services to Jazz. Jazz may also lose access to such airport facilities should Air Canada not be able to secure such access to airport facilities in the future. Most of the airport facilities at Jazz's principal domestic destinations are leased by Air Canada from airport authorities. Under the CPA, Jazz is currently entitled to use these facilities to fulfill its obligations to Air Canada. All of Jazz's airport takeoff or landing slots used for Scheduled Flights are under Air Canada's name. Upon the expiry or termination of the CPA, Jazz may lose access to those airport facilities, airport takeoff or landing slots, and Jazz may have to enter into alternative arrangements to use the same or other airport facilities and slots at higher rates. There can be no assurance that Jazz would have access to other airport facilities or slots or as to the terms upon which Jazz could do so. Jazz's inability to secure access to sufficient airport facilities or slots, or ability to do so only with a significant cost increase, could have an adverse effect on Chorus' business, results from operations and financial condition.

Compensation under the CPA

The basis for compensation under the CPA fundamentally changed effective January 1, 2015. Jazz is now paid a Fixed Margin per Covered Aircraft. Such arrangements are currently a more common basis for payment in the regional airline capacity provision industry; however, they constitute a significant departure from the previous CPA terms. The Fixed Margin per Covered Aircraft is set for the period from 2015 to 2020, and set at a lower level for the period from 2021 to 2025. In addition, Jazz is paid a Fixed Infrastructure Fee per Covered Aircraft which is also set for both the 2015 to 2020 period and at a lower level for 2021 to 2025 period.

- *Labour Rate Risks* - Labour costs constitute a significant percentage of Chorus' total operating costs. Under the CPA, flight crew and cabin crew labour rates have been set until December 31, 2025. All other labour rates payable to Jazz under the CPA are set annually, and subject to certain escalators. Labour costs significantly in excess of those anticipated by Jazz in agreeing to the CPA rates could have an adverse effect on Chorus' business, results from operations and financial condition.

- *Controllable Cost Risks, excluding labour* - With respect to the Controllable Costs, excluding labour, Air Canada is obligated to pay amounts based, in part, on pre-determined rates. These rates are generally pre-determined on an annual basis but may vary from the actual expenses incurred in delivering the associated services. To the extent that Jazz incurs expenses that are greater than the pre-determined reimbursement amounts payable by Air Canada, this could have an adverse effect on Chorus' business, results from operations and financial condition.

- *Pass-Through Cost Risks* - Under the CPA, Air Canada is obligated to pay Jazz costs that are defined as Pass-Through costs, the actual amount of the cost (or alternatively, pay the cost directly) without any markup. Under the CPA, Air Canada is directly responsible for many costs formerly incurred by Jazz, and certain expenses formerly defined as Controllable Costs are now Pass-Through Costs. Jazz has no risk with respect to these costs.

Under the CPA, performance incentive revenues may become increasingly difficult for Jazz to earn as the utilization of the Covered Aircraft increases.

Impact of competition on Air Canada's profit margin and fixed costs

The airline industry is highly competitive. Air Canada competes with other major carriers as well as low cost carriers on its routes, including routes that Chorus flies under the CPA. Competitors could rapidly enter markets Jazz serves for Air Canada, and quickly discount fares, which could lessen the economic benefit of Jazz's regional operations to Air Canada. WestJet Encore operates a fleet of Q400s across Canada and Air Canada has capacity purchase agreements with other smaller regional carriers to operate a number of regional routes including transborder routes.

The airline industry generally, and scheduled service in particular, are characterized by low gross profit margins and high fixed costs. The costs of operating any particular flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers or in fare pricing or traffic mix could have a significant effect on Air Canada's operating and financial results. This condition has been exacerbated by aggressive pricing by low-cost carriers, which has had the effect of driving down fares in general. A minor shortfall from Air Canada's expected revenue levels could have a material adverse effect on Chorus' business, results from operations and financial condition if Air Canada were unable to meet its obligations under the CPA.

Seasonal nature of the business, other factors and prior performance

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. Jazz has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Jazz's revenues do not fluctuate significantly with passenger load factors.

Demand for air travel is also affected by factors such as economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Under the CPA, Jazz is paid by Air Canada through rates based on a variety of different metrics and Jazz's estimated Controllable Costs in the applicable period plus certain predetermined Fixed Fees during the remaining term of the CPA. However, Chorus' actual quarterly results could differ from those contemplated by the target margin based on a variety of factors, including the timing of capital expenditures and changes in operating expenses, such as personnel and maintenance costs, over the course of a fiscal year.

Pilot Mobility

Jazz has entered a pilot mobility agreement with Air Canada. Air Canada expects to be in need of pilots as it continues to grow and face increased pilot retirements. Air Canada has agreed to source at least 80% of its new pilot hires from Jazz pilots named on the pilot mobility list (see "Resources – People"). As Air Canada hires Jazz pilots, Jazz will need to replace such pilots, which it anticipates it will be able to do, on similar wage rates and pension and benefit terms as agreed to in the ALPA collective agreement. To this end, Jazz has created the Jazz Aviation Pathways Program in collaboration with education institutions and other members of industry in order to enhance Jazz's access to new pilots. If, however, Jazz were to have to pay costs materially above those in the new collective agreement, it could have a material adverse effect on Chorus' business, results from operations and financial condition.

Force Majeure

If either Air Canada or Jazz is prevented from performing its obligations under the CPA in whole or in part due to a force majeure event, the affected party may be temporarily excused from performing its obligations to the extent it is so prevented.

In addition, if Jazz is affected by a force majeure event which prevents it from performing all of its services under the CPA, Air Canada's obligation to pay the agreed rates related to certain limited fixed costs would continue, however, Air Canada's obligation to pay the other agreed rates would be temporarily suspended. All other obligations of Air Canada, including, but not limited to, those related to the fleet of Covered Aircraft and minimum average daily utilization guarantee would also be temporarily suspended and inapplicable in respect of the period of the force majeure event. Such force majeure event would also trigger prorated adjustments to be made to Air Canada's payment obligations in respect of the period of the force majeure event to reflect the level of service Jazz provides during such period.

Air Canada or Jazz is entitled to terminate the CPA if the other party is prevented from performing all or substantially all of its obligations hereunder for more than 60 days due to a force majeure event.

*Replacement of services provided by Air Canada under the CPA and the Master Services Agreement ("**MSA**")*

Air Canada provides a number of important services to Jazz, including certain information technology, de-icing services and glycol usage, fuel purchasing services and passenger, aircraft and traffic handling services. As well, as Jazz does not sell scheduled air service directly to the public, Jazz does not perform ticket sales, reservations or call centre services. If the CPA is not renewed beyond December 31, 2025, or is otherwise terminated, and Chorus were to determine to operate its own at-risk airline services, it would either need to provide these services internally or contract with third parties for such services. There can be no assurance that Chorus would be able to replace these services on a cost effective or timely basis. In addition, pursuant to the MSA, Air Canada provides certain services to Jazz including information technology services and insurance claims services. If the MSA were terminated and Chorus decided to undertake at risk flying, it would either need to provide these functions internally or contract with third parties for such functions. There can be no assurance that Chorus would be able to replace these services on a cost-effective or timely basis and this may have a material adverse effect on Chorus' business, results from operations or financial condition.

Air Canada Pilots Association Scope Clauses

Air Canada's collective bargaining agreement with ACPA limits the number of regional jet aircraft which can be operated by any Air Canada Express carrier. These restrictions may prevent Chorus from increasing the capacity it provides Air Canada, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Chorus cannot be certain that any future Air Canada collective bargaining agreement will not contain similar, or more severe, restrictions potentially affecting Chorus.

Absence of exclusivity arrangements

Chorus does not benefit from exclusivity arrangements preventing Air Canada from allocating all or some of any of Air Canada's additional regional capacity requirements internally or to another carrier under a capacity purchase agreement or other forms of contractual arrangements. Air Canada's use of other regional carriers could negatively impact opportunities for increasing Chorus' flying under the CPA.

In order to improve Jazz's long-term competitiveness as a regional air carrier, management is focused on continuous improvement within the Jazz operation. Such efforts include the renewal of the Covered Aircraft fleet, ongoing overhead cost reductions, and a strong organizational emphasis on operational performance. Notwithstanding the foregoing, the lack of exclusivity arrangements with Air Canada could have an adverse effect on Chorus' business, results from operations or financial condition.

Potential conflicts with Air Canada

Parties to contracts, such as the CPA, may disagree from time to time on the appropriate interpretation of their respective rights and obligations. Conflicts or disputes may arise between Air Canada and Chorus under the CPA in a number of areas, including:

- the nature and quality of the services Air Canada provides to Jazz and the services Jazz provides to Air Canada;
- the terms of Air Canada's and Jazz' s respective collective bargaining agreements;
- the scope and applicability of non-competition provisions (refer to "Risks Relating to Chorus - Diversification and growth"); and
- Jazz's and Air Canada's respective rights and obligations under the CPA or other agreements between Chorus and Air Canada.

Conflicts and disputes may divert management's attention and resources from the operation of the business and may result in litigation or other disputes. Chorus may not be able to resolve any potential conflicts with Air Canada and, even if any such conflicts are resolved, the resolution may be on terms and conditions less favourable to Chorus. Any such result could have a material adverse effect on Chorus' business, results from operations and financial condition.

Leasing risk related to Q400s and CRJ900s

Chorus derives a significant portion of its revenues under the CPA from leasing Q400s and CRJ900s. Chorus is paid a Fixed Margin per Covered Aircraft for an agreed number of Q400s and CRJ900s during the term of the CPA. When the CPA expires on December 31, 2025, there is a risk that Chorus will be unable to find use for these aircraft to generate equivalent revenue.

With the establishment of Chorus Aviation Capital, management anticipates that Chorus will have options not previously available to it to redeploy these aircraft, however, there can be no assurance that such aircraft can be redeployed on comparable economic terms or at all. Any inability to utilize or redeploy such aircraft on comparable economic terms could have a material adverse effect on Chorus' business, results from operations and financial condition.

Risks Relating to the Air Transportation Industry

Economic conditions

Airline operating results are sensitive to economic and geopolitical conditions, which have a significant impact on the demand for air transportation. Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. A downturn in economic growth could have the effect of reducing demand for air travel. Any such event could have a material adverse effect on Chorus' business, results from operations and financial condition.

Competition in the regional airline industry

Chorus' ability to provide regional air service is limited by existing relationships that network airlines have with other regional operators. In addition, many of the network airlines are subject to scope clause restrictions under their collective bargaining agreements with employees that restrict their ability to add new regional jet capacity. New competitors may also enter the regional airline industry. Such new or existing competitors may enter into capacity purchase agreements with airlines, including Air Canada, in respect of routes currently operated by Chorus. Capacity growth by other regional airlines in the regional jet market would lead to significantly greater competition and may result in lower rates of return in the regional airline industry. Further, many of the network airlines are focused on reducing costs, which may also result in lower operating margins in the regional airline industry.

Aggressive competition among tour operators and carriers providing flying services can limit Chorus' ability to expand in those markets. Any of the foregoing events could have a material adverse effect on Chorus' business, results from operations and financial condition.

Interruptions or disruptions in airport facilities

Chorus' business is significantly dependent upon its ability to operate without interruption at a number of key airports, including Calgary International Airport, Montréal-Pierre Elliott Trudeau International Airport, Toronto Pearson International Airport, and Vancouver International Airport. An interruption or stoppage in service at a key airport could have a material adverse effect on Chorus' business, results from operations and financial condition.

Terrorist attacks and other geopolitical instability

The occurrence of a terrorist attack (whether international or domestic and whether involving Chorus, another carrier or no carrier at all) and increasingly restrictive security measures, such as restrictions on the content of carry-on baggage, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Chorus' flights. Geopolitical instability in various areas of the world could have the effect of reducing demand for air travel. Any such negative effect on demand could have a material adverse effect on Chorus' business, results from operations and financial condition.

Cyber-attacks and dependence on technology

Chorus relies in part on technology, including hardware, software and network communication infrastructure, to operate its business. In 2016, over 90% of Chorus' revenues and earnings were earned by Jazz under the CPA. Jazz depends on several technology applications to operate its business under the CPA, including Air Canada's reservations and passenger check-in systems as well as other applications managed by Jazz for functions such as flight and crew scheduling and aircraft maintenance. The Corporation's other subsidiaries also depend on technology to manage their assets and operate their business.

Chorus' technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of natural disasters, cyber-attacks, network communication failures, computer viruses and other security issues. While Chorus maintains and continues to invest in technology security initiatives and disaster recovery plans, Chorus does not manage all of the systems it relies on (such as Air Canada's reservations and passenger check-in systems) and the measures Chorus is able to implement may not be sufficient to avoid, or mitigate the impact of, a system failure. Any failure in technology systems used by Chorus could have a material adverse effect on Chorus' business, results from operations and financial condition.

In addition, Chorus regularly invests in new technology initiatives to reduce its costs, increase its revenues and adjust to changes in the cyber-security landscape. An inability to invest in technological initiatives or implement them appropriately could have a material adverse effect on Chorus' business, results from operations and financial condition.

Epidemic diseases

The spread of contagious diseases could have a material adverse effect on passenger demand for air travel and the number of passengers traveling on Chorus' flights, especially in the event travel related restrictions are imposed. Any such event could have a material adverse effect on Chorus' business, results from operations and financial condition.

Third party war risk insurance

Prior to January 1, 2016, the Government of Canada had provided Canadian air carriers with an indemnity for third party war risk liability that satisfied the air carriers' aircraft lessors and lenders. That coverage expired December 31, 2015 and the replacement indemnity that the Government of Canada put in place was not satisfactory to the air carriers' aircraft lessors and lenders. As well, the replacement indemnity was only for the period until June 30, 2016 and the Government of Canada announced that it will not continue to provide the indemnity after that date. As a result, effective January 1, 2016, Jazz acquired replacement coverage for this risk to the extent coverage is currently available in commercial insurance markets, and which coverage satisfies Jazz's obligations to its aircraft lessors and lenders.

Casualty losses

Due to the nature of its core operating business, Chorus may be subject to liability claims arising out of accidents or disasters involving Chorus aircraft or aircraft of other carriers maintained or repaired by Chorus, including claims for serious personal injury or death. There can be no assurance that Chorus' insurance coverage will be sufficient to cover one or more large claims and any shortfall could be material. Additionally, any accident or disaster involving Chorus' aircraft or aircraft of another carrier maintained or repaired by Chorus, could significantly harm its reputation for safety, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

Legislative and regulatory changes

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, data privacy, licensing, competition, the environment (including noise levels) and, in some measure, pricing. Additional future laws and regulations could include, without limitation, laws and regulations establishing new limits on the age of aircraft that may be operated, greenhouse gas emissions by aircraft, the screening individuals who may pose a risk to aviation safety, new data privacy standards, airworthiness directives, and the compensation of passengers in the event of certain flight delays or cancellations, denied boarding situations and/or ground delays of aircraft with passengers on board. Decisions rendered from time to time by Canadian and foreign courts, administrative tribunals and/or governmental agencies, such as Transport Canada, the Canadian Transportation Agency, the Competition Bureau and/or Competition Tribunal and their foreign equivalents, may also impose additional requirements or restrictions on airline operations. If new laws, regulations or decisions are made, adopted or rendered, Chorus could face additional compliance costs or restrictions on its business that could have a material adverse effect on its business, results from operations and financial condition. For further information, see "Regulatory Environment".

Risks Relating to Chorus

Diversification and growth

Management regularly reviews potential diversification, growth and business acquisition opportunities. As part of any such initiative, management conducts customary due diligence and performs analysis with the goal of identifying and evaluating material risks. Notwithstanding their review, management may be unsuccessful in identifying all such risks or realizing the intended synergies of any given initiative, or in successfully executing a particular diversification or growth transaction. Any such failure, or management's inability to effectively manage growth, could have a material adverse effect on Chorus' business, results from operations and financial condition.

Under the CPA, Chorus is prevented from carrying on or undertaking certain passenger airline services. Except under certain permitted circumstances, Chorus may not provide passenger services utilizing fixed-wing aircraft over a certain number of seats between two destinations located within the Non-Compete Geographic Area.

Under the CPA, Chorus may enter into contracts for charter services performed entirely outside of the Non-Compete Geographic Area. However, Chorus requires Air Canada's consent to enter into contracts for charters with more than a certain number of rotations between the same cities for the same customer and over agreed levels, to or from any Extended Hub Airport, or on any Air Canada routes.

If Chorus should enter into a contractual flying arrangement within North America for a third party whereby all or substantially all of the capacity of an aircraft or a number of aircraft is purchased by a third party and the capacity is then sold or otherwise made available or provided to the general public whether directly or indirectly on terms more favourable than those in the CPA, then the terms of the CPA will be adjusted to match the more favourable terms. In the event of a change of control of Jazz, this obligation for Chorus to extend more favourable contractual flying terms to Air Canada will also apply to any Chorus affiliate resulting from or created after the change of control.

Except under certain permitted circumstances, Chorus cannot provide or initiate scheduled (at risk) passenger flying to or from any Extended Hub Airport without the prior consent of Air Canada.

In the CPA, the parties have agreed on certain restrictions for Chorus acquisitions of airline operators in the Non-Compete Geographic Area. There are no restrictions on Chorus providing Cargo Services with dedicated cargo aircraft.

Furthermore, the CPA may be terminated by Air Canada if Jazz undergoes a change in control in certain circumstances without Air Canada's consent (see "Risk Factors – Risks Relating to Chorus' Dependence on the CPA – Termination of the CPA"), and Chorus' loans with EDC may become immediately repayable if Jazz undergoes a change of control without EDC's consent (however, a change of control of the Corporation is deemed not to be a change of control of Jazz for purposes of the EDC loan agreements so long as the Corporation's Shares are publicly traded) (see "Financing – Aircraft and Engine Financing").

These restrictions on Chorus' business may prevent Chorus from entering into possible beneficial arrangements, which may have a material adverse effect on Chorus' business, results from operations and financial condition.

Leverage and restrictive covenants in current and future indebtedness

The ability of Chorus to pay dividends, or make other payments or advances, is subject to, among other things, its liquidity position, applicable laws and contractual restrictions contained in the instruments governing any indebtedness. The degree to which Chorus is leveraged has important consequences to Shareholders, including: (i) that Chorus' ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) that a significant portion of cash flow from operations may be dedicated to the payment of principal and interest in respect of its indebtedness, thereby reducing funds available for future operations; (iii) that certain borrowings will be at variable rates of interest, which exposes Chorus to the risk of increased interest rates; and (iv) that Chorus may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

Current global financial conditions have been characterized by high levels of volatility and several financial institutions have faced significant liquidity and other issues in recent years. Access to new public financing has been negatively impacted by these events, which may impact the ability of Chorus to obtain financing in the future on acceptable terms. Any failure of Chorus in the future to obtain required financing on acceptable terms could have a material adverse effect on Chorus' business, results of operations and financial condition.

Refinancing risk

The level of Chorus' indebtedness from time to time could impair Chorus' ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise. Any failure of Chorus in the future to obtain required financing or acceptable terms in these circumstances could have a material adverse effect on Chorus' business, results of operations and financial condition.

Reliance on key personnel

The success of Chorus depends on the abilities, experience, industry knowledge and personal efforts of senior management and other key employees, and Chorus' ability to retain and attract skilled employees. As Chorus seeks to diversify and/or grow, this may put additional strain and demand on management and on Chorus' employees and produce risks in both productivity and retention levels. In addition, Chorus may not be able to attract and retain additional qualified management as needed in the future. The loss of the services of such key personnel could have a material adverse effect on the business, results from operations, financial condition or future prospects of Chorus.

Employees

Chorus' business is labour-intensive and requires a large number of pilots, flight attendants, mechanics and other personnel. Chorus' business requires Chorus to locate, hire, train and retain new employees. There can be no assurance that Chorus will be able to locate, hire, train and retain a sufficient number of qualified employees that it needs to carry out its plans or replace departing employees. Chorus' inability to hire and retain a sufficient number of qualified employees at a reasonable cost could have a material adverse effect on its business, results from operations and financial condition.

Labour costs and labour relations

Labour costs constitute the largest percentage of Chorus' total operating costs that are borne by Chorus. There can be no assurance that the estimates of Chorus' future labour costs will be accurate. If such costs exceed Chorus' estimates, Chorus may realize decreased profitability under the CPA that will undermine Chorus' financial performance.

The majority of Chorus employees are unionized. Jazz's current agreements with its pilots represented by ALPA, its flight attendants represented by CFAU, its maintenance and engineering employees represented by Unifor, and its flight dispatch employees represented by CALDA, subject to certain exceptions, do not expire or rollover until the end of the CPA in 2025 and contain provisions prohibiting strikes and lockouts.

The collective agreements for Jazz's crew schedulers and airport customer service employees, both of which are represented by Unifor, expired on June 30, 2016 and January 13, 2017, respectively. Management does not anticipate any material disruption to Jazz's operations as a result of the expiration of these collective agreements and believes that Jazz would be able to mitigate the impact of any labour conflict with, or action by, its crew schedulers and airport customer service employees.

Notwithstanding the above, there can be no assurance that any of the collective agreements will be renewed without labour conflict or action, or that there will not otherwise be a labour conflict or action that could lead to an interruption or stoppage in Chorus' operations and adversely affect Chorus' ability to meet its targets, all of which could have a material adverse effect on its business, results from operations and financial condition. Furthermore, there can be no assurance that these agreements with Chorus employees' unions will be on terms that are consistent with management's expectations or comparable to agreements entered into by other regional airlines, and any future agreements may increase labour costs or otherwise adversely affect Chorus.

Suppliers

Chorus secures goods and services from a number of third party suppliers. Any significant interruption in the provision of goods and services from such suppliers, some of which would be beyond Chorus' control, could have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus is dependent on Bombardier as the supplier of parts for its aircraft fleet as well as the planned Dash 8 300 ESP. If Bombardier were unable or unwilling to provide adequate support for its products or Chorus were unable to complete the ESP as committed to the holders of the Convertible Units (see "Financing – Capital Commitments"), either one of these circumstances could have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus' ability to obtain parts, materials, inventory, consumables and services from third party vendors and outside service providers on commercially reasonable terms could also impact its operating cost structure and the loss of any such suppliers or service providers, or a significant change in the applicable commercial terms, could negatively impact Chorus' business.

Uncertainty of dividend payments

Payment of dividends may be impacted by factors that can have a material adverse effect on Chorus' business, results from operations and financial condition and which could impact its liquidity and ability to declare and pay dividends (whether at current levels, revised levels or at all), and is also dependent on, among other things, the ability of Chorus to generate sufficient cash flows, the financial requirements of Chorus, and applicable solvency tests and contractual restrictions (whether under credit agreements or other contracts).

Dilution of Shareholders

The Corporation is authorized to issue an unlimited number of Voting Shares and an unlimited number of Variable Voting Shares for consideration, and on terms and conditions, determined by the Board. Shareholders have no pre-emptive rights in connection with such further issues.

Chorus expects to issue Warrants exercisable to acquire up to 24,242,424 Shares at a price of $8.25 per Share in connection with the private placement of Convertible Units. Chorus may enter into future financings or other transactions involving the issuance of securities of the Corporation which may be dilutive, and materially adverse to current Shareholders.

Off balance sheet arrangements and guarantees

Chorus has agreed to indemnify various third parties in connection with the entering into of leases, agreements and other arrangements. The maximum amount payable under such indemnities cannot be reasonably estimated. Chorus carries or is otherwise the beneficiary of various insurance policies in respect of various risks applicable to the business (including in respect of tort liability and certain contractual indemnities). While Chorus expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities, if such insurance coverage was not available or insufficient, any payment pursuant to Chorus' indemnification obligations could have a material adverse effect on Chorus' business, results from operations and financial condition.

Legal proceedings

Various lawsuits and claims that have arisen in the normal course of business are pending by and against Chorus. The provisions that have been recorded are not material. It is the opinion of management that final determination of these claims will not have a material adverse effect on Chorus' business, operating results or financial position.

Risks Relating to the Aircraft Leasing Business

Variability of supply and demand for aircraft

The aviation industry has experienced periods of aircraft oversupply and weak demand. If there is an oversupply of a specific type of aircraft in the market, the value of, and lease rates for, that type of aircraft may result. The supply and demand for aircraft is affected by various cyclical and non-cyclical factors that are not under Chorus' control, including: general economic conditions affecting the financial position and liquidity of lessees; changes in interest and foreign exchange rates; technological innovation that could accelerate the obsolescence of certain aircraft models; manufacturers merging or exiting the industry or ceasing to produce aircraft or engine types; and other risks relating to the air transportation industry generally (see "Risk Factors - Risks Relating to the Air Transportation Industry").

Any of these factors could produce sharp and prolonged decreases in aircraft values and achievable lease rates, which would have a negative impact on the value of Chorus' fleet, and may prevent Chorus' aircraft from being leased or re-leased on favorable terms, or at all. Any such decrease could have a material adverse effect on Chorus' business, results from operations and financial condition.

Requirement for capital on competitive terms

Chorus' ability to grow its aircraft portfolio and compete with other lessors is dependent on its ability to access financing on attractive terms. If Chorus is unable to raise additional funds or obtain capital on acceptable terms, Chorus' growth opportunities will be limited and Chorus' ability to refinance pre-existing debt in future could be adversely affected.

Although Chorus has secured $200.0 million in financing from the private placement of Convertible Units, the completion of the private placement remains subject to certain conditions precedent to closing. If Chorus is unable to meet those conditions, it may not be able to secure alternative financing on comparable terms, which could adversely affect the growth of its aircraft leasing business.

Beyond the private placement of Convertible Units, Chorus will likely require additional capital to fund the acquisition of aircraft for its leasing business. Chorus' ability to access capital markets will depend on a number of factors including general market conditions, Chorus' historical and expected performance and compliance with its debt covenants, interest rate fluctuations and the relative attractiveness of alternative investments. Furthermore, volatility or disruption in the capital markets or a downgrade in credit ratings obtainable by Chorus could cause lenders to be reluctant or unable to provide Chorus with financing on terms acceptable to Chorus, or to increase the costs of such financing.

Even if Chorus is able to access capital for its leasing business, the market for commercial aircraft is cyclical, sensitive to economic instability and extremely competitive. As a result, Chorus may encounter difficulties in acquiring aircraft on favorable terms, or at all. A significant increase in Chorus' cost to acquire aircraft may make it more difficult for Chorus to make accretive acquisitions.

Competition for aircraft investment opportunities

Competition for aircraft leasing transactions are based principally upon lease rates and terms, aircraft types and configuration, aircraft condition, delivery schedules, reputation and management expertise. Chorus believes there are currently few competitors focused on the regional aircraft leasing market. These include, but are not limited to, Avation Commercial Aircraft Leasing, Elix Aviation Capital, GE Capital Aviation Services and Nordic Aviation Capital.

Chorus may encounter competition from new entrants in the regional aircraft leasing market, some of which may be experienced lessors in the narrow and wide-body aircraft leasing markets. Certain of these potential competitors, particularly experienced lessors, may have significantly greater resources than Chorus and, as a result, may have a lower overall cost of capital together with the ability to provide financial services, maintenance services or other inducements to potential lessees that Chorus cannot provide. In addition, Chorus may encounter competition from entities that selectively compete with it, including, but not limited to airlines, aircraft manufacturers, financial institutions (including those seeking to dispose of repossessed aircraft at distressed prices), and aircraft brokers.

Maintenance and obsolescence risks

Aircraft generally have long service lives but risk becoming obsolete as newer, more advanced aircraft are introduced to the market. Although management believes that regional aircraft are generally less susceptible to obsolescence than other types of aircraft, the value of Chorus' fleet could decline particularly if unanticipated events shorten the life cycle of such aircraft, such as government regulation or changes in customers' preferences. If the value of Chorus's fleet were to decline, the lease rates Chorus could secure for those aircraft would also be expected to decline, and depreciation expense or impairment charges would likely increase. Such developments could have a material adverse effect on Chorus' business, results from operations and financial condition.

The risks above are heighted to the extent that Chorus acquires used aircraft. Furthermore, unlike new aircraft, used aircraft may not carry any warranties as to their condition, increasing the risk that Chorus may acquire aircraft with defects that are not discovered until after their acquisition. Variable expenses, like fuel, crew size, corrosion control or modification programs and related airworthiness directives, could make the operation of older aircraft more costly to lessees, resulting in the renegotiation of lease terms, the re-leasing of aircraft on less favourable terms, and increased maintenance and repair costs to Chorus.

Risk of joint ventures

Chorus may enter into joint ventures with third parties or issue equity in one or more of its subsidiaries engaged in the aircraft leasing business in order to raise capital for investment in regional aircraft, expand its capabilities or facilitate access to new markets. Chorus may not control strategic or operational decisions in joint ventures or subsidiaries that are not wholly-owned (directly or indirectly) by the Corporation. As a result, Chorus may have to share decision-making authority with a third party in relation to a wide range of decisions, including, among other matters, the selection of personnel who manage the aircraft portfolio, the acquisition, remarketing or sale of aircraft, and the terms on which capital raises are undertaken by the joint venture or subsidiary. If Chorus is unable to resolve a dispute with a joint venture partner that retains material veto rights, Chorus may reach an impasse that may require it to liquidate its investment at a time and in a manner that could result in Chorus losing some or all of its original investment in the venture. These strategic ventures and investments may also subject Chorus to unforeseen risks, including adverse tax consequences and additional reporting and compliance requirements. If any of these risks were to materialize, they could have a material adverse effect on Chorus' business, results from operations and financial condition.

Risks associated with certain geographical regions

Chorus' aircraft leasing business is exposed to local economic and political conditions that can influence the performance of lessees and the security of our aircraft located in particular regions. Conditions adverse to Chorus' interests could include regional economic recessions, financial or political emergencies, additional regulation or, in extreme cases, seizure of aircraft belonging to Chorus. The risk posed by these factors depends on the concentration of lessees in regions with adverse conditions.

As of the date of this AIF, Chorus has only two aircraft leased to an operator based in Spain. Over time, Chorus' exposure to risks posed by local economic and political conditions is expected to increase as Chorus leases more aircraft to lessees located in various regions around the world. This risk is likely to be particularly pronounced in emerging markets that have less developed economies and infrastructure and are often more vulnerable to business and political disturbances. The inability to resolve financial or political emergencies in any particular region where Chorus may have lessees and aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

Risks Relating to the Voyageur Business

International operations and doing business in foreign countries

Voyageur's operations include international contract flying. As a result, Chorus is exposed to international operational issues and regulatory requirements. In addition, operating in diverse international regions increases the risk of Chorus being exposed to political instability and military and/or civil conflict. Should Chorus not be able to effectively mitigate the impact on its business of these complexities, regulatory requirements and other risks, this may have an adverse effect on Chorus' business, results of operations and financial condition.

Renewal of customer agreements and competition

There can be no assurance that any of Voyageur's agreements with customers can or will be renewed on the same terms and conditions or in the same amounts as are currently in effect. If such agreements are renewed, the terms and conditions will be subject to negotiation between Voyageur and each customer at the time of renewal. Voyageur competes for this business with contract air carriers from around the world. Should Voyageur not be able to renew such agreements or is not able to renew or replace such contracts on terms and conditions at least as favourable as current terms, this may have an adverse effect on Chorus' business, results of operations and financial condition.

MARKET FOR SECURITIES

The Variable Voting Shares and Voting Shares traded on the TSX under the symbols "CHR.A" and "CHR.B", respectively, until May 24, 2016 after which date the Variable Voting Shares and Voting Shares have traded on the TSX under the symbol “CHR”. The following table sets forth the price range and trading volume of the Shares as reported by the TSX for the months of January to December 2016 inclusive.

2016	Class A Variable Voting Shares				Class B Voting Shares				Class A/B Variable Voting, Voting Shares			
	High $	Low $	Average Daily Trading Volume	Total Monthly Volume	High $	Low $	Average Daily Trading Volume	Total Monthly Volume	High $	Low $	Average Daily Trading Volume	Total Monthly Volume
January	5.74	4.96	6,709	134,187	5.74	4.97	243,374	4,867,475	-	-	-	-
February	6.30	5.10	7,300	145,999	6.32	5.06	280,371	5,607,421	-	-	-	-
March	6.73	5.94	7,453	163,976	6.74	5.90	303,344	6,673,570	-	-	-	-
April	6.64	6.27	6,268	131,620	6.65	6.24	183,795	3,859,699	-	-	-	-
May	6.66	6.14	9,620	144,294	6.51	6.06	229,432	3,441,481	6.45	6.19	487,015	2,922,090
June	-	-	-	-	-	-	-	-	6.28	5.70	252,226	5,548,978
July	-	-	-	-	-	-	-	-	6.23	6.01	210,128	4,202,562
August	-	-	-	-	-	-	-	-	6.15	5.75	227,556	5,006,239
September	-	-	-	-	-	-	-	-	6.30	5.92	191,663	4,024,926
October	-	-	-	-	-	-	-	-	6.30	6.01	250,027	5,000,535
November	-	-	-	-	-	-	-	-	6.68	6.00	244,556	5,380,229
December	-	-	-	-	-	-	-	-	7.27	6.42	305,721	6,114,425

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the Shares is CST Trust Company at its principal offices in Montreal, Toronto, Calgary and Vancouver.

DIVIDEND RECORD

The current dividend policy of Chorus is $0.04 per Share per month. Dividends payable by Chorus to its Shareholders are recorded when declared. The dividend policy is subject to the discretion of the board of directors of Chorus and may vary depending on, among other things, Chorus’ financial condition including earnings, financial requirements, debt covenants, the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time.

During the first two quarters of 2014, Chorus paid quarterly dividends of $0.1125 per share. During the third quarter of 2014, Chorus changed from quarterly dividend payments to monthly dividend payments. Chorus declared monthly dividends of $0.0375 per Share which were paid in August, September, October, November and December of 2014 to Shareholders of record at the close of business on each respective month end date. On February 18, 2015, Chorus announced an increase in the monthly dividend from $0.0375 to $0.04 per Share, effective with the March dividend for Shareholders of record at the close of business on March 31, 2015, and payable on April 17, 2015.

For the year ended December 31, 2016, Chorus paid $58.7 million in dividends to Shareholders (2015 - $57.4 million, 2014 - $63.7 million).

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of Variable Voting Shares and Voting Shares. As of February 15, 2017, 122,182,168 Shares were issued and outstanding. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares and the Voting Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of the Corporation's articles of incorporation, as amended.

Variable Voting Shares

Voting

The holders of the Variable Voting Shares are entitled to receive notice of, and to attend and vote at, all meetings of the Shareholders of the Corporation, except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA. The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians and are entitled to one vote per Variable Voting Share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of votes attaching to all issued and outstanding voting shares, exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify), or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify) of the total number of votes that may be cast at such meeting. If either of these thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class do not carry more than 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate votes attached to all issued and outstanding voting shares of Chorus, and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the votes that may be cast at such meeting.

The Government of Canada's Bill C-10, the *Budget Implementation Act, 2009*, provides the Governor in Council with the authority to introduce regulations increasing the foreign ownership limit from the existing 25% level to a maximum of 49%. On November 3, 2016, the Minister of Transport announced the Government of Canada's intention to raise the foreign ownership limits to 49% (from the current 25%) but maintain a 25% sublimit on any single foreign investor. As of February 15, 2017, no regulations or legislative amendments giving effect to such changes have been passed or published for comment. For further information on this topic, see "Regulatory Environment".

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares shall, at the discretion of the Corporation's directors, be entitled to receive, out of monies, assets or property of the Corporation properly applicable to the payment of dividends, any dividends declared and payable by the Corporation on the Variable Voting Shares. The Variable Voting Shares rank equally as to dividends on a share-for-share basis with the Voting Shares participating on an as-converted basis. All dividends declared in any fiscal year of the Corporation shall be declared in equal or equivalent amounts per share on all Variable Voting Shares, and Voting Shares participating on an as-converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Variable Voting Shares or the Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of the Corporation ranking prior to the Variable Voting Shares, upon liquidation, dissolution or winding up of the Corporation or other distribution of the Corporation's assets among its Shareholders for the purpose of winding up its affairs, the holders of the Variable Voting Shares and Voting Shares shall be entitled to receive the remaining property of the Corporation and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Each issued and outstanding Variable Voting Share shall be converted into one Voting Share, automatically and without any further act of the Corporation or of the holder, if (i) such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Qualified Canadian; or (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

In the event that an offer is made to purchase Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, be made to all or substantially all the holders of the Voting Shares in a province of Canada to which the requirement applies, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share that is subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares in response to the offer.

If the Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the Shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Voting Shares resulting from the conversion shall be re-converted automatically, and without further act from the Corporation or the holder, into Variable Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the Corporation’s articles of incorporation.

Constraints on Ownership of Shares

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians.

Voting Shares

Voting

The holders of the Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the Shareholders of the Corporation (except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA), and each Voting Share shall confer the right to one vote in person or by proxy at all meetings of Shareholders.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of the Corporation of any other class ranking senior to the Voting Shares, the holders of the Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of the Corporation properly applicable to the payment of dividends, any dividends declared and payable by the Corporation on the Voting Shares and the Voting Shares shall rank equally as to dividends on a share-for-share basis with the Variable Voting Shares participating on an as-converted basis and all dividends declared in any fiscal year of the Corporation shall be declared in equal or equivalent amounts per share on all Voting Shares and Variable Voting Shares on an as-converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Voting Shares or the Variable Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of the Corporation ranking senior to the Voting Shares, upon liquidation, dissolution or winding up of the Corporation or other distribution of the Corporation's assets among its Shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable Voting Shares shall be entitled to receive the remaining property of the Corporation and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Unless the foreign ownership restrictions of the CTA are repealed and not replaced with other similar restrictions, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of the Corporation or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Qualified Canadian. In the event that an offer is made to purchase Variable Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed, be made to all or substantially all the holders of the Variable Voting Shares, each Voting Share shall become convertible at the option of the holder into one Variable Voting Share that is subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Voting Shares for the purpose of depositing the resulting Variable Voting Shares in response to the offer.

If the Variable Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the Shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Variable Voting Shares resulting from the conversion shall be re-converted automatically, and without further act from the Corporation or the holder, into Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the Corporation’s articles of incorporation.

Constraints on Ownership of Shares

The Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Qualified Canadians.

Declaration as to Canadian Status

The Corporation’s articles of incorporation, as amended, provide that: (i) the Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by persons who are Qualified Canadians; and (ii) the Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians.

Repurchase of Shares

On March 27, 2014, the Corporation announced that it had received approval from the TSX to implement a normal course issuer bid ("**NCIB**") to purchase for cancellation up to 12,168,157 Shares (representing 10% of the public float at the time of approval) during the period from March 31, 2014 to no later than March 30, 2015. From April 1, 2014 to March 30, 2015, the Corporation purchased and cancelled 2,290,800 Shares under its normal course issuer bid at an aggregate cost of $9.4 million. In accordance with the rules and by-laws of the TSX, such Shares were purchased at prevailing market prices plus brokerage fees, or such other prices as were permitted by the rules and by-laws of the TSX.

Shareholders may obtain a copy of the notice filed with the TSX in relation to the NCIB, free of charge, by sending a request to the Corporate Secretary, Chorus Aviation Inc., at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia, B3B 1W8.

Exemptive Relief from Take-Over Bid and Early Warning Rules

On October 14, 2016, the Corporation received an exemption to treat its Variable Voting Shares and Voting Shares as a single class for the purposes of applicable take-over bid requirements and early warning reporting requirements contained under Canadian securities laws. The Corporation applied for the exemption to facilitate investment in Variable Voting Shares by persons who are not Qualified Canadians.

The securities regulatory authorities in each of the provinces of Canada granted exemptive relief (the "**Decision**") from (i) applicable formal take-over bid requirements, as contained under Canadian securities laws, such that those requirements would only apply to an offer to acquire 20 per cent or more of the outstanding Variable Voting Shares and Voting Shares of the Corporation on a combined basis, and (ii) applicable early warning reporting requirements, as contained under Canadian securities laws, such that those requirements would only apply to an acquirer who acquires or holds beneficial ownership of, or control or direction over, 10 per cent or more of the outstanding Variable Voting Shares and Voting Shares of the Corporation on a combined basis (or five per cent in the case of acquisitions during a take-over bid), and (iii) applicable alternative monthly reporting requirements, as contained under Canadian Securities laws, such that eligible institutional investors may meet the eligibility criteria for alternative monthly reporting by calculating its security holdings using a denominator comprised of all outstanding Voting Shares and Variable Voting Shares on a combined basis, and a numerator including all of the Voting Shares or Variable Voting Shares, as the case may be, beneficially owned or controlled by the eligible institutional investor. A copy of the Decision is available on SEDAR at www.sedar.com.

The Decision takes into account that Chorus' dual class shareholding structure was implemented solely to ensure compliance with the foreign ownership requirements of the *Canada Transportation Act*. An investor does not control or choose which class of Shares it acquires and holds. The class of Shares ultimately available to an investor is only a function of whether the investor is or is not a Qualified Canadian. Due to the relatively small number of outstanding Variable Voting Shares, absent the Decision, it may have been more difficult for investors who are not Qualified Canadians to acquire Shares in the ordinary course without the apprehension of inadvertently triggering the take-over bid rules or early warning requirements. The Decision considered the fact that the Variable Voting Shares and Voting Shares have identical terms except for the foreign ownership voting limitations applicable in the case of the Variable Voting Shares.

Stock options

During 2014 and 2015 Chorus granted 5,350,000 stock options with an exercise price of $4.50 and 900,000 stock options with an exercise price of $7.25, respectively, to certain executive management. The options are intended to further incentivize management to drive operating and strategic improvements which result in value creation for Shareholders and to recognize the extraordinary efforts required to achieve the long-term strategy. The options are to vest entirely three years after the relevant grant date and have a five-year option term.

DIRECTORS AND OFFICERS

Directors of the Corporation

The name, municipality of residence and principal occupation of each of the directors are, as of the date hereof, as set forth below. Such individuals have served as directors of the Corporation since the dates set forth opposite their respective names. Each of the directors of the Corporation has been elected or appointed to serve until the end of the next annual meeting of Shareholders. The directors stand for election annually. Biographies for each of the directors are available on Chorus' website at www.chorusaviation.ca.

Name and Municipality of Residence	Principal Occupation	Director of Chorus or its Predecessors Since
Gary M. Collins(1) Vancouver, British Columbia	Senior Advisory Partner, Lazard Canada.(2)	May 8, 2008
Karen Cramm(3) Halifax, Nova Scotia	Corporate Director	December 6, 2010
Richard D. Falconer(4) Mississauga, Ontario	Managing Director, Lazard Canada.(2)	March 1, 2012
R. Stephen Hannahs(5) Corona Del Mar, California	CEO, Wings Capital Partners	August 10, 2015
Sydney John Isaacs(6) Westmount, Québec	Corporate Director	January 1, 2008
G. Ross MacCormack(7) Newport, Vermont, U.S.	Aviation Consultant	January 24, 2006
Richard H. McCoy(8) Toronto, Ontario	Corporate Director	January 24, 2006 Chairman since January 1, 2008
Marie-Lucie Morin(9) Ottawa, Ontario	Consultant / Corporate Director	February 17, 2016
Joseph D. Randell Wellington, Nova Scotia	President & Chief Executive Officer, Chorus	January 24, 2006

(1) Chair of the Governance and Nominating Committee and Member of the Audit, Finance and Risk Committee.
(2) Lazard Canada is a Canadian subsidiary of Lazard Ltd. (NYSE: LAZ), a financial advisory and asset management firm.
(3) Chair of the Audit, Finance and Risk Committee and Member of the Governance and Nominating Committee.
(4) Chair of the Human Resources and Compensation Committee and Member of the Audit, Finance and Risk Committee.
(5) Member of the Audit, Finance and Risk Committee and Member of the Human Resources and Compensation Committee.
(6) Member of the Governance and Nominating Committee and Member of the Human Resources and Compensation Committee.
(7) Member of the Human Resources and Compensation Committee.
(8) Chairman of the Board of Directors.
(9) Member of the Governance and Nominating Committee.

Each of the foregoing directors has held the same principal occupation for the previous five years, except (i) Mr. Collins who was Senior Advisory Partner of Verus Partners & Co. Inc. until its acquisition by Lazard Ltd. in September 2016, Senior Vice President of Belkorp Industries from April 2007 until June 2012, and President of Coastal Contacts from August 2012 until April 2014, (ii) Mr. Falconer who was Senior Director of Verus Partners & Co. Inc. until its acquisition by Lazard Ltd. in September 2016, and Vice Chairman and Managing Director, CIBC World Markets Inc., from 1993 until he retired on January 31, 2011, (iii) Mr. Isaacs who was Senior Vice President, Corporate Development and Chief Legal Officer of ACE Aviation Holdings Inc., from November 2004 to June 2012; and (iv) Ms. Morin who was the Executive Director for Canada, Ireland and the Caribbean at the World Bank from November 2010 to December 2013 and has been a consultant and director since December 2013.

Executive Officers of the Corporation

The following table sets out the executive officers of the Corporation as of February 15, 2017. For each such executive officer, the table below sets out the executive officer's name, municipality of residence, position with the Corporation and principal occupation. Except for Messrs. Lopes and Ridolfi, each of the executive officers named below has been an executive officer with the Corporation or one of its affiliates or predecessors for more than five years. For purposes of the table below, "Chorus" refers solely to the Corporation and "Jazz" refers solely to Aviation GP.

Name and Municipality of Residence	Executive Officer Position	Principal Occupation
Richard H. McCoy Toronto, Ontario	Chairman of the Board	Corporate Director
Joseph D. Randell Wellington, Nova Scotia	President & Chief Executive Officer	President & Chief Executive Officer (Chorus) / Chief Executive Officer (Jazz)
Colin Copp Halifax, Nova Scotia	President, Jazz Aviation	President (Jazz)
Dennis Lopes Mississauga, Ontario	Senior Vice President, General Counsel & Corporate Secretary	Senior Vice-President, General Counsel & Corporate Secretary (Chorus and Jazz)
Jolene Mahody Halifax, Nova Scotia	Executive Vice President & Chief Financial Officer	Executive Vice President & Chief Financial Officer (Chorus and Jazz)
Richard Flynn Dartmouth, Nova Scotia	Executive Vice President & Chief Corporate Development Officer	Executive Vice President & Chief Corporate Development Officer (Chorus and Jazz)
Scott Tapson Bedford, Nova Scotia	President, Voyageur Aviation / Vice President, Corporate and Commercial Development	President (Voyageur) / Vice President, Corporate and Commercial Development (Chorus and Jazz)
Steven Ridolfi(1) Toronto, Ontario	President, Chorus Aviation Capital	President (Chorus Aviation Capital)

(1) Mr. Ridolfi has served in his current position since January 2017. Previously, he was Senior Vice President, Strategic Investments, Mergers and Acquisitions for the Corporation (October 2015 to January 2017), Senior Vice President of Strategy and Mergers and Acquisitions at Bombardier Inc. (January 2014 to February 2015), and President of Bombardier Business Aircraft at Bombardier Aerospace, Inc. and Bombardier Inc. (April 2008 to January 2014).

(2) Mr. Lopes has served in his current position since July 2016. Previously, he was Assistant General Counsel at Microsoft Canada Inc. (June 2014 to June 2016), Vice President, General Counsel and Corporate Secretary at Discovery Air Inc. (March 2012 to May 2014), and Senior Vice President, Chief Legal Officer and Corporate Secretary at Purolator Inc. (November 2010 to February 2012).

As at February 10, 2017, the Directors and Officers mentioned in the above tables, as a group, owned, or had control or direction over, directly or indirectly 1,740,931 Shares representing approximately 1.42% of the outstanding Shares.

Audit, Finance and Risk Committee

The primary purpose of the Audit, Finance and Risk Committee is to assist the Board of Directors of the Corporation in its oversight of (i) the integrity of the Corporation's financial statements and public disclosure documents, (ii) the qualifications, performance and independence of the Corporation's external auditor, (iii) the performance of the Corporation's internal audit and risk management function, (iv) the adequacy of the Corporation's internal controls and enterprise risk management framework, and (v) compliance with laws. The Audit, Finance and Risk Committee also considers other risks to the business and affairs of Chorus, in particular, risks associated with operational safety and the environment.

Charter of the Audit, Finance and Risk Committee

The charter of the Audit, Finance and Risk Committee, as at December 31, 2016, is set out in Schedule A to this AIF. The charter of the Audit, Finance and Risk Committee was revised effective January 1, 2017 and, together with the operating procedures for the Board's committees, can be found on Chorus' website at www.chorusaviation.ca.

Composition of the Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee consists of four members, as follows: Karen Cramm (Chair), Gary M. Collins, Richard D. Falconer, and R. Stephen Hannahs. Each member of the Audit, Finance and Risk Committee is independent of each of Chorus, and its affiliates, and financially literate as required under National Instrument 52-110 - Audit Committees.

Relevant Education and Experience of the Audit Committee Members

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

(i) ***Karen Cramm***, FCPA, FCA, is a corporate director. A Chartered Accountant since 1977, Mrs. Cramm holds master's degrees in business administration (MBA) and in public administration (MPA). Mrs. Cramm was a senior partner of Deloitte & Touche ("**Deloitte**") in the Financial Services Group specializing in Reorganization as well as Forensic & Dispute services. While a partner of Deloitte, she served as the Managing Partner of the Halifax Office, was elected to the Canadian Deloitte Board of Directors for fourteen years and chaired the Deloitte Foundation, a registered charity focusing on corporate responsibility and giving back to communities across Canada. Mrs. Cramm has served as President of the Institute of Chartered Accountants of Nova Scotia and was elected as a Fellow of the Institute in recognition of distinguished service to the profession. She has also had extensive experience leading and serving on community-based, non-profit boards including Chair of the Boards of the Izaak Walton Killam Hospital and the Art Gallery of Nova Scotia and serving on the Boards and executive of both Dalhousie University and Mount Saint Vincent University. In April 2015, Mrs. Cramm was named to the board of Medavie Inc. and to Medavie Inc.'s Audit and Risk Management Committee.

(ii) ***Gary M. Collins*** is a Senior Advisory Partner with Lazard Canada, a financial advisory and asset management firm. From August 2012 until May 2014, he was the President of Coastal Contacts Inc., a direct-to-customer online retailer of replacement contact lenses and eye glasses. In May 2014 Coastal was purchased by Essilor International. From April 2007 to July 2012, Mr. Collins was Senior Vice President of Belkorp Industries Inc. Prior to that, Mr. Collins was the President and Chief Executive Officer of Harmony Airways from December 2004 until December 2006. From October 1991 to December 2004 he was a member of the British Columbia Legislative Assembly and held the portfolio of Minister of Finance from June 2001 to December 2004. Mr. Collins is a director, serves on the Audit Committee and is chair of the Compensation Committee of Liquor Stores N.A. Ltd. Mr. Collins is also a board member of D-Box Technologies Inc. He previously served on the board of directors and was a member of the Audit Committee of Catalyst Paper Corporation.

(iii) ***Richard D. Falconer*** is a Managing Director of Lazard Canada, a financial advisory and asset management firm. The majority of Mr. Falconer's career was spent with CIBC World Markets Inc., where he retired after 40 years of service as Vice Chairman and Managing Director. In addition to being responsible for senior investment banking relationships, he sat on a number of committees at the bank. Mr. Falconer's experience has spanned various industries and he has provided written and expert regulatory testimony before many utility boards across Canada. He is a member of the board of directors of Resolute Forest Products Inc. and is the chairman of the board of Jaguar Mining Inc. He is also a board member of LOFT Community Services and the Dorothy Ley Hospice. Mr. Falconer is also a member of the Board of Governors of the Shaw Festival Theatre Endowment Foundation.

(iv) **R. Stephen Hannahs** is the Founder, Chief Executive Officer, and Managing Director at Wings Capital Partners. Wings Capital Partners makes targeted, non-passive equity investments in commercial aircraft, related assets parts, and aviation companies, with a focus on the mid-life narrow body commercial aircraft sector. In 1989 Mr. Hannahs co-founded Aviation Capital Group ("**ACG**") and served as its Chief Executive Officer and Group Managing Director until December 31, 2012. When Mr. Hannahs retired from ACG on January 1, 2013, he had built the company into a $7.0 billion enterprise and one of the top five aircraft leasing companies in the world. Between 1982 and 1989, he served as an Executive Vice President at Integrated Resources Inc. and President at Integrated Resources Aircraft Corporation. From 1980 to 1982, Mr. Hannahs was a Vice President and partner in Tanon Leasing Corporation, a partnership with the Hillman Company of Pittsburgh, where he was responsible for all of Tanon’s aviation activities. From 1977 to 1980 he was employed by Itel Corporation where he was responsible for airline and aviation financing activities. He is a former officer in the U.S. Air Force, and holds a Bachelor of Arts and Master of Business Administration degrees in Finance from the University of Wisconsin-Madison.

Independence of External Auditors

The Audit, Finance and Risk Committee reviews and approves the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided to any Chorus entity by the Corporation’s and its affiliates’ external auditor prior to the commencement of such work. In this regard, the Audit, Finance and Risk Committee prepares a report for presentation to the Shareholders quarterly or annually, as required, regarding the Audit, Finance and Risk Committee’s approval of such non-audit services in the period.

The Audit, Finance and Risk Committee also requires and reviews a report from the external auditor, if deemed appropriate by the Audit, Finance and Risk Committee, of all relationships between the external auditor and its related entities and the Corporation and its affiliates and their related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor’s professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming that in the external auditor’s professional judgment it is independent of the Corporation and its affiliates and discusses this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit, Finance and Risk Committee also reviews steps taken by the external auditor to address any findings in any of the foregoing reviews.

Auditors' Fees

Fees payable for the years ended December 31, 2016 and December 31, 2015 to PricewaterhouseCoopers LLP and its affiliates were $1.2 million and $0.8 million, respectively, as detailed below:

	Year ended December 31, 2016 $	Year ended December 31, 2015 $
Audit fees	410,000	466,500
Audit-related fees	162,545	59,600
Tax fees – compliance/preparation	51,244	29,651
Tax fees – other	482,409	290,759
Other	45,560	—
	1,151,758	846,510

The nature of each category of fees is described below.

Audit fees. Audit fees were paid for professional services rendered for the audit of the annual financial statements of the Corporation and its affiliates, for the reviews of quarterly reporting by the Corporation, and for services normally provided in connection with statutory and regulatory filings or engagements. Audit fees incurred in 2015 include additional audit work related to the acquisition of Voyageur.

Audit-related fees. Audit-related fees were paid for professional services related to pension plan audits and accounting consultation. Audit-related fees in 2016 include additional work related to the acquisition of Voyageur and translation services.

Tax fees – compliance/preparation. Tax fees were paid for professional services rendered with respect to indirect tax, income tax and payroll tax compliance.

Tax fees - other. Tax fees were paid for professional services rendered with respect to tax advice, tax planning and consulting. Fees in 2016 mainly relate to consulting in respect of the establishment of Chorus' aircraft leasing business.

Other. Other fees paid in 2016 were for pension filing software and a review of the security of Voyageur's information technology infrastructure.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

The information provided in this section is current as of the date of this AIF.

Corporate Cease Trade Orders or Bankruptcies

Other than as set forth below, to the knowledge of the Corporation, no director or executive officer of the Corporation is, or has been in the last 10 years: (i) a director, chief executive officer or chief financial officer of any company that (A) while that person was acting in that capacity, was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemptions under the securities legislation, for a period of more than 30 consecutive days, or (B) was the subject of an order of the type referred to in (A) above that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer of that company and which resulted from an event that occurred while that person was acting in a capacity as director, chief executive officer or chief financial officer of that company; or (ii) a director or executive officer of any company, that while that person was acting as director or executive officer of that company, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceeding, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except Richard D. Falconer who was a member of the board of Jaguar Mining Inc. when it filed for a voluntary proceeding under the *Companies' Creditors Arrangement Act* (Canada) on December 23, 2013.

Penalties or Sanctions

To the knowledge of the Corporation, no director or executive officer of the Corporation (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

To the knowledge of the Corporation, in the last 10 years, no director or executive officer of the Corporation has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

LEGAL PROCEEDINGS

There were and there are no material legal proceedings that Chorus was or is a party to, or that any of its property was or is the subject of, during the Corporation's most recent financial year and the Corporation knows of no such legal proceedings currently contemplated.

CONFLICTS OF INTEREST

Except as disclosed below and elsewhere herein, no director or executive officer of the Corporation has any existing or potential material conflicts of interest with the Corporation.

INTEREST OF EXPERTS

PricewaterhouseCoopers LLP are the auditors of the Corporation and have advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Nova Scotia. The information provided in this section is current as of the date of this AIF.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of (i) the directors or executive officers of the Corporation, (ii) Shareholders of the Corporation that, to the knowledge of the Corporation, beneficially own or control, directly or indirectly, more than 10% of any class of shares of the Corporation, or (iii) any associate or affiliate of the persons referred to in (i), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect the Corporation or any of its subsidiaries. The information provided in this section is current as of the date of this AIF.

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2016, or before such year but which are still in effect, and which are required to be filed with Canadian securities regulatory authorities in accordance with section 12.2 of National Instrument 51-102 – Continuous Disclosure Obligations, are as follows:

(i) Amended and Restated Capacity Purchase Agreement made as of January 1, 2015 between Jazz Aviation LP and Air Canada, together with amendments thereto. This agreement is described in this AIF under the heading "The Jazz Business – Capacity Purchase Agreement with Air Canada"; and

(ii) Subscription Agreement made as of December 19, 2016 between Chorus Aviation Inc., Fairfax Financial Holdings Limited and certain subsidiaries of Fairfax Financial Holdings Limited designated as purchasers of the Debentures and Warrants. This agreement sets out the terms and conditions on which Fairfax has agreed to subscribe for Convertible Units, including the representations, warranties and covenants provided by the Corporation in connection therewith. This agreement also attaches the forms of indenture governing the Debentures and the Warrants. The Convertible Units (comprising the Debentures and Warrants) are described in this AIF under the heading "Financing – Convertible Units".

ADDITIONAL INFORMATION

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com and www.chorusaviation.ca.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities and securities authorized for issuance under equity compensation plans is contained in the Corporation's management proxy circular for its 2016 annual meeting of Shareholders held on May 13, 2016 and will be contained in the Corporation's management proxy circular for its annual meeting of Shareholders to be held on May 12, 2017. Additional financial information is provided in the Corporation's Consolidated Financial Statements for the year ended December 31, 2016 and in the Corporation's 2016 MD&A.

The Corporation will, upon the delivery of a written request to the Corporate Secretary of the Corporation, at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia, B3B 1W8, provide to any person or entity, the documents specified below:

(a) when Chorus is in the course of a distribution of its securities under a short form prospectus, or has filed a preliminary short form prospectus in respect of a proposed distribution of its securities:
   i) one copy of the Corporation's latest AIF, together with one copy of any document or the pertinent pages of any document, incorporated therein by reference;
   ii) one copy of the consolidated audited financial statements of the Corporation for the most recently completed financial year for which financial statements have been filed, together with the auditors' report thereon, and one copy of any unaudited interim condensed consolidated financial statements of the Corporation for any period after its most recently completed financial year;
   iii) one copy of the Corporation's information circular in respect of its most recent annual meeting of Shareholders that involved the election of directors of the Corporation or one copy of any annual filing prepared instead of that information circular, as appropriate; and
   iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under subparagraphs (i) to (iii); or

(b) at any other time, the Corporation shall provide to any person or company one copy of any of the documents referred to in subparagraphs (a)(i), (ii) and (iii) above, provided that the Corporation may require the payment of a reasonable charge if the request is made by a person or company who is not a holder of the Corporation securities.

GLOSSARY OF TERMS

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

"**ACPA**" means the Air Canada Pilots Association;

"**Adjusted EBITDA**" means net income before net interest expense, income taxes, depreciation and amortization and other items such as asset impairment and foreign exchange gains or losses

"**AIF**" means this Annual Information Form;

"**Air Nostrum**" means Air Nostrum, Lineas Aereas Del Mediterraneo, S.A.;

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

"**Aviation GP**" means Aviation General Partner Inc., a corporation incorporated under the *Business Corporations Act (Ontario)* on November 18, 2010 to act as the general partner of Jazz Aviation LP;

"**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 returned to the wheels of the aircraft, divided by 60;

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

"**CALDA**" means the Canadian Air Line Dispatchers Association;

"**Cargo Services**" has the meaning given in the CPA;

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

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

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

"**Commuter Aircraft Leasing**" means Commuter Aircraft Leasing Limited, an indirect, wholly-owned subsidiary of Chorus Aviation Capital incorporated under the *Companies Act 2014* (Ireland) on November 1, 2016;

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

"**Convertible Units**" means the convertible debt units issuable by the Corporation 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 the Corporation at a price of $8.25 per Share.

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

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

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

"**CTA**" means the *Canada Transportation Act* and the regulations thereunder, as amended;

"**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;

"**EBITDAR**" means earnings before interest, lease rental payments, taxes, depreciation, amortization, other rent and restructuring costs;

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

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

"**Extended Hub Airport**" means collectively the Hub Airports and any airport located within 175 kilometres of the Hub Airports;

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

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

"**Flight Completion**" means the percentage of flights completed from flights originally scheduled;

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

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

"**Hub Airport**" means an airport bearing the International Air Transport Association code YVR, YYC, YEG, YYZ, YOW or YUL;

"**ICAO**" means the International Civil Aviation Organization;

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

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

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

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

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

"**Monthly Schedule**" has the meaning given in the CPA;

"**MD&A**" means management’s discussion and analysis of results of operations and financial condition of the Corporation;

"**Non-Compete Geographic Area**" has the meaning given in the CPA;

"**North Bay Leasing**" means North Bay Leasing Inc., a corporation incorporated under the *Canada Business Corporations Act* on April 9, 2015. North Bay Leasing is a subsidiary of Chorus Aviation Inc.;

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

"**Pass-through Cost**" means costs incurred directly by Jazz that are passed-through to Air Canada and fully reimbursed under the CPA;

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

"**Qualified Canadian**" means a "Canadian" as defined in the CTA;

"**Rate Setting Agreement**" means the agreements between Jazz and Air Canada to set rates for all annual periods commencing on and after January 1, 2015;

"**Scheduled Flights**" has the meaning given in the CPA;

"**Shareholder**" means a holder of Shares;

"**Shares**" mean common shares the Corporation, which includes Variable Voting Shares and Voting Shares;

"**Spare Engine**" means any spare engine used to support a Covered Aircraft;

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

"**U.S.**" means the United States of America;

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

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

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

"**Voyageur Aviation**" means Voyageur Aviation Corp., the successor by amalgamation to 519222 Ontario Limited, Hangar 6 Inc. and Voyager Airport Services Inc. under the *Business Corporations Act* (Ontario) on December 31, 2015;

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

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

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

SCHEDULE "A"

Note to Reader:
The charter below was in effect as at December 31, 2016. A current version of the charter is available on the Corporation's website at www.chorusaviation.ca.

CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE (the "Committee")

OF THE BOARD OF DIRECTORS OF CHORUS AVIATION INC. (the "Corporation")

1. Purpose

The primary purpose of the Committee is to assist the board of directors of the Corporation (the "Board") in fulfilling applicable public Corporation obligations respecting audit committees and to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting.

2. Composition and Qualification

(a) The Committee shall consist of three (3) or more directors as determined by the Board, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations.

(b) The members of the Committee shall be appointed by the Board to hold office from the time of their appointment until the next annual general meeting of the shareholders or until their successors are appointed. Unless a Chair is appointed by the Board, the members of the Committee may designate a Chair by a majority vote of all the Committee members. The Board may fill vacancies on the Committee by appointing another director to the Committee. The Board shall fill any vacancy if the membership of the Committee is less than three directors. Whenever there is a vacancy on the Committee, the remaining members may exercise all its power.

(c) The members of the Committee shall have no relationships with management, the Corporation, and its related entities that in the opinion of the Board may interfere with their independence. In addition, a Committee member shall not receive, other than for service on the Board or the Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation or any of its related parties or subsidiaries. The members of the Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Committee and in particular each member of the Committee shall be "financially literate".

(d) The Committee may invite, from time to time, such person as it may see fit to attend its meeting and to take part in discussion and consideration of the affairs of the Committee. However, any such persons invited may not vote at any meeting of the Committee.

(e) The Committee shall meet periodically, and more often as warranted, with the Chief Executive Officer to discuss any matters that the Committee or either of these individuals believes should be discussed privately. However, the Committee shall also meet periodically without management present.

(f) The Board, may, at any time, remove any member of the Committee at its discretion and may accept the resignation of any member of the Committee.

3. Meetings and Procedure

(a) The Committee shall meet at least quarterly, or more frequently as circumstances dictate. Such meetings may be held by telephone or by any other mean which enables all participants to communicate with each other simultaneously.

(b) The Committee may fix its own procedure at meetings and for the calling of meetings except as may be otherwise provided by the Board.

(c) A quorum for the transaction of business at a Committee meeting shall be a majority of the Committee members. All decisions and recommendations made by the Committee shall be made by a majority vote of the members present at the meeting.

(d) The Committee shall have the authority to delegate any of its responsibilities to individual members and subcommittees as the Committee may deem appropriate in its sole discretion.

(e) Notice of meetings shall be given by letter, facsimile, email or telephone not less than 24 hours before the time fixed for the meeting. Notice of meetings shall state the date, the place and the hour at which such meetings will be held. Members may waive notice of any meeting.

(f) An "in-camera" session of the members of the Committee shall be held as part of each meeting of the Committee.

(g) The minutes of the Committee meetings shall accurately record the significant discussions of, and decisions made by, the Committee, including all recommendations to be made by the Committee to the Board and shall be distributed to Committee members as well as to all the directors of the Corporation, with copies to the Chief Executive Officer of the Corporation.

(h) The Committee, through its Chairman, shall report to the Board on all proceedings and deliberations of the Committee at the first subsequent meeting of the Board, and at such other times and in such manner as the Board may require or as the Committee in its discretion may consider advisable.

(i) The Committee shall meet periodically in separate executive sessions with management (including the Chief Financial Officer) and the independent auditor, and have such other direct and independent interaction with such persons from time to time as the members of the Committee deem appropriate. The Committee may request any officer or employee of the Corporation or the Corporation’s outside counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The independent auditors will have direct access to the Committee at their own initiative.

(j) Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Corporation from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by management and the external auditors as to any information technology, internal audit and other non-audit services provided by the external auditors to the Corporation and its subsidiaries.

4. Objectives

(a) The objectives of the Committee are as follows:

  (i) To assist the Board in the discharge of its responsibility to monitor the Corporation’s financial reporting and audit process.

  (ii) To maintain and enhance the quality, credibility and objectivity of the Corporation’s financial reporting and to satisfy itself and oversee management’s responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.

  (iii) To assist the Board in its oversight of the independence, qualifications and appointment of the external auditor.

  (iv) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.

(v) To provide independent communication between the Board and the internal auditor and the external auditor.

(vi) To facilitate in-depth and candid discussions between the Committee and management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

5. Duties

To achieve its objectives, the Committee shall:

(a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include, prior to their release, a review of the audited and unaudited annual and quarterly financial statements and related notes and Management's Discussion and Analyses ("MD&As") to be filed with regulatory authorities and provided to shareholders, and financial statements and other financial disclosure included in prospectuses, information circulars, earnings press releases and other similar documents. The Committee shall also review the annual information form and other similar documents. These reviews will include:

(i) discussions with management and, where applicable, the external auditor and a consideration of the report by the external auditor to the Committee of matters related to the conduct of an audit;

(ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case maybe, of the accounting policies adopted by the Corporation, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;

(iii) a review of significant adjustments arising from an audit;

(iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements and the adequacy of the management's responses in correcting audit related deficiencies;

(v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Corporation including their disclosure or lack thereof in the applicable quarterly or annual financial statements;

(vi) a review of the external auditor's suggestions for improvements to the Corporation's operations and internal controls;

(vii) a review of the nature and size of unadjusted errors of a non-trivial amount;

(viii) a review with management of the results of external audits;

(ix) a review to ascertain that various covenants are complied with;

(x) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes; and

(xi) taking such other reasonable steps as it may deem necessary to satisfy itself that the audit was conducted in a manner consistent with all applicable legal requirements and auditing standards of applicable professional or regulatory bodies.

(b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such audited or unaudited annual or quarterly financial statements, MD&A, and the financial disclosure in any such annual information forms, earnings press releases, prospectuses, information circulars and other similar documents.

(c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Corporation's quarterly financial statements and related MD&A.

(d) Review with management, the external auditor and legal counsel, the Corporation's procedures to ensure compliance with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements.

(e) Meet with the external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department.

(f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre-approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Committee. The Corporation shall ensure that funding is available to the Committee for payment of compensation to the external auditor.

(g) Review and pre-approve, or delegate to a member of the Committee the responsibility to review and approve and subsequently report to the Committee, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the external auditor prior to the commencement of such work. In this regard the Committee will prepare a report for presentation to the shareholders of the Corporation, as required by applicable law, regarding the Committee's policies and procedures for the approval of such non-audit services in the period, and implement from time to time a process in connection with non-audit services performed by the external auditor.

(h) Review annually the objectivity and independence of the external auditors. Request and review a report from the external auditor of all relationships or services involving the external auditor, the Corporation and their respective related entities, including all work performed and fees paid for such work of a non-audit nature, that may reasonably be perceived to bear on its objectivity and independence and confirming, or otherwise, that the external auditor is independent and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations. As well, at least once annually the Committee will carry out a review of the credentials of the members of the firm including without limitation the biographies of the members, whether there has been any enforcement actions, issues related to the firm and law suits, if any. A formal written report will be obtained from the external auditor outlining: the auditing firm's internal quality control procedures; any material issues raised within the preceding five years by the auditing firm's internal quality control review, peer reviews or any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm. The Committee will also review steps taken by the auditing firm to address any findings in any of the forgoing reviews.

(i) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to ensure that such matters are adequately guarded against.

(j) At least once each year:

(i) Meet privately with management to assess the performance of the external auditor.

(ii) Meet privately with the external auditor, among other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.

(k) Ensure that external auditors are accountable to the Committee and the Board and shall report directly to the Committee and the Committee shall so instruct the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Corporation to be proposed in the Corporation's proxy circular for shareholder approval and shall have authority to terminate the external auditors. If a change in external auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire on the qualifications of the proposed auditors before making its recommendation to the Board. The Committee shall recommend to the Board the amount of the compensation to be paid to the external auditors.

(l) Regarding the services provided by the internal audit department, the Committee will:

(i) meet privately with internal audit, among other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work. The head of the internal audit function shall have unrestricted access to the Committee;

(ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit department;

(iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff;

(iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;

(v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and

(vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.

(m) Obtain from both the internal audit department and the external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.

(n) As the Committee deems necessary, oversee, review and discuss with management, the external auditors and the internal auditors:

(i) the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon management and general audit approach and scope of proposed audits of the financial statements of the Corporation and its subsidiaries, the overall audit plans, the responsibilities of management and the external auditors, the audit procedures to be used and the timing and estimated budgets of the audits.

(ii) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices including such changes recommended by management or the external auditors or which may result from proposed changes to applicable generally accepted accounting principles;

(iii) the adequacy and effectiveness of the Corporation's internal accounting and financial controls and the recommendations of management and the external auditors for the improvement of accounting practices and internal controls, any material weaknesses in the internal control environment;

(iv) all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects of alternative methods within generally accepted accounting principles on the financial statements;

(v) any reserves, accruals, provisions, estimates or management programs and policies;

(vi) the use of special purpose entities and the business purpose and economic effect of off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Corporation and their impact on the reported financial results of the Corporation;

(vii) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles; and

(viii) management's determination of goodwill impairment, if any, as required by applicable accounting standards.

(o) Review policies and procedures for the receipt, retention and treatment of complaints received by the Corporation from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal controls and internal or external auditing matters. The Committee should be satisfied that sufficient controls are in place to ensure that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in place. The Committee should also be satisfied that processes are in place to ensure that all such complaints, regardless of significance, are presented to the Committee.

(p) Review policies for approval of senior management expenses.

(q) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.

(r) Review with management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.

(s) Review and approve all related party transactions as such term is defined from time to time in Multilateral Instrument 61-101 - *Take-over Bids and Special Transactions*, as may be amended from time to time.

(t) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.

(u) Whenever the Committee considers it appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Committee. The Corporation shall ensure that funding is available to the Committee in respect of the aforementioned activities.

(v) Report regularly to the Board in writing on the activities, findings and conclusions of the Committee.

(w) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner.

(x) Establish and monitor clear policies for the hiring by the Corporation of employees or former employees of the external auditors.

6. Other

(a) Pension Plans

In relation to the Corporation's pension plans, the Committee shall:

(i) On recommendation of the Chief Financial Officer, approve the investment structure for the plans, any applicable Statement of Investment Policies and Procedures ("SIPP") and other investment policies for the plans;

(ii) With the assistance of the Chief Financial Officer, periodically review for appropriateness the funding policy, SIPP, other investment policies and investment structure, and monitor overall pension funds operation, in particular plans funded status, compliance of funding practices with funding policy, and compliance of investments with the SIPP;

(iii) With the assistance of the Chief Financial Officer, periodically review and monitor the total and asset class returns for the defined benefit pension plan and the investment matters relating to the defined contribution plans:

(iv) Recommend to the Board for its approval the funding policy, the level of annual contributions, the appointment of the external auditor and the trustees/custodians of the assets of the pension plans;

(v) Approve the actuary and consultant recommended by the pension committee;

(vi) On recommendation of the pension committee, accept the actuarial assumptions and actuarial valuation reports for the pension plans; and

(vii) Approve the annual audited financial statements for the pension plans.

(b) Public Disclosure

(i) Review and approve the Public Disclosure Policy and any changes related thereto and ensure consistency with current developments and best practices.

(ii) Where practicable, management will review with the Committee or the Chair of the Committee draft news releases to be disseminated to the public related to earnings warnings or financial results forecasting which are expected by management to be material in relation to the market price of any of the Corporation's securities.

(c) Risk Identification and Management

The Committee shall make all reasonable efforts to identify and address material financial and other risks to the business and affairs of the Corporation and its subsidiaries and make recommendations in that regard to the Board. The Committee shall review and discuss with management, the internal audit department and the external auditor all major financial risk exposures and the steps management has taken to monitor/control those exposures. The Committee shall be entitled, from time to time, to retain experts and consultants to assist the Committee with the discharge of such mandate. The Committee shall have the discretion in the discharge of these duties to address risks to the Corporation's and its subsidiaries' revenues and costs, as well as potentially corrupt or other practices that may lead to loss or depreciation of business reputation.

(d) Contingent Liabilities

The Committee shall establish processes and procedures to identify and monitor contingent liabilities of the Corporation and its subsidiaries. In the discharge of these duties, the Committee shall have the discretion to retain experts and consultants and to review, without limitation, workplace safety, environmental issues and any other matters, whether of a financial nature or otherwise, that can give rise to a contingent liability. The Committee shall make recommendations, from time to time, to the Board on these matters.

(e) Corporate Authorizations Policies

(i) Periodically review and approve policies relative to the financial control, conduct, regulation and administration of subsidiary companies;

(ii) Periodically review any administrative resolutions adopted from time to time pertaining to the establishment of procedures relative to commitment and transaction authorizations, the determination of the officers or other persons by whom any instrument in writing or document is to be executed and the manner of execution thereof;

(iii) Review, monitor and approve the Donations Policy, if applicable, and any changes thereto and the annual Donations Budget; and

(iv) Review, monitor and approve any other financial expenditure policies that would affect the Corporation's and its subsidiaries' financial condition or reputation.

(f) Performance to Budget, Actuarial Valuation

(i) Review actual financial performance compared to budget;

(ii) Review and approve the actuarial valuation and related assumptions and recommend to the Board the funding contribution to the Corporation's pension funds as required;

(iii) Review and approve the appointment of the actuary; and

(iv) Monitor that all contributions, deductions, withholdings, remittances or other payments of any kind under applicable law have been made.

(g) Responsibilities

Nothing contained in the above mandate is intended to assign to the Committee the Board's responsibility to ensure the Corporation's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Committee. Even though the Committee has a specific mandate and its members have financial experience and expertise, it is not the duty of the Committee to plan or conduct audits, or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditor and the external auditor.

(h) Other Responsibilities

The Committee shall review and reassess the adequacy of this Charter at least annually and otherwise as it deems appropriate and recommend changes to the Board. The performance of the Committee shall be evaluated with reference to this Charter annually.

The Committee shall ensure that this Charter or a summary of it which has been approved by the Committee is disclosed in accordance with all applicable securities laws or regulatory requirements.