chorus
aviation inc.

Delivering regional aviation to the world

Chorus Aviation Inc.

Annual Information Form

February 21, 2019

chorus aviation inc.

TABLE OF CONTENTS

EXPLANATORY NOTES

The information in this AIF is stated as at December 31, 2018, 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.

Caution regarding 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 referenced 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; failure to close pending aircraft acquisitions or lease commitments relating to future aircraft deliveries; risks relating to the airline industry (including the international operation of aircraft in developing countries and areas of unrest); aircraft leasing (including the financial condition of lessees, availability of aircraft, access to capital, fluctuations in aircraft market values, competition and political risks); the failure of Chorus or any other party to satisfy conditions precedent to the closing of transactions that are announced prior to their completion; energy prices, general industry, market, credit, and economic conditions (including a severe and prolonged economic downturn which could result in reduced payments under the CPA); increased competition affecting Chorus and/or Air Canada; insurance issues and costs; supply issues and costs; the risk of war, terrorist attacks, aircraft incidents and accidents; fraud, cybersecurity attacks or other criminal behaviour by internal or external parties; epidemic diseases, environmental factors or acts of God; changes in demand due to the seasonal nature of Chorus' business or general economic conditions; the ability to reduce operating costs and employee counts; the ability of Chorus to secure financing or refinance existing indebtedness or assets; the ability of Chorus to attract and retain the talent required for its existing operations and future growth; the ability of Chorus to remain in good standing under and to renew and/or replace the CPA and other important contracts; employee relations, labour negotiations or disputes; pension issues and costs; currency exchange and interest rates; debt leverage and restrictive covenants contained in debt facilities; future changes (if any) to Chorus’ dividend policy; managing growth; changes in laws; adverse regulatory developments or proceedings in countries in which Chorus and its subsidiaries operate or will operate; pending and future litigation and actions by third parties; the risks referred to in 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 "The Chorus Business", "Chorus Business Segments – Regional Aviation Services", "Chorus Business Segments – Regional Aircraft Leasing" and "Capital Structure". The forward-looking information contained in this AIF represents Chorus' expectations as of February 21, 2019 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

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

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

The Corporation's Restated Articles of Incorporation and Second Amended and Restated By-Law No. 1 are available on Chorus' website at www.chorusaviation.ca and on SEDAR at www.sedar.com. The articles were most recently amended on May 12, 2017 to delete a restriction on the transfer of the Corporation's securities and were subsequently restated on September 25, 2017. The by-laws were most recently amended and restated on March 20, 2017 (and subsequently ratified and confirmed by Shareholders on May 12, 2017) to permit the electronic payment of dividends by direct deposit to the Corporation's registered Shareholders.

Additional information regarding Chorus' corporate structure is provided in the consolidated financial statements for the year ended December 31, 2018 and the 2018 MD&A dated February 21, 2019, 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 the Corporation's principal subsidiaries, where they are incorporated or registered, and the percentage of shares or units of such subsidiaries that the Corporation directly or indirectly beneficially owns or exercises control or direction over. Chorus has other subsidiaries, but none of them individually exceeds 10% of Chorus' total consolidated assets or total consolidated operating revenues for the year ended December 31, 2018. Furthermore, these other subsidiaries together do not exceed 20% of Chorus' total consolidated assets or total consolidated operating revenues for the year ended December 31, 2018.

Subsidiary	Jurisdiction of Incorporation or Registration	Percentage of shares or units directly or indirectly held by Chorus at February 21, 2019
Entities in Regional Aircraft Leasing Segment		
Bloom Aircraft Leasing Limited *	Ireland	100%
Chorus Aviation Capital Corp.	Canada	100%
Chorus Aviation Capital (Ireland) Limited	Ireland	100%
Chorus Aviation Capital (U.K.) Limited	England and Wales	100%
Chorus Aviation Capital (USA), Inc.	Delaware, USA	100%

Subsidiary	Jurisdiction of Incorporation or Registration	Percentage of shares or units directly or indirectly held by Chorus at February 21, 2019
Chorus Aviation Capital (Singapore) Pte. Ltd.	Singapore	100%
Chorus Aviation Leasing Inc.	Canada	100%
Chorus (Tianjin) Aviation Finance Lease Co., Ltd.	China	100%
Commuter Aircraft Leasing Limited*	Ireland	100%
Commuter Aircraft Leasing 2017 I Limited*	Ireland	100%
Commuter Aircraft Leasing 2017 II Limited*	United Kingdom	100%
Commuter Aircraft Leasing 2017 III Limited*	Ireland	100%
Commuter Aircraft Leasing 2017 IV Limited*	Ireland	100%
Commuter Aircraft Leasing 2017 V Limited*	Ireland	100%
Commuter Aircraft Leasing 2017 VI Limited*	Ireland	100%
Commuter Aircraft Leasing 2017 VII Limited*	Ireland	100%
Commuter Aircraft Leasing 2017 VIII Limited*	Ireland	100%
Dedalus Q400 Leasing Limited*	Ireland	100%
Galway Aircraft Leasing Limited*	Ireland	100%
Kerry ATR72 Leasing Limited*	Ireland	100%
Q400 Aviation Company III Ltd.*	British Virgin Islands	100%
Q400 Aviation Company IV Ltd.*	British Virgin Islands	100%
Q400 Aviation Company V Ltd.*	British Virgin Islands	100%
Entities in Regional Aviation Services Segment		
Jazz Aviation LP**	Ontario	100%
Jazz Leasing Inc.*	Canada	100%
Voyageur Aviation Corp.	Ontario	100%

* Special purpose entities formed to hold the legal or beneficial interest in aircraft and/or aircraft leases.
** Limited partnership. General partner is Aviation General Partner Inc. which is 100% owned by Chorus.

THE CHORUS BUSINESS

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

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

Chorus groups these businesses into two reporting segments:

(1) **Regional Aviation Services**: this segment includes all three sectors of the regional aviation industry in which Chorus currently operates:
   i) Contract flying operations: Jazz operates scheduled services pursuant to the CPA with Air Canada (see below for further discussion), 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 provides specialized contract flying, such as medical, logistical and humanitarian flights, to international and Canadian customers.
   ii) Aircraft leasing under the CPA: Jazz currently earns leasing revenue under the CPA from 34 Q400s, five CRJ900s, eight Dash 8-300s and five PW150 engines, and as a result of the 2019 CPA Amendments, is expected to grow by a further nine CRJ900s in 2020. The 2019 CPA Amendments also contemplate that Chorus will acquire five additional 75-78 seat aircraft for operation by Jazz under the CPA in 2025 (for additional information, please see "Chorus Business Segments – Regional Aviation Services – Contract Flying – Capacity Purchase Agreement with Air Canada"). Voyageur also earns some revenue from aircraft leasing.
   iii) Maintenance, repair and overhaul (MRO), part sales and technical services: Jazz through its Jazz Technical Services division provides 24/7 MRO services and is certified on Bombardier products as well as Embraer 135 and 145 aircraft. Voyageur provides specialty, customized MRO services on Bombardier products and is Transport Canada, FAA and EASA certified. Capabilities include technical advisory support as well as aircraft part out and part sales.

(2) **Regional Aircraft Leasing**: this segment consists of aircraft leasing by Chorus Aviation Capital to lessees who are not affiliated with Chorus. CAC's portfolio of leased aircraft, inclusive of nine transactions pending completion, consists of 40 aircraft comprising 13 ATR 72-600s, 15 Q400s, four CRJ1000s, two CRJ900s, four E190 and two E195s.

Three-Year History

This section contains forward-looking statements. Please refer to the caution regarding forward-looking statements included in the section of this AIF titled "Explanatory Notes".

2018 (including subsequent events up to and including February 21, 2019)

On February 1, 2018, the Corporation implemented a Dividend Reinvestment Plan (the "**DRIP**") which provides Shareholders who are resident in Canada the opportunity to purchase additional Shares using cash dividends paid on Shares enrolled in the DRIP. (see "Dividend Record - Dividend Reinvestment Plan").

On February 7, 2018, Chorus announced that Jazz's Airport Services employees ratified a tentative agreement reached on January 9, 2018. The term of the collective agreement expires in January 2022.

On February 9, 2018, Chorus announced that Voyageur Aviation was undertaking an extensive redevelopment of its specialized maintenance, repair and overhaul facilities in North Bay with the support of funding from the Northern

Ontario Heritage Fund Corporation. Voyageur has invested this funding in facility improvements, new equipment and technology and personnel training.

In March 2018, the Corporation raised gross proceeds of $112.0 million through a public offering of Shares, the majority of which was raised to fund the growth of Chorus Aviation Capital, Chorus' aircraft leasing business, including the acquisition of aircraft intended for or currently on lease to third parties, as well as for working capital requirements and other general corporate purposes. A copy of the short form prospectus for the offering is available on SEDAR at www.sedar.com.

On April 23, 2018, Jazz was Bombardier's North American recipient of its 2017 Airline Reliability Performance Awards in two categories: CRJ100/200 aircraft programs for North America; and, CRJ700/900/1000 aircraft programs for North America. Jazz has been the recipient of Bombardier's reliability awards for five consecutive years.

On September 25, 2018, Chorus announced that Jazz Technical Services, the MRO division of Jazz, received Transport Canada certification to perform airframe heavy maintenance on Embraer 135 and 145 regional aircraft.

On September 26, 2018, Chorus announced that Jazz Technical Services was awarded a contract for heavy maintenance work for airBaltic of Latvia. Under the terms of the agreement, Jazz Technical Services will provide airframe maintenance in support of airBaltic's 12 Q400 aircraft at Jazz's facility in Halifax, Nova Scotia.

On September 27, 2018, Chorus announced that Voyageur, through its Voyageur Avparts division, had expanded its product offerings with the acquisition of a Q400 aircraft. This expanded Voyageur's parts offering beyond Dash 8-100, Dash 8-300 and CRJ200 inventory.

On November 28, 2018, Chorus provided an overview of its proposed format for segmented financial reporting. On December 21, 2018, Chorus filed Supplement Segment Reporting Transition Information for Q1 and Q2 2018. Chorus' reportable business segments are: Regional Aviation Services, and Regional Aircraft Leasing.

As of December 31, 2018, Jazz Technical Services, the MRO division of Jazz, successfully completed the ESP on an additional four Dash 8-300 aircraft, bringing the total to eight aircraft completed since the launch of the ESP in 2017. Chorus is the launch customer for the Dash 8-300 ESP, the first of its kind for this aircraft type. As each ESP is completed on an aircraft, Chorus starts to earn lease revenue on that aircraft under the CPA.

As of December 31, 2018, Chorus Aviation Capital grew its portfolio of aircraft to 34 with the following additions occurring over the course of 2018 (inclusive of five transactions pending completion):

- One ATR72-600 aircraft leased to Azul Airlines;
- Two CRJ900 aircraft leased to CityJet;
- One Q400 aircraft leased to Ethiopian Airlines;
- Two Q400 aircraft leased to Jambojet;
- Four ATR72-600 aircraft leased to the Lion Air Group; and
- Three Q400 aircraft leased to Philippine Airlines.

On January 1, 2019, Voyageur Aviation Corp., Voyageur Aerotech Inc., Voyageur Airways Limited, Voyageur Avparts Inc., North Bay Leasing Inc. and Chorus Aviation Holdings II Inc. were amalgamated under the *Business Corporations Act* (Ontario) as "Voyageur Aviation Corp.". Voyageur continues to use "Voyageur Airways", "Voyageur Aerotech" and "Voyageur Avparts" as registered business names in conducting its ACMI, MRO and aircraft parts supply businesses, respectively.

On January 14, 2019, Chorus announced that it had reached an agreement with Air Canada to amend the CPA and extend its term for an additional 10 years ending December 31, 2035 (the "**2019 CPA Amendments**"). The 2019 CPA Amendments were subject to certain material conditions precedent to closing, including the ratification of amendments to the collective agreement tentatively agreed between Jazz and its pilots, as represented by ALPA. Chorus also announced that Air Canada would make a $97.26 million equity investment in the Corporation, which was expected to result in Air Canada holding approximately 9.99% of the Corporation's issued and outstanding shares (the "**Air Canada Investment**"). Copies of the Corporation's Material Change Reports dated January 24, 2019 and February 13, 2019 describing the foregoing transactions in further detail are available on SEDAR at www.sedar.com and are deemed incorporated into this AIF by reference.

On January 21, 2019, Chorus announced that its subsidiary, Chorus Aviation Capital (Ireland) Limited, secured a US $300.0 million committed, revolving credit facility to be used to finance future aircraft acquisitions for its regional aircraft leasing business.

On January 31, 2019, Chorus announced that Jazz's pilots, represented by ALPA, had ratified the amendments to the collective agreement referenced in Chorus' announcement dated January 14, 2019.

On February 4, 2019, the Air Canada Investment was completed (resulting in the issuance of 15,561,600 Voting Shares to Air Canada for gross proceeds of $97.26 million), the Corporation and Air Canada entered into an investor rights agreement (the "**Investor Rights Agreement**"), and the 2019 CPA Amendments became effective on a retroactive basis to January 1, 2019.

Under the terms of the Investor Rights Agreement:

- Air Canada has the right to nominate one (1) director to the Corporation's board of directors so long as Air Canada holds at least 8.0% (subject to certain adjustments) of the Corporation's issued and outstanding Shares. Air Canada's initial nominee is Michael Rousseau, Air Canada's Deputy Chief Executive Officer and Chief Financial Officer.
- Subject to certain limited exceptions, Air Canada commits to the following until February 4, 2024: (i) not dispose of its Class B Voting Shares in the Corporation (save to maintain its holdings under 10% of all issued and outstanding Shares); (ii) enroll 100% of its Class B Voting Shares in the Corporation's dividend reinvestment plan; and (iii) comply with certain customary standstill provisions in favour of the Corporation.
- Air Canada has pro rata pre-emptive rights in respect of the issuance by the Corporation of additional Shares (subject to certain limited exceptions).
- Air Canada has customary demand and piggy-back registration rights so long as it holds at least 5% of all issued and outstanding Shares.

Copies of the term sheet setting out the 2019 CPA Amendments, the subscription agreement in respect of the Air Canada Investment, and the Investor Rights Agreement are all available on SEDAR at www.sedar.com.

On February 6, 2019, Chorus announced it had entered into a firm purchase agreement with Bombardier to acquire nine new CRJ900 aircraft. These aircraft are expected to be delivered in 2020 and will be operated by Jazz under the CPA.

On February 21, 2019, Chorus announced it had entered into an agreement to acquire two ATR72-600s on lease to Azul of Brazil, and four Q400s on lease to two other existing customers of Chorus Aviation Capital. The acquisition of the aircraft on lease to Azul was complete at the time of the announcement with the remaining acquisitions of the aircraft on lease to the other two lessees to be completed in the first quarter of 2019 subject to the satisfaction of customary conditions precedent.

2017

On January 4, 2017, Chorus Aviation Holdings Inc. was renamed Chorus Aviation Capital Corp., marking the official launch of Chorus' leasing business under the "Chorus Aviation Capital" brand.

On March 6, 2017, Chorus announced that it had issued the first tranche of Convertible Units to Fairfax (as defined below) further to its announcement dated December 19, 2016. On March 31, 2017, Chorus announced that it had issued the remaining Convertible Units to Fairfax (see "Capital Structure – Convertible Units").

On April 20, 2017, Voyageur unveiled a Dash 8-100 package freighter conversion aircraft. Two of these aircraft were leased to a third party.

On May 17, 2017, Chorus announced that Jazz had been recognized for achieving superior reliability performance in 2016 at Bombardier's annual award ceremony for commercial aircraft operators held in Munich, Germany on May 16, 2017. For the fourth consecutive year, Jazz earned the distinction of receiving the highest number of awards at this ceremony.

On June 20, 2017, Chorus announced that Jazz had signed a five-year agreement with Bombardier Commercial Aircraft to become an Authorized Service Facility. Under the terms of the agreement, Jazz was designated as a Bombardier-authorized provider of MRO services from its maintenance facility located at the Halifax Stanfield International Airport in Halifax, Nova Scotia, on the following regional aircraft types: Bombardier CRJ100, CRJ200; Bombardier CRJ700, CRJ900 and CRJ1000; Bombardier Q100, Q200, Q300; and, Bombardier Q400.

On June 21, 2017, Chorus announced that Jazz Technical Services, the MRO division of Jazz, had successfully completed the ESP on the first of 19 Dash 8-300 aircraft. Chorus is the launch customer for Bombardier's Dash 8-300 ESP, the first of its kind for this aircraft type. The ESP extends the service life of Jazz's Dash 8-300 aircraft by 50 percent, or approximately 15 years. Jazz completed the ESP on a total of four Dash 8-300s in 2017.

On August 30, 2017, Chorus announced that it had entered into a three-year committed operating credit facility. The facility provides Chorus and certain designated subsidiaries with a committed limit of up to $50.0 million with the opportunity to borrow up to a further $25.0 million on a demand basis, subject in each case to a borrowing base calculation based principally on the value of eligible accounts receivable, inventory and equipment. This facility replaced $40.0 million in demand operating credit facilities previously held by certain of the Corporation's subsidiaries.

On December 11, 2017, Chorus announced that it would be added to the S&P/TSX Composite Index prior to the opening of trading on December 18, 2017.

In 2017, Jazz took delivery of five new CRJ900s and introduced five additional Q400s to its fleet.

As at December 31, 2017, approximately one year after its launch, Chorus Aviation Capital had completed the acquisition of the following 21 aircraft with an average age of less than three years:

- Four CRJ1000s on lease to Air Nostrum;
- Three ATR 72-600 aircraft on lease to Flybe;
- Three ATR 72-600 aircraft on lease to Virgin Australia;
- Three Bombardier Q400s leased to Falcon Aviation Services;
- Three Embraer 190's on lease to Aeromexico Connect;
- One Embraer 190 on lease to KLM Cityhopper;
- Two Embraer 195's leased to Azul Brazilian Airlines; and
- Two Q400 aircraft leased to Ethiopian Airlines.

2016

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. 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 entered into an agreement with EDC to provide a financing facility up to US$50.0 million. This facility allowed Chorus to finance previously acquired aircraft, including Dash 8-100s, Dash 8-300s, King Air 200s, and CRJ200s, none of which are Covered Aircraft.

On May 3, 2016, Jazz announced the establishment of Jazz Technical Services as a division of Jazz focused on MRO services and concurrently announced a five-year agreement to provide MRO services for Air Georgian's fleet of CRJ100 and CRJ200 aircraft.

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 intended 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, 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 November 17, 2016, Chorus completed the first major transaction in its aircraft leasing business by acquiring a CRJ1000 and placing it on lease with Air Nostrum. This was the first of four CRJ1000s ultimately placed on lease with Air Nostrum.

On December 6, 2016, Jazz Technical Services announced a two-year agreement to provide MRO services to CommutAir, a United Express carrier, in support of 15 of their 21 Dash 8-200 and Dash 8-300 aircraft.

On December 19, 2016, Chorus announced that it was establishing a new regional aircraft leasing subsidiary under the name "Chorus Aviation Capital" and that it had entered into an agreement pursuant to which 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 (see "Capital Structure – Convertible Units").

On December 29, 2016, Chorus acquired five CRJ900s for operation as Covered Aircraft under the CPA.

Chorus' Strategy

Chorus' business was founded on the CPA, a contract pursuant to which Jazz provides substantially all of its capacity to Air Canada and operates regional airline services under the Air Canada Express brand. The CPA was most recently amended and extended effective January 1, 2019 and has a term expiring on December 31, 2035. Chorus currently provides approximately 70% of the Air Canada Express network capacity. For further information, refer to "Chorus Business Segments – Regional Aviation Services – Contract Flying - Capacity Purchase Agreement with Air Canada".

Chorus is committed to delivering a cost-effective service of superior quality to Air Canada and believes that its improving cost competitiveness, significant relevance to the Air Canada network, its increasing number of owned aircraft operating under the CPA, and the stability of its pilot labour force and the pilot mobility program are all factors that continue to strengthen the value proposition of its offering to Air Canada.

In 2011, Chorus began earning aircraft leasing revenue by purchasing aircraft for operation and lease by Jazz under the CPA. This portfolio has grown to 34 Q400s, five CRJ900s, eight Dash 8-300s and five PW150 engines, and as a result of the 2019 CPA Amendments, is expected to grow by a further nine CRJ900 aircraft by the end of 2020. The 2019 CPA Amendments also contemplate that Chorus will lease the next five 75-78 seat aircraft for operation by Jazz under the CPA. In addition, Chorus will complete an additional 11 Dash 8-300 ESPs by 2022 that will also earn aircraft leasing revenue. (Please refer to the caution regarding forward-looking statements included in the section of this AIF titled "Explanatory Notes".)

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

In 2017, Chorus launched its new regional aircraft leasing business, Chorus Aviation Capital, with the support of a $200.0 million investment in the Corporation from Fairfax (see "Capital Structure – Convertible Units"). In 2018, the Corporation raised further gross proceeds of $112.0 million through a public offering of Shares. On February 4, 2019, the Air Canada Investment was completed, providing further gross proceeds of $97.26 million, approximately 60% of which will be used to acquire the nine new CRJ900s and the remaining 40% of which will be used to invest in Chorus Aviation Capital's leasing business.

Chorus is focused on growing its leasing business because:

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

Since its establishment in early 2017, Chorus Aviation Capital has grown its portfolio to 40 aircraft on lease to 12 customers (inclusive of nine transactions pending completion). When the aircraft owned and operated by Chorus under the CPA are added, Chorus' total portfolio of leased aircraft grows to 87. Chorus continues to see significant opportunity to grow its leasing business and intends to continue investing in its future growth.

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

Segment Revenues

The revenues reported for each of the Corporation's two reportable business segments (Regional Aviation Services and Regional Aircraft Leasing) for the years ended December 31, 2018 and December 31, 2017 are as follows:

	For the Year Ended December 31, 2018			For the Year Ended December 31, 2017		
	Regional Aviation Services	Regional Aircraft Leasing	Consolidated	Regional Aviation Services	Regional Aircraft Leasing	Consolidated
Revenue ($000's)	1,371,354	79,840	1,451,194	1,322,816	29,384	1,352,200

CHORUS BUSINESS SEGMENTS – REGIONAL AVIATION SERVICES

The Regional Aviation Services segment includes contract flying (including ACMI and charter operations) and MRO services (including parts sales and technical services) that are carried on by Jazz and Voyageur. Aircraft leasing under the CPA is also included in the Regional Aviation Services segment.

Contract Flying

Capacity Purchase Agreement with Air Canada

Overview

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

Jazz's operations provide a significant part of Air Canada's domestic and transborder network under the Air Canada Express brand. Under the CPA, Jazz provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada and to and from certain destinations in the U.S. As at December 31, 2018, Jazz operated scheduled passenger service on behalf of Air Canada with approximately 694 departures per weekday to 60 destinations in Canada and 18 destinations in the United States. 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.

As Chorus derives a majority of its revenue from the CPA, it is substantially dependent on the CPA. (refer to "Risk Factors" for a description of the risks relating to Chorus' relationship with Air Canada).

Aircraft Fleet Under the CPA

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

Revenues and Costs Under the CPA

Jazz earns revenue under the CPA from five sources:

1) Fixed Margin
2) Performance Incentives
3) Controllable Revenue
4) Pass-Through Revenue
5) Aircraft Leasing under the CPA

Jazz incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

In 2018, Chorus derived approximately 88% of its revenue from the CPA (90% in 2017); however, approximately 71% of Chorus' consolidated revenue in 2018 was attributable to Pass-Through Revenue and Controllable Revenue.

Fixed Margin

Jazz earns a Fixed Margin which is set for 2019 and 2020 as an aggregate amount irrespective of the number of Covered Aircraft and thereafter based on the number of Covered Aircraft operated by Jazz under the CPA. As a result of the 2019 CPA Amendments, the Fixed Margin per Covered Aircraft was reduced and restructured as described in the preceding sentence, and the Infrastructure Fee per Covered Aircraft was eliminated, both with effect on January 1, 2019. (Please refer to the caution regarding forward-looking statements included in the section of this AIF titled "Explanatory Notes".)

Performance Incentives

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

Pass-Through Revenue

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

Controllable Revenue

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

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

Aircraft Leasing under the CPA

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

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

Chorus has contracted lease revenue under the CPA totaling approximately $1.6 billion, $630.0 million of which is derived from the 2019 CPA Amendments.[1] (Please refer to the caution regarding forward-looking statements included in the section of this AIF titled "Explanatory Notes".)

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 will meet to discuss potential rate changes.

Passenger and Ramp Handling Services

Airport handling includes both passenger handling and ramp handling services.

As at December 31, 2018, Jazz operated to 60 airports in Canada, and Jazz employees provided the passenger handling function at 39 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.

[1] The revenue estimates are based on agreed lease rates in the CPA and certain assumptions and estimates for future market lease rates related to new and extended leases under the CPA. A foreign exchange rate of $1.2600 was used in the calculation of the estimates.

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 expires on December 31, 2035. 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 generally ceases to earn leasing revenue under the CPA from Covered Aircraft and spare engines owned by Chorus.

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.

Aircraft Leasing under the CPA

Jazz earns leasing revenue under the CPA from 34 Q400s, five CRJ900s, eight Dash 8-300s and five PW150 engines. A further nine CRJ900 aircraft are expected to be added by the end of 2020, and Chorus has also agreed to acquire five 75-78 seat aircraft for operation and lease by Jazz under the CPA in 2025.

Charter Operations

Jazz has the ability to operate charter flights during the term of the CPA utilizing the Covered Aircraft (subject to the payment of a charter fee to Air Canada) or with other aircraft, provided that Jazz continues to meet its obligations under the CPA, does not market such flights as Air Canada flights and otherwise complies with the non-competition provisions of the CPA. Jazz is responsible for all incremental costs and expenses associated with such flights and is entitled to all revenues.

Under the “Voyageur Airways” name, Voyageur 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. ACMI contracts often involve medical, logistical and humanitarian flights to customers comprised primarily of government entities and international non-governmental organizations.

Maintenance, Repair and Overhaul Operations

Jazz Technical Services, a division of Jazz, performs maintenance, repair and overhaul work on all Bombardier regional aircraft as well as aircraft modification programs in support of the Jazz operation and third parties. 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.

In September 2018, Jazz received Transport Canada certification to perform airframe heavy maintenance on Embraer 135 and Embraer 145 regional aircraft.

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

Voyageur Avparts, a division of Voyageur, provides aeronautical product support for regional aircraft to customers around the world. It serves airlines, maintenance organizations, leasing companies, and other aviation-related companies in the provisioning of aircraft parts, inventory management, inventory consignment services, component repair and overhaul, and aircraft disassembly management.

CHORUS BUSINESS SEGMENTS – REGIONAL AIRCRAFT LEASING

Chorus Aviation Capital was established at the start of 2017 with the objective of developing Chorus' aircraft leasing activity into a global business with a diverse customer base and a fleet of regional jet and turbo-prop aircraft in the 70 to 135-seat range. Chorus Aviation Capital is focused on building a diversified portfolio of regional aircraft manufactured by ATR, Bombardier and Embraer for lease to regional aircraft operators around the world.

In March 2017, the Corporation raised $200.0 million gross proceeds from the issuance of Convertible Units to Fairfax and in March 2018, the Corporation raised a further $112.0 million gross proceeds through a public offering of Shares. On February 4, 2019, the Air Canada Investment was completed, providing further gross proceeds of $97.26 million, approximately 40% of which will be used to invest in Chorus Aviation Capital's leasing business. As of the date of this AIF, Chorus Aviation Capital has built a portfolio of 40 aircraft (inclusive of nine transactions pending completion).

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

RESOURCES

Fleet

The following table provides the number of aircraft in Chorus' fleet as at December 31, 2018 and December 31, 2017.

	December 31, 2017	2018 Fleet Changes			December 31, 2018	Owned
		Additions	Removals	Transfers		
Regional Aircraft Leasing						
Third Party Leased Aircraft						
CRJ900s	—	2	—	—	2	2
CRJ1000s	4	—	—	—	4	4
Q400s	5	4	—	—	9	9
E190s	4	—	—	—	4	4
E195s	2	—	—	—	2	2
ATR 72-600s	6	2	—	—	8	8
Total Regional Aircraft Leasing	21	8	—	—	29	29
Regional Aviation Services						
Covered Aircraft Leased Under the CPA						
Q400s	34	—	—	—	34	34
CRJ900s	5	—	—	—	5	5
Dash 8-300s	4	—	—	4	8	8
	43	—	—	4	47	47
Other Covered Aircraft						
CRJ200s	10	—	—	—	10	—
CRJ900s	16	—	—	—	16	—
Dash 8-100s	16	—	(1)	—	15	15
Dash 8-300s	22	—	(1)	(4)	17	13
Q400s	10	—	—	—	10	—
Total Other Covered Aircraft	74	—	(2)	(4)	68	28
Voyageur Aircraft						
CRJ200s	7	—	—	—	7	7
King Air 200s	2	—	—	—	2	2
Dash 8-100s(1)	6	—	—	(1)	5	5
Dash 8-300s(2)	6	—	—	—	6	6
Total Voyageur Aircraft	21	—	—	(1)	20	20
Non-Operational Aircraft						
CRJ200s	1	—	—	—	1	1
Dash 8-100s	8	—	—	1	9	9
Total Non-Operational Aircraft	9	—	—	1	10	10
Total Regional Aviation Services	147	—	(2)	—	145	105
Total Aircraft	168	8	(2)	—	174	134

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

People

As at December 31, 2018, Chorus had 4,826 FTE employees compared to 4,882 FTE employees for 2017.

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

- Pilots, represented by ALPA, expires on December 31, 2035. This collective agreement contains a no strike or lockout provision which continues for the length of the agreement. The collective agreement allows for an increase in wages in 2029 during an open bargaining period, in which the parties can freely negotiate, subject to final binding arbitration.
- 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, expires on January 13, 2022.
- Crew schedulers, represented by Unifor, expires on June 30, 2021.

The CPA had initially established a pilot mobility agreement between Jazz and Air Canada, whereby Jazz pilots could access pilot vacancies at Air Canada. In turn, this provided 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 provided for pilots who participated in the arrangement to be placed on a pilot mobility list. Air Canada fulfilled its commitments under the initial pilot mobility agreement and subsequently introduced a new pilot mobility agreement which applied to all carriers that have capacity purchase agreements with Air Canada on a basis proportionate to the number of pilots employed in their respective operations for Air Canada. Over 55% of Jazz's existing pilots were hired since January 2015 at entry level wage rates that are market competitive.

As a result of the 2019 CPA Amendments, Air Canada will offer Jazz's pilots, on an annual basis and subject to Air Canada's applicable hiring policies, a minimum of 60% of total course capacity for all Air Canada new hire course dates that occur in the applicable calendar year. Jazz pilots are able to participate in this new pilot mobility agreement with its increased access to pilot vacancies.

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 "Capital Structure - 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 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 Airway 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, crew rooms 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. These operations facilities support the business carried on by Voyageur.

Voyageur 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.

CACIL currently leases office space in Dublin, Ireland.

CAPITAL STRUCTURE

Chorus' capital structure consists of a combination of equity and debt including Shares, Convertible Units, finance leases and amortizing debt facilities. See "Share Capital" for information regarding the Corporation's Shares.

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

Chorus uses leverage to lower its cost of capital. The amount of debt available to Chorus is a function of earnings, typically measured at the Adjusted EBITDAR level (see the "Non-GAAP Financial Measures" section of the MD&A for the year ended December 31, 2018, which is incorporated herein by reference) and market accepted norms for businesses in its sector. Adjusted EBITDAR can be impacted by known and unknown risks, uncertainties, and other factors outside Chorus' control (see "Risk Factors").

Chorus maintains flexibility in its capital structure by regularly reviewing forecasts, multi-year business plans and making any required changes to its debt and equity facilities on a proactive basis. These changes can include issuing or repurchasing equity, issuing new debt, modifying the term of existing debt facilities or repaying existing debt from surplus cash, or proceeds from the sale of surplus assets.

Chorus' capital structure as at December 31, 2018 and December 31, 2017 was as follows:

(expressed in thousands of Canadian dollars)	2018 $	2017 $
Equity		
Capital	153,669	32,412
Contributed surplus	1,041,100	1,040,826
Deficit	(783,813)	(788,918)
Exchange differences on foreign operations	15,850	(5,279)
Equity component of Convertible Units	2,981	2,981
	429,787	282,022
Convertible Units	194,294	193,540
Finance leases	5,675	7,981
Long-term debt	1,245,435	1,113,629
Consideration payable	-	4,387
Total capital	1,875,191	1,601,559

Convertible Units

In March 2017, the Corporation issued $200.0 million principal amount of Convertible Units to Fairfax. Each Convertible Unit comprises a $1,000 secured debenture (the "**Debenture**") and 121.21212121 warrants (the "**Warrants**"). The Debentures bear interest at a rate of 6.00% per annum, are secured by certain Dash 8-100s and Dash 8-300s and real estate property owned by Chorus (the "**Collateral Security**"), mature on December 31, 2024 (the "**Maturity Date**") and are redeemable at par at any time after December 31, 2021, except in the event of the satisfaction of certain conditions after a change of control (in which case 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 is exercisable by the holder thereof to acquire one Voting Share or one Variable Voting Share, as applicable, at an exercise price equal to $8.25 per Share payable in cash or by tendering the Debentures. Except in certain circumstances relating to a change of control of 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 also include customary anti-dilution provisions.

Assuming the exercise of all of the Warrants, Fairfax would beneficially own 24,242,424 of the issued and outstanding Shares of the Corporation, representing approximately 13.5% 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).

The Debentures are listed on the TSX under the symbol CHR.DB. Fairfax has agreed to hold the Convertible Units until at least December 31, 2019 after which time it may dispose of all or part of the Convertible Units.

A copy of the subscription agreement, Debenture indenture and Warrant indenture relating to the Convertible Units are available on SEDAR at www.sedar.com.

Long-term Debt

Chorus' long-term debt as at December 31, 2018 and December 31, 2017 was as follows:

(expressed in thousands of Canadian dollars)	**December 31, 2018 $**	**December 31, 2017 $**
Amortizing term loans		
Secured by aircraft	1,227,716	1,093,350
Secured by engines	10,937	11,459
Nova Scotia Jobs Fund loan – secured by office building	9,000	10,000
	1,247,653	1,114,809
Less: Deferred Financing Fees	(2,218)	(1,180)
	1,245,435	1,113,629
Less: Current portion	(142,652)	(118,567)
	1,102,783	995,062

Current portion of long-term debt in the table above includes deferred financing fees of $0.3 million for the year ended December 31, 2018 (December 31, 2017 - $0.2 million)

Certain of Chorus' long-term debt agreements include a variety of financial and non-financial covenants. Chorus' debt agreements contain covenants, which if breached and not waived by the relevant lenders, could result in the acceleration of indebtedness. Since some of these agreements are cross-defaulted to other debt agreements, a default or accelerations under one agreement could cause a default or acceleration under another agreement. Therefore, if Chorus were to default under its debt agreements, this could have a material adverse effect on Chorus' financial position, cash flows and prospects. For further details about Chorus' long-term debt please refer to the "Capital Structure" section of the MD&A for the year-ended December 31, 2018, which is incorporated by reference herein.

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. The program began in April 2017 and eight aircraft were completed by December 31, 2018. In connection with the issuance of the Convertible Units and the granting of certain aircraft security to the holders thereof, Chorus is required to complete the ESP for 16 Dash 8-300s by no later than December 31, 2019 and a further three Dash 8-300s by no later than December 31, 2022, for a total investment commitment of at least $60.0 million, which includes amounts previously spent in 2015 to 2018. 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. (Refer to the caution regarding forward-looking statements included in "Explanatory Notes" of this AIF.)

Chorus has also entered into an agreement to lease four new ATR 72-600s to the Lion Air Group. The first of these aircraft was delivered on October 26, 2018, and the agreement currently contemplates delivery of the remaining three aircraft in 2019.

Chorus has also entered into agreements to acquire two new Q400s and lease them to Jambojet Limited, a subsidiary of Kenya Airways PLC. These aircraft are expected to be delivered in the second half of 2019.

Chorus has also entered into an agreement with Bombardier to purchase nine CRJ900s which are scheduled to be delivered in 2020 for operation by Jazz under the CPA.

Chorus has also entered into an agreement to purchase up to six aircraft with leases attached. Two ATR72-600s on lease to Azul have already been acquired with the remaining four Q400s on lease to two other existing customers of Chorus Aviation Capital, which are expected to be acquired within the first quarter of 2019.

The aggregate amount to be paid on account of the foregoing capital commitments for the years 2019 through 2022 is expected to be between $580.0 million and $590.0 million funded from new debt facilities and available cash resources. (US dollar amounts were converted to Canadian dollars at $1.3642, the December 31, 2018 closing day rate from the Bank of Canada). (Refer to the caution regarding forward-looking statements included in "Explanatory Notes" of this AIF.)

Operating Line of Credit

On August 30, 2017, Chorus entered into a three-year committed operating credit facility. On June 7, 2018, the committed term of the facility was extended to August 31, 2021. The facility provides Chorus and certain designated subsidiaries (collectively, the "**Credit Parties**") with a committed limit of up to $50.0 million with the opportunity to borrow up to a further $25.0 million on a demand basis, subject in each case to a borrowing base calculation based principally on the value of eligible accounts receivable, inventory and equipment. As of December 31, 2018, no amounts were drawn on the facility, however, Chorus has provided letters of credit totaling $7.0 million that reduce the amount available under this facility. The indebtedness under this facility is secured by all present and after-acquired personal property of the Credit Parties, excluding aircraft, engines and certain real estate property.

Under the terms of this credit facility, Chorus is required to maintain a maximum ratio of total debt to EBITDA, as well as a minimum ratio of EBITDA to fixed charges. As at December 31, 2018, Chorus was in compliance with this covenant.

Warehouse Facility for Leased Aircraft

On January 21, 2019, Chorus secured a US$300.0 million committed, revolving credit facility to be used to finance future aircraft acquisitions for its regional aircraft leasing business.

The facility provides a revolving period of between 24 and 36 months (depending on the level of utilization in the first 24 months) and a 48-month term out period. The facility contains certain eligibility criteria that must be met as a condition to drawdown (including with respect to the identity of the lessee, the duration and terms of the lease, the aircraft type and age, and the aircraft's state of registration), as well as covenants that must be met on an ongoing basis (including with respect to the loan-to-value ratio, concentration limits relating to lessees, aircraft types and jurisdictions) and financial covenants (including debt service coverage, minimum tangible net worth, minimum unrestricted cash and debt to equity ratio).

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

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 has been forgiven). As at December 31, 2018, the amount drawn on the interest-bearing repayable loan was $9.0 million.

In 2016, 2017 and 2018, 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 2018, 2017 and 2016, $0.5 million, $0.7 million and $0.3 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 Exploits Valley Air Services. Jazz also competes with a number of smaller regional carriers for charter business from other customers.

With respect to Canadian-based carriers, 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 routes 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, Alaska Horizon and Horizon Air.

Voyageur 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, ALS Ltd. from Kenya, DAC Aviation International from Kenya, Sahel Aviation Service from Mali, Air Urga from Ukraine, R1 Airlines from Canada, CemAir from South Africa, and MedAvia from Malta. Voyageur's competitive advantage in relation to international ACMI operations 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 aircraft lessors that are focused on the regional aircraft segment, such as Nordic Aviation Capital, Elix Aviation Capital, Falko Regional Aircraft, and TrueNoord Regional Aircraft Leasing. Chorus Aviation Capital may also encounter competition from established lessors currently focused on other segments of the industry such as narrow and wide-body aircraft, as well as from entities that selectively compete with it, including airlines, aircraft manufacturers, financial institutions and aircraft brokers. Chorus Aviation Capital's competitive advantage stems from its affiliation with other Chorus businesses possessing expertise in contract flying and MRO which can be leveraged to provide additional value-added services to lessees.

LOGOS AND TRADEMARKS

Chorus owns trademarks for Chorus, Chorus Aviation and associated design marks (logos) in Canada and the U.S. Chorus has also applied to register Chorus Aviation Capital and the associated design mark (logo) in Canada and other jurisdictions in which it carries, or intends to carry on, business.

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 associated with its 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's 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.

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 *Canada Transportation Act* provides for free market entry to the extent that a carrier can demonstrate that (i) it is "Canadian", as defined in the *Canada Transportation Act*; (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 May 23, 2018, Bill C-49, the *Transportation Modernization Act*, received royal assent. Among other things, Bill C-49 amended the *Canada Transportation Act* to increase the foreign ownership limits for Canadian air carriers operating a domestic service from 25% to 49%, provided that: (i) no single non-Canadian (individually or by affiliation) may hold, directly or indirectly, more than 25% of the voting interests in the Canadian air carrier; and (ii) no combination of non-Canadian air carriers (individually or by affiliation) may own more than 25% of the voting interests in a Canadian air carrier. The amendments to the foreign ownership limits in Bill C-49 became effective on June 27, 2018. The Corporation must first amend its articles of incorporation and by-laws for the amended limits to apply.

In addition, Bill C-49 amended the *Canada Transportation Act* to give the Agency the authority to make regulations defining the minimum obligations of air carriers to their passengers including with respect to: the communication of terms and conditions of carriage and passenger recourse; flight delays, cancellations and denial of boarding; minimum compensation for lost or damaged baggage; assignment of seats to children under the age of 14; terms and conditions respecting the transportation of musical instruments; and ground delays of aircraft with passengers on board. On December 22, 2018, the *Air Passenger Protection Regulations* were published in draft form for comment and further consultation, with a proposed implementation date of July 1, 2019. Chorus has yet to fully assess the impact of these proposed regulations on its business.

Lastly, Bill C-49 amended the *Canada Transportation Act* to create a new process by which air carriers are able to seek authorization for joint ventures from the Minister of Transport, and to enable the Minister of Transport to consider the competition impacts (assessed by the Commissioner of Competition) and the public interest when authorizing such joint venture proposals. The amended legislation specifies deadlines and deliverables for six distinct steps that are to be followed during the 285 calendar days joint venture review process.

Chorus cannot provide assurance that it will not incur substantial costs to comply with regulatory requirements or that such requirements will not have a material adverse effect on Chorus' business, financial condition, results of operations or prospects.

Transborder Services

Jazz operates transborder services between Canada and the United States based on the Open Skies Agreement between Canada and the United States, which came into force in 2007. The Open Skies Agreement 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. The agreement also permits Air Canada to offer code share services with certain Star Alliance® members between Canada and the United States. In addition, some of these Star Alliance® members' codes appear on some transborder flights operated by Jazz. The carriage of local traffic between points within one country by carriers of the other country, commonly known as "cabotage", remains prohibited.

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 both maintain licenses issued by the Agency to operate non-scheduled international service between Canada and any other country. Subject to certain exceptions, charter operations are generally not covered by bilateral agreements. 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.

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 and Voyageur 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. On October 18, 2018, Jazz was named among Canada's Safest Employers 2018 taking silver in the Transportation category and silver for Psychological Safety. Jazz is committed to complying with and, where possible, surpassing applicable regulatory requirements.

The President of Voyageur, Scott Tapson, serves as the Accountable Executive for Voyageur and oversees Voyageur's Safety and Risk Management System, dedicated to promoting a culture of safety within Voyageur. Employees are focused on incident prevention through critical self-assessment and proactive identification of potential deficiencies. Voyageur is committed to complying with and, where possible, surpassing applicable regulatory requirements.

Jazz and Voyageur, as air carriers, are subject to the *Secure Air Travel Act (Canada),* which replaced the previous 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 specified 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.

On June 20, 2017, the Minister of Public Safety and Emergency Preparedness introduced *Bill C-59, An Act respecting national security matters*, which proposes amendments to legislation including the *Secure Air Travel Act*. Bill C-59 amends the *Secure Air Travel Act* to authorize the Minister of Public Safety and Emergency Preparedness to collect from air carriers and operators of aviation reservation systems, for the purpose of identifying listed persons, information about any individuals who are on board or expected to be on board an aircraft for any flight prescribed by regulation, and to exempt an air carrier from providing that information or from the application of any provision of the regulations in certain circumstances. Bill C-59 amends the Act to authorize the Minister to collect personal information from individuals for the purpose of issuing a unique identifier to them to assist with pre-flight verification of their identity. It also reverses the rule in relation to a deemed decision on an application for administrative resource. Finally, it amends the Act to provide for certain other measures related to the collection, disclosure, and destruction of information. The Senate completed its second reading of Bill C-59 and has referred the Bill to the Standing Senate Committee on National Security and Defence.

On December 12, 2018, the Minister of Transport introduced new regulations amending the current limitations associated with flight duty times for flight crew members set out in the *Canadian Aviation Regulations*. Compliance with the prescriptive requirements may result in incremental costs to air carriers, including the need to hire more flight crew, to update flight crew management computer programs, to provide fatigue-related training to their flight crew members, and to secure additional rest facilities. Air carriers will have two years to implement the new requirements. These costs would could be considered a Controllable Cost under the CPA.

Environmental Matters

Chorus has an Environmental Policy which codifies Chorus' commitment to environmental responsibility. Among other things, the policy states that Chorus will: promote the efficient use of materials, resources, and its leased assets to minimize waste and fuel emissions; incorporate environmental considerations in business decisions, including when conducting competitive bid processes for goods and services; and raise environmental awareness and understanding with employees, customers and suppliers to encourage environmental responsibility and sustainability.

Jazz and Voyageur each have a dedicated leader in charge of safety and environmental matters who reports directly to the Accountable Executive. Both entities maintain a safety committee which meets regularly with members of the business units' executive team to review safety and environmental performance. Jazz and Voyageur present a safety and environmental report to the Audit, Finance and Risk Committee of the Corporation's Board of Directors on a quarterly basis.

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. Canada, has indicated its intent to participate in the voluntary phase of CORSIA.

In addition to CORSIA's carbon offsetting requirements, all countries whose air operators undertake international flights must develop a monitoring, reporting and verification ("**MRV**") system for carbon dioxide emissions. The MRV requirements begin on January 1, 2019 and continues until December 31, 2035. To ensure compliance with the MRV requirements, Jazz has developed an Emissions Monitoring Plan ("**EMP**") and submitted the EMP to Transport Canada for approval on December 19, 2018. The EMP includes information about Jazz's fleet, operations, fuel use monitoring method(s) and data management. The EMP will provide the basis for compliance with the regulatory requirements of CORSIA. As fuel costs are treated as a Pass-Through Costs under the CPA, Chorus anticipates that Jazz's principal costs and obligations will consist of maintaining the MRV system.

Jazz has undertaken several fuel conservation and carbon emission reduction initiatives, including:

- creating more efficient flight profiles;
- developing flight segments that reduce the distance flown and associated fuel burn;
- reducing thrust on takeoff, when safe to do so, to reduce both fuel burn and noise emissions;
- using the thrust of only one engine to taxi, when safe to do so, to reduce fuel burn by approximately 50% of a standard taxi profile;
- reducing auxiliary power unit usage during ground and air operations to reduce both fuel burn and noise emissions; and
- reducing fuel consumption through various weight-reduction initiatives, including equipping pilots with navigation charts, manuals and technical bulletins on electronic tablets rather than in paper form; using light weight flight attendant trollies; and using light-weight paint on aircraft.

Chorus considers the environment a component of business decisions in planning for and making changes to its processes, equipment and facilities; however, fleet decisions (whether in the contract flying or leasing business) are predominantly made by Chorus' customers having regard to their requirements.

On September 23, 2016, the *Potable Water on Board Trains, Vessels, Aircraft and Buses Regulations* came into effect. These regulations modernize the regime governing the safety and quality of drinking water on federally regulated airplanes, trains, ships and buses. The regulations require Canadian aircraft operators to take steps to ensure the safety of water served to passengers through measures such as ensuring safe water supplies, maintaining potable water systems, taking action in cases of suspected or confirmed contamination, completing routine sampling (for operators with two or more stops in Canada) and keeping related records.

Chorus believes that it is in compliance in all material respects with the terms of current government regulations applicable to its business and 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. Chorus has processes in place to ensure compliance with applicable environmental laws and communicates with regulatory agencies and its stakeholders in order to resolve environmental issues that may arise from time to time. 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.

To date, environmental laws and regulations have not had a material adverse effect on Chorus' business. However, changes in such government laws and regulations, including the implementation of new international commitments, may significantly increase the cost of environmental compliance. Chorus is not able to predict future costs which may be incurred in order to comply with future environmental regulations.

Privacy

Chorus and each of its subsidiaries are subject to various 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* (“**PIPEDA**”) governs the Corporation and its subsidiaries carrying on business in Canada, and the privacy laws of countries in which the Corporation’s subsidiaries carry on business govern those subsidiaries (such as CACIL in Ireland).

In 2015, PIPEDA was amended to include requirements with respect to record keeping and reporting of certain personal information data breaches. Regulations prescribing particulars of the record keeping and reporting obligations came into force on November 1, 2018.

On May 25, 2018, the General Data Protection Regulation (Regulation (EU) 2016/679) (the “**GDPR**”) of the European Union (the “**EU**”) replaced the EU’s existing Data Protection Directive 95/46/EC and applies to any Chorus entity that collects or processes personal data of data subjects residing in the EU.

Regardless of which privacy laws apply, such laws typically require notice to, and informed consent by, the individuals whose personal information or data is collected, used or disclosed. The personal information or data 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.

As Chorus’ customers are primarily other businesses, most of the personal information or data Chorus collects and processes relates to its own employees. Chorus has a privacy policy and internal procedures which are designed to meet Chorus’ obligations under applicable privacy legislation.

RISK FACTORS

The risks described below should be read carefully when evaluating Chorus’ business and its forward-looking statements and 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 of operations, cash flows, financial position and prospects.

Risks Relating to Chorus’ Business

Dependence on the CPA

Chorus derives a majority of its revenues from the CPA. 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. Air Canada’s business, results from operations and financial condition are subject to a number of risks, including the risk factors described under “Risks Relating to the Aviation 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 of operations, cash flows, financial position and prospects.

Management is committed to diversifying Chorus’ business to reduce the risk of Chorus’ economic dependence on the CPA and, to this end, Chorus acquired Voyageur in 2015 and established Chorus Aviation Capital in 2017. 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. See “Risk Factors - Risks Relating

Specifically to Chorus' Dependence on the CPA" for a further discussion of the risks associated with Chorus' dependence on the CPA.

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 of operations, cash flows, financial position and prospects.

Under the CPA, Chorus is prevented from carrying on or undertaking certain passenger airline services. Except in 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 (as defined in the CPA).

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. A Hub Airport is an airport bearing the International Air Transport Association code YVR, YYC, YEG, YYZ, YOW or YUL and an Extended Hub Airport includes the Hub Airports and any airport located within 175 kilometres of the Hub Airports.

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, in most circumstances, 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 in 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.

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 Specifically to Chorus' Dependence on the CPA – Termination of the CPA"). Furthermore, (i) certain of Chorus' loans with EDC and/or its operating lenders 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), and (ii) certain loans to Chorus Aviation Capital may become immediately repayable if certain Chorus Aviation Capital entities (such as CACIL) cease to be ultimately controlled by the Corporation (see "Capital Structure – Long-term Debt").

Any one or more of the foregoing restrictions imposed by the CPA may prevent Chorus from entering into potentially beneficial arrangements, which may have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects (see "Risk Factors - Risks Relating Specifically to Chorus' Dependence on the CPA").

Chorus is currently focused on growing its regional aircraft leasing business as a means to reduce its dependence on the CPA and grow Chorus' business overall. Whether Chorus ultimately succeeds in doing so is dependent on a wide range factors, many of which are discussed in greater detail in this section, including, without limitation, competitive dynamics in the aircraft leasing sector, Chorus' cost of capital, the availability and obsolescence of aircraft, general risks relating to the aviation industry, Chorus' ability to attract and retain the talent it requires to operate a leasing business, and Chorus' discipline in executing its strategy. If Chorus does not succeed in growing its regional aircraft leasing business, this could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects

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.

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

Access to Capital

Chorus is dependent upon access to equity and debt to finance its growth initiatives, particularly its regional aircraft leasing business which requires a significant amount of capital to grow.

Global financial conditions have been characterized by periodic high levels of volatility and on occasion major financial institutions have faced significant liquidity and other issues. 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, cash flows, financial position and prospects.

In addition, 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, cash flows, financial position and prospects.

Changes in Law, Litigation and Regulatory Proceedings

Changes in laws, or in how they are interpreted or applied, could, among other things, significantly increase Chorus' costs or limit the business opportunities available to it. Furthermore, litigation and regulatory investigations and proceedings could result in Chorus having to expend significant costs and management time as well as result in sizeable damage awards or negotiated settlements. If any of the foregoing were to occur, it could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

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 Chorus' business, results of operations, cash flows, financial position and prospects.

Reliance on Labour

Chorus' business is labour-intensive and requires a large number of pilots, flight attendants, mechanics and other personnel. Consequently, labour costs constitute the largest percentage of Chorus' total operating costs. Due to a global shortage of commercial pilots and an emerging shortage of mechanics, Chorus must compete to attract and retain these workers for its commercial air passenger operations at both Jazz and Voyageur. The pilot shortage can be particularly challenging for Chorus in relation to certain customer contracts that contain minimum pilot experience requirements.

Although Chorus maintains various programs to attract the skilled employees it requires (particularly new pilots), Chorus may not be able to attract and retain qualified pilots and mechanics in sufficient numbers to meet its operational requirements. Furthermore, because Chorus must recruit, hire and train all new employees, high turnover may strain Chorus' resources and ability to fulfil its labour requirements.

There can be no assurance that Chorus will be able to locate, hire, train and retain a sufficient number of qualified pilots, mechanics or other operations 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 of operations, cash flows, financial position and prospects.

The majority of Chorus employees are unionized (see "Resources – People" for information about Jazz's collective agreements).

There can be no assurance that any of the collective agreements will be further 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. Furthermore, there can be no assurance that its collective agreements will be on terms that are consistent with agreements entered into by its competitors. If any of the foregoing risks were to materialize, it could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

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 of operations, cash flows, financial position and prospects.

Chorus is dependent on Bombardier as the supplier of parts for its aircraft fleet as well as the planned Dash 8-300 ESP. On or about November 8, 2018, Bombardier announced the pending sale of the entire Dash 8 program and the in-production Q400 program to Longview Aviation Capital Corp. ("**Longview**"). If Bombardier or Longview 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 "Capital Structure – Capital Commitments"), either one of these circumstances could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

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 of operations, cash flows, financial position or prospects 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).

As the payment of dividends is subject to the discretion of the Corporation's Board of Directors, the Corporation's dividend policy could change at any time if the board determines that a change is in the best interests of the Corporation.

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. With the exception of Air Canada, which has certain pro rata pre-emptive rights (see "The Chorus Business – Three-Year History"), Shareholders have no pre-emptive rights in connection with further Share issues.

Chorus implemented the DRIP effective February 1, 2018. The DRIP provides Shareholders who are resident in Canada the opportunity to purchase additional Shares using cash dividends paid on Shares enrolled in the DRIP. Chorus has issued 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. The DRIP and 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 of operations, cash flows, financial position and prospects.

Compliance with Anti-bribery Laws

Canada's *Corruption of Foreign Public Officials Act* and anti-bribery laws in other jurisdictions generally prohibit companies and their agents from making improper payments for the purpose of obtaining or retaining business or other commercial advantage. Chorus' Code of Ethics and Business Conduct and internal policies mandate compliance with these anti-bribery laws.

Voyageur and Chorus Aviation Capital conduct business in jurisdictions that have experienced governmental and private sector corruption to varying degrees, and, in certain circumstances, strict compliance with anti-bribery laws may conflict with certain local customs and practices. Although Chorus' policies demand strict compliance with anti-bribery laws, there can be no assurance that its policies and control measures will protect it from inappropriate acts committed by its employees or agents. Violations of these laws can carry significant penalties. Any such violations, or even allegations of such violations, could have a material adverse effect on Chorus' reputation, as well as its business, results of operations, cash flows, financial position and prospects.

Variability of Supply and Demand for Leased 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 decline. 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 Aviation 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' leased aircraft fleet, and may prevent Chorus from leasing or re-leasing those aircraft on favorable terms, or at all. Any such decrease could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

Competition for aircraft leasing transactions are based principally upon lease rates and terms, aircraft types and configuration, aircraft condition and redelivery terms, delivery schedules, reputation and management expertise. Competitors focused on the regional aircraft leasing market currently include, but are not limited to, Nordic Aviation Capital, Elix Aviation Capital, Falko Regional Aircraft, and TrueNoord Regional Aircraft Leasing.

Chorus may encounter competition from new entrants in the regional aircraft leasing segment, some of which may be experienced lessors in the narrow and wide-body aircraft leasing segments of the market. 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 of Leased Aircraft

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' leased aircraft 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' 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 of operations, cash flows, financial position and prospects.

The risks above are heightened 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.

Third Party Credit Risk

Chorus is exposed to credit risk through its contractual arrangements with third parties, including the risk of: non-payment by Air Canada of amounts owing under the CPA (see "Risk Factors – Risks Relating to Chorus' Business – Dependence on the CPA"); non-payment of rent and other amounts owing from aircraft lessees; and failure by hedge counterparties to perform their obligations under interest rate or foreign exchange hedging arrangements entered into in the ordinary course of business.

In order to manage its exposure to credit risk and assess credit quality in the leasing business, Chorus conducts a credit analysis of potential lessees when considering aircraft leasing transactions and takes the strength of the credit into account in determining pricing and other terms. Chorus also periodically monitors the financial condition of its lessees. Notwithstanding the foregoing, lessees may fail to meet their basic or supplemental rent obligations, which could require Chorus to repossess the affected aircraft or negotiate changes to the terms of the lease which are less favourable to Chorus. In the event of a repossession, there can be no assurance that the aircraft will be successfully recovered or that it will meet the required redelivery conditions in the lease (thereby requiring Chorus to invest in the aircraft prior to selling or re-leasing it) or that the aircraft can be sold or leased to another customer at an amount that is sufficient for Chorus to fully repay any debt outstanding against the aircraft and achieve its target returns.

In the event that hedge counterparties fail to meet their obligations to Chorus, Chorus could lose the benefit of interest or foreign exchange hedges, thereby potentially substantially reducing the economic benefits to Chorus of the affected transactions or even resulting in losses to Chorus.

If any of the foregoing were to occur, the resulting circumstances could have a material adverse effect on Chorus' business, financial condition, results of operations and prospects.

Transaction Completion Risk

Transactions are sometimes announced before all of the conditions precedent to closing have been satisfied. If all of the conditions precedent to closing are not satisfied or waived on or before the deadline specified in the transaction agreement, the transaction may not be completed on the terms previously announced, or at all. If a transaction is abandoned or ultimately completed on different terms, this could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

Foreign Exchange Rate Risk

Chorus receives revenue and incurs expenses in U.S. and Canadian currency, and as a result, is subject to fluctuations as foreign exchange rates change. Chorus manages its exposure to currency risk by billing for its services within the CPA in the underlying currency related to the expenditure and matching the currency of debt payments for leased aircraft with the currency of the related lease rents. Accordingly, the primary exposure results from balance sheet fluctuations of U.S. denominated cash, accounts receivable, accounts payable, and in particular, obligations under finance leases and long-term debt, which are long-term and are therefore subject to larger unrealized gains or losses. Chorus mitigates this currency risk by maintaining a balance of U.S. dollars which is used to pay down U.S. denominated liabilities and replenishes the balance through U.S. denominated revenues.

Interest Rate Risk

The majority of Chorus' debt, including the majority of the amortizing terms loans, the Nova Scotia Jobs Fund Loan, and the Convertible Units, is not subject to interest rate volatility as it bears interest at fixed rates. Chorus has several term floating rate loans that are subject to interest rate volatility. As at December 31, 2018, 93.6% of Chorus' debt was fixed rate debt (inclusive of floating rate debt with swaps that effectively fix the rates thereunder) and 6.4% floating rate debt. Approximately 80% of the floating rate debt relates to aircraft for which Chorus has a variable lease rate with the underlying lessee and therefore has limited the exposure to the fluctuating rate of those loans.

Chorus manages interest rate risk on a portfolio basis. A 1% change in the interest rate would not have had a material impact on net income for the year ended December 31, 2018.

Pension Plans

Chorus maintains a registered defined benefit pension plan for Jazz pilots. Canadian federal pension legislation requires that the funded status of registered pension plans be determined periodically, on both a going concern basis (which assumes indefinite plan continuation) and a solvency basis (which assumes immediate plan termination).

Chorus' pension funding obligations (including projected funding obligations) may vary significantly based on a wide variety of factors, including pension plan solvency valuations, regulatory changes, plan demographics, changes to plan provisions, assumptions and methods used and changes in economic conditions (mainly the return on fund assets and changes in interest rates) and other factors, as well as the application of normal past service contribution rules which would generally require one fifth of any solvency deficit in a domestic registered plan, determined on the basis of an average over the previous three years, to be funded each year. Actual contributions that are determined on the basis of future valuation reports filed annually may vary significantly from projections. In addition, current service contributions in respect of a domestic registered plan are required unless they are funded (if permitted subject to applicable plan rules and legislation) through a sufficient surplus in such plan. Furthermore, deteriorating economic conditions or a prolonged period of low or decreasing interest rates may result in significant increases in Chorus' funding obligations. Significant increases in Chorus' funding obligations or a failure or inability by Chorus to make its required cash contributions could have a material adverse effect on Chorus, its business, results from operations and financial condition.

Taxation

In the ordinary course of business, Chorus is subject to ongoing audits by tax authorities. While the Corporation has determined that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities. Should the ultimate tax liability materially exceed its tax provision, the Corporation's effective tax rate and its earnings could be negatively affected in the period in which the matters are resolved, and this could have a material adverse effect on Chorus' financial condition.

In addition, the Organization for Economic Cooperation and Development has undertaken the Base Erosion and Profit Shifting Project ("**BEPS**"), which aims to restructure the taxation scheme currently affecting multinational entities. Canada, Ireland and over 75 other countries have signed a Multilateral Convention which amends various bilateral tax treaties to implement certain BEPS proposals. Depending on which proposals under BEPS are implemented, the tax rules to which Chorus is subject may increase its liability for taxes.

Potential Future 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 of operations, cash flows, financial position and prospects.

International Operations and Doing Business in Foreign Countries

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.

Chorus' exposure to risks posed by local economic and political conditions increases as it leases more aircraft to lessees located in more jurisdictions 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 of operations, cash flows, financial position and prospects.

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.

Furthermore, Chorus conducts business in jurisdictions that have experienced governmental and private sector corruption to varying degrees (see "Risk Factors – Risks Relating to Chorus' Business - Compliance with anti-bribery laws").

Renewal of Customer Agreements and Competition for Voyageur

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.

Maintenance, Repair and Overhaul Line of Business

Due to the nature of the MRO line of business, Chorus may be subject to liability claims arising out of incidents or accidents involving aircraft of other carriers maintained, modified or repaired by Chorus, including claims for serious personal injury or death. Any such incident or accident could significantly harm Chorus' reputation for safety. 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 incident or accident involving aircraft maintained, modified or repaired by Chorus, could significantly harm its reputation for safety, which could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

Risks Relating Specifically to Chorus' Dependence on the CPA

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, 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 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 of operations, cash flows, financial position and prospects.

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 116 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 of operations, cash flows, financial position and prospects.

Chorus owns and operates 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 or when Air Canada removes certain aircraft types from the fleet of Covered Aircraft. Any inability to redeploy these aircraft could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

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 of operations, cash flows, financial position and prospects.

Early termination of the CPA, a material adverse change to the CPA or any default under the CPA constitutes an event of default under certain of Chorus' financing arrangements with EDC and could also constitute an event of default under Chorus' operating line of credit. Upon the occurrence of such an event of default, the relevant lenders would have the right to require Chorus to immediately repay all indebtedness owing to them under their respective credit facilities, which could trigger cross-defaults under other Chorus credit facilities. A requirement to repay all debt outstanding to EDC and/or Chorus' operating lenders prior to the maturity of those loans would, and any associated defaults under other credit facilities could reasonably be expect to, have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

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, cash flows, financial position and prospects.

Controllable Costs and Performance Incentives under the CPA

Controllable Costs are based on estimates and include such costs as salaries, wages and benefits, certain depreciation and amortization, certain aircraft maintenance, materials and supplies, third party operating leases, and other general overhead expenses, such as crew variable expense, professional fees, travel and training. Jazz is paid Controllable Revenue Rates based on Controllable Costs. The 2019 CPA Amendments introduced provisions which limit Jazz's exposure to $2.0 million annually for variances between Controllable Revenue Jazz receives from Air Canada to cover annually negotiated Controllable Costs and Jazz's actual Controllable Costs incurred in performing services under the CPA (see "Chorus Business Segments – Regional Aviation Services – Contract Flying – Capacity Purchase Agreement with Air Canada – Controllable Revenue"). Controllable Revenue rates will continue to be set annually and Jazz and Air Canada will complete an annual reconciliation and payment once the variance, if any, between Controllable Revenue paid by Air Canada and Jazz's actual Controllable Costs is determined. If Jazz's Controllable Costs exceed the revenue received from Air Canada by more than $2.0 million, Air Canada will pay to Jazz an amount equal to the excess over $2.0 million. Conversely, if the Controllable Revenue paid by Air Canada to Jazz exceeds Jazz's actual Controllable Costs by more than $2.0 million, Jazz will pay to Air Canada an amount equal to the excess over $2.0 million. Substantially all of the Controllable Costs are subject to the Controllable Cost Guardrail and related reconciliation. Although Chorus currently anticipates that the items excluded from the Controllable Cost Guardrail should not result in significant cost variances for Jazz, it is possible that those costs may turn out to be higher than anticipated, thereby reducing Jazz's profit margin in those periods.

Although Jazz has the opportunity to earn performance incentive revenue under the CPA, it may be increasingly difficult for Jazz to earn this revenue if 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 Jazz 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. In addition, several new ultra-low-cost carriers have recently entered the Canadian market, increasing competitive pressures on routes served by Air Canada and Jazz on its behalf.

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 of operations, cash flows, financial position and prospects 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 a certain predetermined Fixed Margin per Covered Aircraft 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.

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

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, insurance claims services, 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, 2035, 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 and this may have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

Air Canada Pilots Association Scope Clauses

Air Canada's collective bargaining agreement with Air Canada Pilots Association 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 of operations, cash flows, financial position and prospects. 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

Subject to certain exceptions, Chorus has the right under the CPA to bid on (i) aircraft leasing opportunities under the CPA, and (ii) opportunities to operate aircraft with 50 seats or less under a capacity purchase agreement with Air Canada as well as the right to match third-party offers.

Notwithstanding the foregoing, 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, there can be no assurance that these efforts will succeed, and 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 Controllable Costs Jazz incurs in providing services to Air Canada (refer to "Chorus Business Segments – Regional Aviation Services – Contract Flying - Capacity Purchase Agreement with Air Canada - Revenues and costs under the CPA");
- the scope and applicability of non-competition provisions (refer to "Risks Relating to Chorus' Business - 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.

Disagreements and conflicts 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 of operations, cash flows, financial position and prospects.

Leasing Risk related to Q400s, CRJ900s and Dash 8-300s

Chorus derives a significant portion of its revenues under the CPA from leasing Q400s, CRJ900s and Dash 8-300s. Chorus is paid a Fixed Margin for an agreed number of Covered Aircraft during the term of the CPA. When these aircraft exit the Covered Aircraft fleet or the CPA expires, 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 of operations, cash flows, financial position and prospects.

Risks Relating to the Aviation 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 of operations, cash flows, financial position and prospects.

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 of operations, cash flows, financial position and prospects.

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 of operations, cash flows, financial position and prospects.

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, passenger identification requirements and passenger screening procedures 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. It could also lead to a substantial increase in insurance, security and other costs. Any such negative effect on demand and/or increase in costs, could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

Cyber-attacks and Dependence on Technology

Chorus relies in part on technology, including hardware, software and network communication infrastructure, to operate its business. 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.

The performance and reliability of Chorus' technology, and the technology of Air Canada, are critical to Chorus' ability to compete effectively. Any individual sustained or repeated failure of Chorus' technology or that of Air Canada could impact Chorus' ability to conduct its business, lower the utilization of its aircraft and result in increased costs.

Chorus' technology systems and related data, and that of Air Canada, 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, hackers and other security issues. Information systems are subject to an increasing threat of continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to Chorus' systems or information through fraud or other means of deception. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving, and may be difficult to anticipate or to detect for long periods of time. 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, or Air Canada, could have a material adverse effect on Chorus' business, reputation, results of operations, cash flows, financial position and prospects.

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, reputation, results of operations, cash flows, financial position and prospects.

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 of operations, cash flows, financial position and prospects.

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 would not continue to provide the indemnity after that date. As a result, effective January 1, 2016, Chorus acquired replacement coverage for this risk to the extent coverage is currently available in commercial insurance markets, and which coverage satisfies Chorus' obligations to its aircraft lessors and lenders. To the extent that Chorus' existing insurance carriers are unable or unwilling to provide it with insurance coverage and in the absence of measures by the Government of Canada to provide the required coverage, Chorus' insurance costs may increase further which could have a material adverse effect on Chorus' business, results from operations and financial condition.

Energy Price Risk

Fuel prices have and may continue to fluctuate significantly depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and the Canada/US dollar exchange rate. Pursuant to the CPA, fuel costs are treated as Pass-Through Costs and, therefore, Chorus is largely protected from these price fluctuations insofar as the Jazz business is concerned. However, fluctuating fuel prices could negatively impact passenger demand for air travel, thereby having an adverse effect on the aviation industry generally.

Casualty Losses

Due to the nature of its core operating business, Chorus may be subject to liability claims arising out of incidents or accidents involving Chorus aircraft or aircraft of other carriers maintained, modified or repaired by Chorus, including claims for serious personal injury or death. Any such incident or accident may significantly harm Chorus' reputation for safety. 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 incident or accident involving Chorus' aircraft or aircraft of another carrier maintained, modified or repaired by Chorus, could significantly harm its reputation for safety, which could have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects.

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 of operations, cash flows, financial position and prospects. For further information, see "Regulatory Environment".

MARKET FOR SECURITIES

Trading Price and Volume

The Shares trade 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 2018 inclusive.

2018	High $	Low $	Average Daily Trading Volume	Total Monthly Volume
January	9.86	8.91	321,946	7,082,822
February	9.58	8.35	592,201	11,251,828
March	8.55	7.85	680,634	14,293,320
April	8.37	7.70	443,280	9,308,879
May	8.02	7.36	332,785	7,321,261
June	7.58	6.77	531,902	11,169,939
July	7.65	7.00	276,734	5,811,417
August	8.03	7.06	298,912	6,576,059
September	7.96	7.52	226,447	4,302,495
October	7.72	6.54	360,665	7,934,622
November	7.38	6.28	446,323	9,819,097
December	6.55	4.54	645,522	12,264,918

Prior Sales

During the financial year ended December 31, 2018, the Corporation did not issue any securities of a class that are not listed or quoted on a marketplace.

SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

Fairfax has agreed not to transfer the Convertible Units, including the Debentures, until at least December 31, 2019. Air Canada has agreed, subject to certain exceptions set forth in the Investor Rights Agreement, not to transfer its Shares in the Corporation until February 4, 2024 (unless the aforementioned restrictions on transfer are terminated earlier in accordance with the terms and conditions of the Investor Rights Agreement). The foregoing restrictions are summarized below:

Designation of Class	Securities that are subject to a contractual restriction on transfer	Expiry	Percentage of class
Convertible Units*	$200.0 million principal amount of Debentures. Warrants exercisable for 24,242,424 Shares.	December 31, 2024	100%
Class B Voting Shares	15,561,600 Class B Voting Shares.**	February 4, 2024**	9.99% of all Shares**

* For a description of the Convertible Units please see "Capital Structure – Convertible Units".

** As of the date of this AIF. For a description of the restrictions on transfer applicable to the Shares held by Air Canada please see "The Chorus Business – Three-Year History".

TRANSFER AGENTS AND REGISTRARS

The transfer agent and registrar for the Shares is AST Trust Company (Canada) 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 and capital requirements, including earnings, investment plans, debt covenants, the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends and other conditions which may arise in future.

At the start of 2015, Chorus paid a monthly dividend of $0.0375 per Share. 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, 2018, Chorus paid $53.6 million in dividends to Shareholders (2017 - $59.1 million, 2016 - $58.7 million).

Under the terms of Chorus' operating line of credit (expiring August 29, 2020), Chorus is required to obtain the consent of its operating lenders prior to increasing its dividend beyond $0.48 per Share annually.

Dividend Reinvestment Plan

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

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

The declaration of dividends is subject always to the approval of the Corporation's Board of Directors in its sole discretion.

SHARE CAPITAL

The authorized share capital of the Corporation consists of an unlimited number of Variable Voting Shares and Voting Shares. As at February 18, 2019, 155,964,086 Shares were issued and outstanding. The following summary describe 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 Restated Articles of Incorporation.

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. In accordance with the Corporation's Restated Articles of Incorporation, 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.

On May 23, 2018, Bill C-49, the *Transportation Modernization Act*, received royal assent. Among other things, Bill C-49 amended the *Canada Transportation Act* to increase the foreign ownership limits for Canadian air carriers operating a domestic service from 25% to 49%, provided that: (i) no single non-Canadian (individually or by affiliation) may hold, directly or indirectly, more than 25% of the voting interests in the Canadian air carrier; and (ii) no combination of non-Canadian air carriers (individually or by affiliation) may own more than 25% of the voting interests in a Canadian air carrier. The Corporation must first amend its articles of incorporation and by-laws for the amended limits to apply.

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 *Canada Transportation Act* 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 Restated 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 *Canada Transportation Act* 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 Restated 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 Restated Articles of Incorporation 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.

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. As of the date of this AIF, 1,954,000 stock options having an exercise price of $4.50 have vested but remained unexercised, and 900,000 stock options having an exercise of $7.25 have vested but remain unexercised.

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
Margaret Clandillon(1) Dublin, Ireland	Corporate Director	May 4, 2018
Gary M. Collins(2) Vancouver, British Columbia	Senior Advisor, Lazard Canada(3)	May 8, 2008
Karen Cramm(4) Halifax, Nova Scotia	Corporate Director	December 6, 2010
Richard D. Falconer(5) Mississauga, Ontario	Senior Advisor, Lazard Canada(3)	March 1, 2012
R. Stephen Hannahs(6) Corona Del Mar, California	CEO, Wings Capital Partners	August 10, 2015
Sydney John Isaacs(7) Westmount, Québec	Corporate Director	January 1, 2008
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
Michael Rousseau	Deputy Chief Executive Officer and Chief Financial Officer, Air Canada	February 4, 2019

(1) Member of the Governance and Nominating Committee and Member of the Human Resources and Compensation Committee.
(2) Member of the Audit, Finance and Risk Committee. Member of the Governance and Nominating Committee until September 27, 2018.
(3) Lazard Canada is a Canadian subsidiary of Lazard Ltd. (NYSE: LAZ), a financial advisory and asset management firm.
(4) Chair of the Audit, Finance and Risk Committee and Member of the Governance and Nominating Committee.
(5) Chair of the Human Resources and Compensation Committee and Member of the Audit, Finance and Risk Committee.
(6) Member of the Audit, Finance and Risk Committee and Member of the Human Resources and Compensation Committee.

(7) Member of the Governance and Nominating Committee and Member of the Human Resources and Compensation Committee.
(8) Chairman of the Board of Directors.
(9) Chair of the Governance and Nominating Committee and Member of the Human Resources and Compensation 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, 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, (iii) 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; and (iv) Mr. Rousseau who was the Executive Vice President and Chief Financial Officer of Air Canada from October 2007 to December 31, 2018.

Executive Officers of the Corporation

The following table sets out the executive officers of the Corporation as of the date of this AIF. 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[2] 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)

chorus aviation inc.

(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 of the date of this AIF, the Directors and Officers mentioned in the above tables, as a group, owned, or had control or direction over, directly or indirectly 2,164,793 Shares representing approximately 1.4% 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, 2018, is set out in Schedule A to this AIF.

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 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 Professional 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. In May 2018, Mrs. Cramm was appointed to the

Board of Directors and is a member of the Audit and Conduct Review Committee of Blue Cross Life Insurance Company of Canada.

(ii) ***Gary M. Collins*** is a Senior Advisor with Lazard Canada, a financial advisory and asset management firm. From August 2012 until April 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 of D-Box Technologies Inc and serves on the Compensation and Governance Committee. Mr. Collins is also a director for Rogers Sugar Inc, and serves as a member of the Audit Committee, the Strategic Initiatives Committee and the Compensation Committee and is also a director of Fiera Capital Corporation, and serves as a member of its Audit Committee and Governance Committee. He previously served as a director, chair of the Compensation and Human Resources Committee and a member of the Audit Committee of Catalyst Paper Corporation and as a director, chair of the Compensation Committee and member of the Audit Committee of Liquor Stores N.A. Ltd.

(iii) **Richard Falconer** is a Senior Advisor with Lazard Canada Inc., a financial advisory and asset management firm. Previously, Mr. Falconer was a Managing Director with Lazard Canada Inc. from September 2016 until February 2019. Mr. Falconer retired from CIBC in 2011 after 40 years with the bank. At the time of retirement, Mr. Falconer was Vice Chairman and Managing Director, CIBC World Markets Inc. In addition to being responsible for senior investment banking relationships, he sat on several committees at the bank. Mr. Falconer was Senior Partner, Verus Partners & Co. from April 2015 until September 2016. 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 Boards of Directors of Resolute Forest Products Inc. and 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. Mr. Falconer holds a Master of Business Administration from York University, a Bachelor of Arts (Honours) from the University of Toronto, and is a Chartered Financial Analyst.

(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.

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, 2018 and December 31, 2017 to PricewaterhouseCoopers LLP, the Corporation's external auditor, and its affiliates were $1.0 million for 2018 and 2017, as detailed below:

	Year ended December 31,	
(in thousands of Canadian dollars)	**2018**	**2017**
	$	**$**
Audit fees	**631,000**	556,026
Audit-related fees	**109,300**	16,867
Tax fees – compliance/preparation	**65,985**	131,196
Tax fees – other	**150,766**	268,654
Other	**-**	-
	957,051	972,743

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-related fees. Audit-related fees were paid for professional services related to pension plan audits, the 2018 public offering of Shares and general accounting consultation.

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. In 2017, Chorus engaged another firm, which is not affiliated with PricewaterhouseCoopers, to provide tax consulting services related to the aircraft leasing business going forward.

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 that (A) Margaret Clandillon ceased to be a director of Waypoint Leasing (Ireland) Limited within one year prior to it filing for bankruptcy protection under chapter 11 of title 11 of the United States Code on November 25, 2018; (B) Richard D. Falconer was a member of the board of directors of Jaguar Mining Inc. when it filed for a voluntary proceeding under the *Companies' Creditors Arrangement Act* on December 23, 2013, and (C) Joseph D. Randell ceased to be a director of Pluna Líneas Aéreas Uruguayas S.A. within one year prior to it being petitioned into bankruptcy by the government of Uruguay.

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

Chorus is party to various legal proceedings and claims that arise during the ordinary course of business. It is the opinion of management that final determination of these claims will not have a material adverse effect on Chorus' business, results of operations, cash flows, financial position and prospects. Accordingly, the provisions that have been recorded for such matters are not material.

CONFLICTS OF INTEREST

To the best of management's knowledge, there are no known existing or potential material conflicts of interest among the Corporation and its directors, officers or other members of management as a result of their outside business interests, except that certain directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to Chorus and their duties as a director or officer of such other companies. In such circumstances, directors may choose or be required to abstain from participating in the Board's deliberation or the consideration of any resolution on the matter. See "Directors and Officers" for information concerning each director's principal occupation and directorships with other reporting issuers as at the date of this AIF. See also "The Chorus Business – Three-Year History" with respect to the nomination of Mr. Michael Rousseau, the Deputy Chief Executive Officer and Chief Financial Officer of Air Canada, to the Board of Directors, and the description of the CPA between Chorus and Air Canada under "Chorus Business Segments – Regional Aviation Services."

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) the Shareholders of the Corporation that, to the knowledge of the Corporation, beneficially own or control, directly or indirectly, more than 10% of the Shares of the Corporation, or (iii) any associate or affiliate of the persons referred to in (i) or (ii), 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, 2018, 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 "Chorus Business Segments – Regional Aviation Services – Contract Flying - Capacity Purchase Agreement with Air Canada";

(ii) Term Sheet executed January 14, 2019 among Chorus Aviation Inc., Jazz Aviation LP and Air Canada. This agreement sets out the principal terms and conditions on which the parties have agreed to further amend and restate the CPA;

(iii) 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, together with an amendment thereto. This agreement sets out the terms and conditions on which Fairfax agreed to subscribe for Convertible Units, including the representations, warranties and covenants provided by Chorus Aviation Inc. in connection therewith. The Convertible Units (comprising the Debentures and Warrants) are described in this AIF under the heading "Capital Structure – Convertible Units";

(iv) Indenture made as of March 6, 2017 between Chorus Aviation Inc., as Issuer, and CST Trust Company, as Trustee, together with an amendment thereto. The indenture sets out the terms governing the Debentures;

(v) Warrant Indenture made as of March 6, 2017 between Chorus Aviation Inc. and CST Trust Company, as Warrant Agent. The indenture set out the terms governing the Warrants;

(vi) Underwriting Agreement made as of February 26, 2018 between Chorus Aviation Inc., RBC Dominion Securities Inc., CIBC World Markets Inc., Scotia Capital Inc., National Bank Financial Inc., TD Securities Inc., Cormark Securities Inc., Canaccord Genuity Corp. and Paradigm Capital Inc. This agreement sets out the terms and conditions on which Chorus Aviation Inc. sold, and the underwriters purchased, the Shares contemplated therein;

(vii) Subscription Agreement dated January 14, 2019 between Chorus Aviation Inc. and Air Canada. This agreement sets out the terms and conditions on which Air Canada agreed to subscribe for Class B Voting Shares, including the representations, warranties and covenants provided by Chorus Aviation Inc. in connection therewith; and

(viii) Investor Rights Agreement dated February 4, 2019 between Chorus Aviation Inc. and Air Canada. This agreement sets out the rights and obligations of the parties in respect of Air Canada's investment in Chorus Aviation Inc.

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 annual meeting of Shareholders held on May 4, 2018 and will be contained in the Corporation's management proxy circular for its annual meeting of Shareholders expected to be held on May 8, 2019. Additional financial information is provided in the Corporation's Consolidated Financial Statements for the year ended December 31, 2018 and in the Corporation's 2018 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;

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

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

"**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 GP is a subsidiary of the Corporation;

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

"**Block Hour**" has the meaning given in the CPA;

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

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

"**CACIL**" means Chorus Aviation Capital (Ireland) Limited, a private company limited by shares incorporated under the *Companies Act, 2014* of Ireland on March 16, 2017. CACIL is a subsidiary of the Corporation;

"**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 "**CAC**" means CACC and its subsidiaries;

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

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

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

"**CPA**" means the amended and restated capacity purchase agreement effective January 1, 2015, between Air Canada and Jazz, as further amended and extended by the 2019 CPA Amendments, and as may be further amended;

"**CRJ100**", "**CRJ200**", "**CRJ705**", "**CRJ900**" and "**CRJ1000**" means, respectively, Bombardier CRJ 100, CRJ 200, CRJ 705, CRJ 900 and CRJ 1000 regional jet aircraft;

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

"**Cycle**" has the meaning given in the CPA;

"**Dash 8-100**", **"Dash 8-200", "Dash 8-300**" and "**Dash 7-100**" means, respectively, De Havilland Dash 8-100, Dash 8-200, Dash 8-300 and Dash 7-100 turboprop aircraft;

“EASA” means the European Aviation Safety Agency;

"EBITDA" means earnings before net interest expense, income taxes, depreciation and amortization. EBITDA is a non-GAAP financial measure. See the “Non-GAAP Financial Measures” section of the MD&A for the year ended December 31, 2018 which is incorporated herein by reference;

"EBITDAR" means earnings before net interest expense, lease rental payments, income taxes, depreciation, amortization, other rent and restructuring costs. EBITDAR is a non-GAAP financial measure commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft. See the “Non-GAAP Financial Measures” section of the MD&A for the year ended December 31, 2018 which is incorporated herein by reference;

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

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

“**E190**” and “**E195**” means, respectively, Embraer E-190 and E195 regional jet aircraft;

“FAA” Federal Aviation Administration of the United States of America;

"**Fairfax**" means Fairfax Financial Holdings Limited and/or certain of its subsidiaries;

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

“**Fixed Margin per Covered Aircraft**” means the fixed fee that, prior to January 1, 2019, was paid to Jazz by Air Canada for each Covered Aircraft under the CPA;

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

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

"**Infrastructure Fee per Covered Aircraft**" means the fixed fee that, prior to January 1, 2019, was paid to Jazz by Air Canada for each Covered Aircraft for the additional services Jazz provided in support of Air Canada’s regional flying network under the CPA;

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

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

"**King Air 200**" means Beechcraft King Air 200 turboprop aircraft;

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

“**MRO**” means maintenance, repair and overhaul;

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

"**Pass-Through Revenue**" means revenue received by Jazz under the CPA in payment of Pass-Through Costs;

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

"**Qualified Canadian**" means a "Canadian" as defined in the *Canada Transportation Act*;

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

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

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

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

SCHEDULE "A"

AUDIT, FINANCE AND RISK COMMITTEE CHARTER
CHORUS AVIATION INC.
(the "Corporation")

GENERAL PURPOSE

The audit, finance and risk committee (the "Committee") has been established by the board of directors of the Corporation (the "Board", and each member thereof, a "Director") in order to assist the Board in its oversight of:

(a) the integrity of the Corporation's financial statements and public disclosure documents;

(b) the qualifications, performance and independence of the Corporation's external auditor (the "External Auditor");

(c) the performance of the Corporation's internal audit and risk management function ("Internal Audit");

(d) the adequacy of the Corporation's internal controls and enterprise risk management framework; and

(e) compliance with applicable laws.

COMMITTEE COMPOSITION

1. **Qualifications**. The Committee shall consist of three (3) or more Directors as determined by the Board (collectively, the "Members"), all of whom shall be Independent and Financially Literate, and a majority of whom shall be Canadian. Notwithstanding the foregoing, a Member who is not Financially Literate may be appointed to the Committee provided that the Member becomes Financially Literate within a reasonable period of time following his or her appointment and provided further that the Board has determined that appointing the Member in these circumstances will not materially adversely affect the ability of the Committee to act independently and satisfy its other obligations.

   (a) A Member is considered to be "Independent" if (i) the Member has no direct or indirect relationship with the Corporation which, in the view of the Board, could reasonably be expected to interfere with the exercise of the Member's independent judgment, and (ii) the Member is not an individual who is considered to have a material relationship with the Corporation under section 1.4 or 1.5 of *National Instrument 52-110 – Audit Committees*. Material relationships may include commercial, charitable, industrial, banking, consulting, legal, accounting or familial relationships.

   (b) A Member is considered to be "Financially Literate" if the Member has the ability to read and understand a set of financial statements that present a breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation. It is not necessary, however, that a Member have comprehensive knowledge of Generally Accepted Accounting Principles or Generally Accepted Auditing Standards to be considered Financially Literate.

   (c) A Member is considered to be "Canadian" if he or she is a Canadian citizen or permanent resident within the meaning of subsection 2(1) of the *Immigration and Refugee Protection Act.*

2. **Appointment; Removal**. The Members shall be appointed by the Board and serve until the next annual meeting of the Corporation's shareholders, unless they are removed by the Board, they resign or otherwise cease to serve on the Committee or the Board. Unless a Chair is appointed by the Board, the Members may designate a Chair by a majority vote of all the 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 (3) Directors.

DUTIES AND RESPONSIBILITIES

The Committee is directed and empowered by the Board to perform the following duties and responsibilities:

1. **Financial Reporting**.

(a) **Consolidated Financial Statements**. Recommend to the Board the approval of the interim and annual consolidated financial statements of the Corporation (the "Consolidated Financial Statements"). In this regard, the Committee shall first review, among other things:

(i) the report of the External Auditor on the Consolidated Financial Statements;

(ii) the accounting policies selected by the Corporation's management ("Management") in preparing the Consolidated Financial Statements;

(iii) the reasonableness of all significant estimates, accruals and reserves employed by Management in preparing the Consolidated Financial Statements;

(iv) any unadjusted differences noted by the External Auditor in its review or audit of the Consolidated Financial Statements;

(v) any disagreements between the External Auditor and Management with respect to the Consolidated Financial Statements; and

(vi) the certificates to be executed and filed by the Chief Executive Officer and the Chief Financial Officer in accordance with the requirements of *National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings*.

(b) **MD&A**. Recommend to the Board the approval of Management's Discussion and Analysis (the "MD&A") relating to the annual or interim Consolidated Financial Statements upon gaining reasonable assurance that the MD&A has been prepared in accordance with applicable legal requirements.

(c) **Earnings News Release**. Recommend to the Board the approval of the earnings news release (the "Earnings Release") relating to the annual or interim Consolidated Financial Statements.

(d) **Accounting Choices**. Review, as required, with Management and the External Auditor any significant developments or choices that may impact the Corporation's financial reporting.

2. **External Audit**.

(a) **External Auditor Appointment**. Recommend to the Board a firm of chartered professional accountants to be nominated by the Board for appointment by the Corporation's shareholders as the External Auditor.

(b) **Audit Fees.** Recommend to the Board for approval the fees to be charged by the External Auditor for the audit of the annual Consolidated Financial Statements and the Pension Financial Statements (as defined below), and the review of the interim Consolidated Financial Statements (the "Audit Fees").

(c) **External Auditor Oversight**. In order to ensure appropriate oversight of the External Auditor's work:

(i) approve the External Auditor's engagement letter;

(ii) review the External Auditor's written disclosure of all relationships between it and the Corporation and its related entities that may reasonably be thought to bear on the External Auditor's independence, as well as the External Auditor's written confirmation to the Committee that, in the External Auditor's professional judgment, it is independent of the Corporation;

(iii) approve the scope, focus areas and materiality thresholds for the audit of the annual Consolidated Financial Statements and the Pension Financial Statements;

(iv) oversee the work of the External Auditor in preparing and issuing an auditor's report or performing other audit, review or attest services for the Corporation;

(v) confirm with the External Auditor that Management has not placed any restrictions on the External Auditor with respect to the scope of its activities, its access to any required information or the reporting of its findings to the Committee;

(vi) attempt to resolve any disagreements that may arise between the External Auditor and Management;

(vii) discuss any observations by the External Auditor with respect to any matters that could reasonably be thought to bear on the reliability of the Consolidated Financial Statements, including, among other things:

(A) the reasonableness and consistency from one year to the next of the accounting principles, polices, practices, estimates, judgments or disclosure practices employed by the Corporation;

(B) any significant deficiencies or weaknesses in the Corporation's control environment;

(C) any significant deviations from the annual audit plan approved by the Board; and

(D) any significant adjustments that have been made by Management to the Consolidated Financial Statements as a result of the External Auditor's audit or review activities; and

(viii) review the performance of the External Auditor.

(d) **Non-Audit Services**. Pre-approve, as required, all fees for non-audit services to be provided by the External Auditor to the Corporation or its subsidiaries.

(e) **Hiring Policies**. Approve, and review annually, the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former External Auditor.

3. **Internal Audit and Risk Management**.

(a) **Review and Appointment**. Review, annually, the performance of Internal Audit and approve, as required, the appointment and removal of the head of Internal Audit.

(b) **Mandate and Plan**. Approve the Internal Audit mandate and plan for each fiscal year of the Corporation.

(c) **Engagement Reviews**. Review, quarterly, a summary of all Internal Audit engagements and Management's responses to all significant findings, including reports of any confirmed or alleged fraud. In connection therewith, confirm with the head of Internal Audit that Management has not placed any restrictions on Internal Audit with respect to the scope of its activities, access to any required information or the reporting of its findings to the Committee.

(d) **Principal Risks**. Review, annually, Management's (i) assessment of the principal financial and other risks to the Corporation, and (ii) procedures for continually identifying, monitoring and managing those risks.

4. **Controls and Compliance**.

(a) **Internal Controls over Financial Reporting**. Review (i) quarterly, any material weaknesses identified by Management in relation to the design or operation of the Corporation's internal controls over financial reporting ("ICFR") and Management's actions to remediate such weaknesses, and (ii) annually, Management's process for assessing any required updates or changes to the Corporation's ICFR.

(b) **Disclosure Controls and Procedures**. Review (i) quarterly, any material weaknesses identified by Management in relation to the design or operation of the Corporation's disclosure controls or procedures ("DC&P") and Management's actions to remediate such weaknesses, and (ii) annually, Management's process for assessing any required updates or changes to the Corporation's DC&P. In connection therewith, approve the Corporation's Public Disclosure Policy.

(c) **Accounting, Control or Auditing Concerns**. Approve, and review annually, procedures for the receipt, retention and treatment of complaints received by the Corporation and its subsidiaries regarding accounting, internal accounting controls, or auditing matters.

(d) **Confidential Submission of Wrongdoing**. Approve, and review annually, procedures for the confidential, anonymous submission by employees of the Corporation or its subsidiaries of concerns regarding questionable accounting or auditing matters.

(e) **Confidential Reports**. Review, quarterly, a summary of all complaints and reports submitted pursuant to the procedures referenced in paragraphs (c) and (d) above.

(f) **Tax Compliance**. Review, quarterly, a certificate from Management confirming compliance by the Corporation and its subsidiaries with all material tax withholding and remittance obligations.

(g) **Covenant Compliance**. Review, quarterly, a report from Management confirming compliance by the Corporation and its subsidiaries with all debt covenants and providing a forecast of future compliance.

(h) **Legal Compliance**. Review, as required, reports from the General Counsel concerning material violations of applicable law by the Corporation or any of its subsidiaries.

(i) **Litigation**. Review, as required, all legal claims or proceedings involving the Corporation or its subsidiaries that Management reasonably expects could have a significant effect on the financial position, results of operations or cash flows of the Corporation.

5. **Environment, Health and Safety**.

(a) **EHS Monitoring**. Review, quarterly, the performance of the Corporation's operating subsidiaries in relation to their environmental, health and safety ("EHS") obligations by reviewing:

(ix) all EHS incidents involving a serious injury or fatality, significant harm to the natural environment, or significant loss or damage to property ("Significant Incidents");

(x) all EHS incidents (whether or not Significant Incidents) that required reporting to regulatory authorities;

(xi) performance against each operating subsidiary's EHS performance targets; and

(xii) the results of EHS compliance audits and the corrective actions taken by the Corporation's operating subsidiaries.

6. **Pension Plans**.

(a) **Monitoring**. Review, quarterly, reports from Management concerning the overall operation of the retirement plans of the Corporation and its subsidiaries (collectively, the "Plans"), including their asset allocations and investment returns, their funded status and their compliance with the applicable Statements of Investment Policies and Procedures ("SIPPs").

(b) **Funding, Auditor, Trustee/Custodian**. Recommend to the Board, annually, the approval of the funding policy, the appointment of the external auditor and the trustees/custodians of the assets of the Plans;

(c) **SIPP, Actuary, Consultants**. Approve, annually, the SIPPs, the actuary and any consultant(s) for the Plans;

(d) **Valuation**. Accept the annual actuarial assumptions and valuation reports for the Plans;

(e) **Financial Statements**. Recommend to the Board the approval of the annual audited financial statements for the Plans; and

(f) **Pension Committee Charter**. Approve, annually, a charter for the Management Pension Committee.

7. **Business Plan and Performance**.

(a) **Year-to-Date**. Review, quarterly, the Corporation's consolidated year-to-date financial performance, including any significant variances to the current year business plan and prior year financial performance.

(b) **Balance-of-Year Forecast**. Review, quarterly, Management's most recent financial forecast for the balance of the year, including projected earnings and cash-flows.

8. **Other Duties**.

Without limiting any of the duties set out above, the Committee shall:

(a) recommend to the Board, annually, the approval of the Corporation's delegation of authority policy;

(b) review, annually, the Corporation's procedures for approving the reimbursement of expenses claimed by the Corporation's officers;

(c) approve the Committee's report that is included in the Corporation's annual proxy circular and the information about the Committee that is required to be included in the Corporation's annual information form;

(d) review this charter annually and provide any comments thereon to the Governance and Nominating Committee of the Board for consideration; and

(e) perform such other duties as from time to time are assigned to the Committee by the Board.