COMPETITION TRIBUNAL
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**PUBLIC VERSION**

CT-2016-015

**THE COMPETITION TRIBUNAL**

**IN THE MATTER OF** the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

**AND IN THE MATTER OF** certain conduct of Vancouver Airport Authority relating to the supply of in-flight catering at Vancouver International Airport;

**AND IN THE MATTER OF** an application by the Commissioner of Competition for one or more orders pursuant to section 79 of the *Competition Act*.

**BETWEEN:**

**COMMISSIONER OF COMPETITION**

**Applicant**

**—and—**

**VANCOUVER AIRPORT AUTHORITY**

**Respondent**

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# MOTION RECORD OF VANCOUVER AIRPORT AUTHORITY

*(VAA's Motion Objecting to Admissibility of Certain Evidence)*

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September 10, 2018

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**NOTICE OF MOTION**

*(VAA's Motion Objecting to Admissibility of Certain Evidence)*

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**TAKE NOTICE** that the Respondent, Vancouver Airport Authority ("VAA"), will make a motion to the Competition Tribunal on Monday, September 24, 2018, pursuant to the Order Amending the Scheduling Order of Mr. Justice Gascon, dated March 21, 2018. The estimated duration of the motion is one half-day.

**THIS MOTION IS FOR:**

1. an Order ruling inadmissible the following proposed evidence contained in the Witness Statement of Barbara Stewart, dated October 31, 2017 (the "Stewart Witness Statement"):

(a) the statement made in paragraph 5 of the Stewart Witness Statement that an RFP process conducted by Air Transat in 2015 "is expected to result in Air Transat realizing cost savings of approximately [redacted] over [redacted] years by switching away from the incumbent provider at 10 airports in Canada and contracting with Optimum Strategies Inc.";

(b) the statement made in paragraph 5 of the Stewart Witness Statement that "[a]s a result of Air Transat's inability to switch to a new-entrant provider at YVR, today Air Transat pays approximately [redacted]% more for inflight catering on an annualized basis at YVR, negatively impacting Air Transat's cost competitiveness";

(c) the statement made in paragraph 29 of the Stewart Witness Statement that "[w]ith respect to price, Air Transat combined the proposed pricing provided by the bidders with Air Transat's flight schedules and volumes by airport. Air Transat was thus able to compare, on a station-by-station and overall basis, the proposed catering and galley handling pricing of each of the bidders. In this way, Air Transat determined that the lowest proposed pricing, from Optimum, represented an approximate [redacted]% cost savings, or [redacted] over [redacted] years for stations across the country, over the prices proposed by [redacted]";

(d) the statement made in paragraph 33 of the Stewart Witness Statement that "Air Transat determined that Optimum's bid for YVR was superior to that of Gate Gourmet from both a price and service perspective";

(e) the statement made in paragraph 35 of the Stewart Witness Statement that "[i]n contracting with Gate Gourmet for inflight catering only at YVR, Air Transat was forced to [redacted] from Gate Gourmet, causing Air Transat [redacted] to Gate Gourmet – approximately [redacted] – than what it would have paid to Optimum for service at YVR";

(f) the statement made in paragraph 42 of the Stewart Witness Statement that "Air Transat's RFP revealed that the airline could save approximately $23 million over seven years on the cost of inflight catering by switching service providers"; and

(g) the statement made in paragraph 42 of the Stewart Witness Statement that "[a]s a result of Air Transat's inability to switch to a new-entrant provider at YVR, today Air Transat pays approximately [redacted]% more for inflight catering on an annualized basis at YVR, negatively impacting Air Transat's cost competitiveness";

2. an Order ruling inadmissible the following proposed evidence contained in the Witness Statement of Rhonda Bishop, dated November 10, 2017 (the "Bishop Witness Statement"):

(a) the statement made in paragraph 4 of the Bishop Witness Statement that "[b]ased on evaluating the bids received in response to the 2014 RFP, Jazz estimated that it could save approximately [redacted] per year on its In-flight Catering costs at YVR, had Jazz been able to select a competitive new-entrant alternative at the airport instead of the incumbent provider, gate Gourmet Canada Inc.";

(b) the statement made in paragraph 4 of the Bishop Witness Statement that "[i]n 2015 alone, Jazz realized actual cost savings of $2.9 million or 16% on In-flight Catering, by switching away from Gate at eight airports in Canada and procuring the services of new providers, specifically, Newrest and Sky Café";

(c) the statement made in paragraph 5 of the Bishop Witness Statement that "[f]rom 1 January 2015 until 31 March 2017, Jazz incurred significant forgone In-flight Catering cost savings at YVR as a result of Jazz's inability to switch to a new-entrant provider at the airport. Multiplying Jazz's actual flight volumes at YVR between 1 January 2015 and 31 March 2017 by the RFP pricing proposed by Sky Café, and comparing it with Gate Gourmet's actual pricing for the period, Jazz was forced to pay approximately [redacted] more for In-flight Catering at YVR";

(d) the statement made in paragraph 6 of the Bishop Witness Statement that "Jazz's inability to switch providers of In-flight Catering at YVR led to increases in Jazz's costs of operations and negatively impacted the cost competitiveness of the rates charged to Air Canada for In-flight Catering under Jazz's Capacity Purchase Agreement ("CPA") with Air Canada";

(e) the statements made in paragraphs 41 and 42 of the Bishop Witness Statement that "[i]n analyzing the RFP responses, Jazz estimated the total costs of each bid by [redacted] Jazz compared the costs of each bid [redacted], and to Jazz's actual 2014 costs, under its then-existing arrangement with Gate Gourmet. The July 2014 bid evaluation suggested that Newrest and Sky Café offered Jazz substantially lower prices than Gate Gourmet for In-flight Catering at the Nine Stations, except [redacted] In fact, based on the bids that each firm submitted using specifications provided by Jazz [redacted] [redacted]), Jazz determined that it could save approximately [redacted] on its costs for In-flight Catering by switching away from Gate Gourmet at eight of the Nine Stations and continuing to use Gate Gourmet at YVR, in comparison to what it had been paying the incumbent, Gate Gourmet, in 2014. A copy of Jazz's 2014 bid evaluation (adjusted to reflect [redacted] is attached as Exhibit 10;"

(f) the statement made in paragraph 45 of the Bishop Witness Statement that "[b]ased on the July 2014 RFP bid evaluation (see [redacted] Jazz's costs for having to contract with Gate Gourmet for In-flight Catering at YVR were estimated to be approximately [redacted] greater than what Jazz would have expected to pay [redacted] a competitive new-entrant alternative, if only VAA had permitted [redacted] to operate at YVR;"

(g) the statement made in paragraph 50 of the Bishop Witness Statement that "[c]onsistent with Jazz's July 2014 bid evaluation, in absolute terms, switching the service provider at the Switch Stations translated into actual savings of $2.9 million or 16% in 2015 alone";

(h) the statement made in paragraph 51 of the Bishop Witness Statement that "[i]n contrast to the Switch Stations, Jazz ultimately could not change providers of In-flight Catering at YVR, incurring significant additional costs to remain with Gate Gourmet, whose bid at YVR was not competitive";

(i) the statement made in paragraph 52 of the Bishop Witness Statement that "Jazz's July 2014 bid evaluation indicated that Gate Gourmet's bid for In-flight Catering at YVR was approximately [redacted] higher than that of [redacted], a more competitive new-entrant alternative at the airport";

(j) the statement made in paragraph 54 of the Bishop Witness Statement that "[a]s a result of Jazz's inability to switch to a new-entrant provider at YVR, Jazz's foregone in-flight Catering cost savings increased from 1 January 2015 to 30 April 2017. Multiplying Jazz's actual flight volumes at YVR between 1 January 2015 and 31 March 2017 by the 2014 RFP pricing proposed by [redacted], and comparing it with Gate Gourmet's actual pricing for the period, Jazz was forced to pay approximately [redacted], for In-flight Catering at YVR. A copy of Jazz's pricing analysis in this regard is attached as [redacted];"

(k) the statement made in paragraph 60 of the Bishop Witness Statement that the alleged non-competitiveness of the marketplace for In-flight Catering at YVR is "[redacted]

(l) the statement made in paragraph 65 of the Bishop Witness Statement that "[t]hrough its 2014 RFP for In-flight Catering, Jazz discovered it could achieve significant annual cost savings by switching to more competitive providers of In-flight Catering, without sacrificing the quality or service that Jazz and its passengers demand";

(m) the statement made in paragraph 65 of the Bishop Witness Statement that "[a]s a result of Jazz's inability to switch to a more competitive new-entrant provider at YVR, Jazz's forgone In-flight Catering cost savings from 1 January 2015 to 31 March 2017 were approximately [redacted] Jazz's inability to switch providers of In-flight Catering at YVR led to increases in jazz's costs of operations and negatively impacted the cost competitiveness of the rates charged to Air Canada for In-flight Catering under Jazz's CPA with Air Canada;"

(n) [redacted] to the Bishop Witness Statement; and

(o) [redacted] to the Bishop Witness Statement;

3. VAA's costs of this motion; and

4. such further and other relief as the Tribunal deems just.

**THE GROUNDS FOR THE MOTION ARE:**

**The Proceedings**

1. The Commissioner began this proceeding by Notice of Application, dated September 29, 2016, seeking relief against VAA pursuant to section 79 of the *Act*.

2. Broadly speaking, the proceeding relates to VAA's decision to permit only two and now three in-flight catering service providers to operate on-site at the Vancouver International Airport (the "Airport"). The Commissioner's application is based upon, among other things, allegations that VAA controls the market for "Galley Handling" at the Airport, that it acted with an anti-competitive purpose, and that the effect of its policy decision was a "substantial prevention or lessening of competition", resulting in "higher prices, dampened innovation and lower service quality".

3. VAA is statutorily mandated to operate the Airport in a safe and efficient manner, to generate economic development for Vancouver and, more broadly, for British Columbia and the rest of Canada.

4. VAA delivered its Response on or about November 14, 2016. Among other things, VAA asserted that, given the small (and declining) market for in-flight catering of fresh meals, the entry of additional catering firms would imperil the continued viability of the operations of the two existing catering firms at the Airport, thereby adversely affecting VAA's ability to attract and retain flights in furtherance of its public interest mandate.

5. VAA further pleaded that the Airport's ability to ensure the availability of a competitive choice of freshly prepared meals is very important to its efforts to attract new airlines and routes and retain existing flights and routes at the Airport. VAA also denied that it substantially controls the relevant market (which it stated is broader than the Airport, owing to the fact that airlines can meet their "Galley Handling" needs through self-supply or double catering) and also denied that its conduct has substantially lessened or prevented competition.

6. VAA delivered an Amended Response on or about April 16, 2018. Among other things, VAA's Amended Response pleads that, in 2017, VAA reviewed the in-flight catering market at the airport, with a view to determining whether there was sufficient demand to permit new entry without jeopardizing the existing level of service and competition among caterers operating at the airport. As a result of that review, VAA concluded that there was sufficient demand to permit new entry.

7. VAA further pleads that, following a request for proposals process, it entered into a 15-year licence agreement with a third caterer (dnata Catering Services Ltd.), which licence grants to dnata non-exclusive privileges to operate in-flight catering services at the airport.

8. All of the foregoing allegations are denied by the Commissioner.

**The Commissioner's Proposed Evidence**

9. The Commissioner has served a number of witness statements signed by employees or former employees of various industry participants. Among those witness statements are:

(a) a witness statement signed by Barbara Stewart, who is now retired, but who was, until June 1, 2017, the Senior Director, Procurement, for Air Transat A.T. Inc. (referred to herein as the "Stewart Witness Statement"); and

(b) a witness statement signed by Rhonda Bishop, the Director, Inflight Services and Onboard Product of Jazz Aviation LP (referred to herein as the "Bishop Witness Statement").

10. It is expected that both the Stewart Witness Statement and the Bishop Witness Statement will be tendered by the Commissioner as evidence at the trial of this matter.

11. Both the Stewart Witness Statement and the Bishop Witness Statement contain statements that should not be admitted into evidence.

12. More specifically, both the Stewart Witness Statement and the Bishop Witness Statement contain:

(a) statements that are objectionable as they constitute opinion evidence, but do not meet the requirements for admissibility of lay opinion evidence; and

(b) statements that are objectionable as they constitute inadmissible hearsay.

13. Rules 68, 69 and 83 to 88 of the *Competition Tribunal Rules*, SOR/2008-141, as amended.

14. Rules 240, 241 and 248 of the *Federal Court Rules*, SOR/98-106, as amended.

15. Section 30 of the *Canada Evidence Act*, R.S.C. 1985, c. C-5, as amended.

16. Such further and other grounds as counsel may advise.

**THE FOLLOWING DOCUMENTARY EVIDENCE** will be used at the hearing of the motion:

(a) the Witness Statement of Barbara Stewart on Behalf of Air Transat A.T. Inc., dated October 31, 2017;

(b) the Witness Statement of Rhonda Bishop, Jazz Aviation LP, dated November 10, 2017;

(c) the Expert Report of Dr. Gunnar Niels, dated July 4, 2018;

(d) transcript of the examination for discovery of Kevin Rushton, held on December 13, 2017 and the answers to undertakings and positions on refusals provided in connection therewith;

(e) transcript of the continued examination for discovery of Kevin Rushton, held on May 17, 2018 and the answers to undertakings and positions on refusals provided in connection therewith;

(f) the pleadings and proceedings herein; and

(g) such further and other evidence as counsel may advise and the Tribunal may permit.

DATED at Toronto, Ontario this 10th day of September, 2018

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**CT–2016–015**

**THE COMPETITION TRIBUNAL**

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**WITNESS STATEMENT OF**

**BARBARA STEWART ON BEHALF OF**

**AIR TRANSAT A.T. INC.**

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I, Barbara Stewart, of the City of Brampton, in the Province of Ontario, state as follows:

1. Until my retirement on 1 June, 2017, I was the Senior Director, Procurement, for Air Transat A.T. Inc. ("**Air Transat**"), a position I held for four years. Air Transat is Canada's leading holiday travel airline, carrying approximately 4 million passengers per year to more than 60 destinations in 30 countries.

2. While at Air Transat, I was responsible for all procurement activities, including those specifically relating to inflight catering. In preparing this Witness Statement, I have had detailed discussions with my former colleagues at Air Transat in order to familiarize myself with any developments relating to inflight catering that may have occurred at the airline since my retirement. I have personal knowledge of the matters in this Witness Statement, except where I have otherwise indicated that I am relying on information from others, in which case I believe such information to be true.

3. Air Transat has authorized me to provide this Witness Statement on its behalf.

**PURPOSE OF THIS WITNESS STATEMENT**

4. I make this Witness Statement on behalf of Air Transat in connection with the application by the Commissioner of Competition against Vancouver Airport Authority ("**VAA**") in proceeding CT–2016–015, relating to alleged anti-competitive conduct by VAA concerning inflight catering at Vancouver International Airport ("**YVR**").

5. As I describe below, in 2015 Air Transat completed a request-for-proposal ("**RFP**") process for inflight catering. This is expected to result in Air Transat realizing cost savings of approximately $[redacted] over [redacted] years by switching away from the incumbent provider at 10 airports in Canada and contracting with Optimum Stratégies Inc. ("**Optimum**"), which in turn subcontracts inflight catering services to various third party providers. Air Transat would also have switched to Optimum at YVR, if Optimum's preferred galley handling subcontractor at the airport – Sky Café Ltd. ("**Sky Café**") – had held an authorization from VAA to

operate at YVR. As a result of Air Transat's inability to switch to a new-entrant provider at YVR, today Air Transat pays approximately [redacted]% more for inflight catering on an annualized basis at YVR, negatively impacting Air Transat's cost competitiveness.

### PERSONAL PROFILE

6. I have 37 years of experience in the aviation industry in a number of management roles, including:

    a. Operation Manager, Wardair from 1986 to 1991;

    b. Manager, Strategic Planning Airports, Canadian Airlines from 1991 to 1996;

    c. General Manager, Hudson General Inc. from 1996 to 1999;

    d. Senior Director, Airports – Air Transat from 2000 to 2014; and

    e. Senior Director, Procurement – Air Transat from 2014 to 2017.

7. In my capacity as Senior Director, Procurement, for Air Transat, I was responsible for all procurement activities at Air Transat as they relate to inflight catering, ground handling and fuel, together with managing the relationship between Air Transat and the major airports it serves.

### OVERVIEW OF AIR TRANSAT'S BUSINESS

<u>Routes</u>

8. Air Transat is a subsidiary of Transat A.T. Inc. ("**Transat**"), an integrated international tour operator with more than 60 destination countries and that distributes products in over 50 countries. A holiday travel specialist, Transat operates mainly in Canada and Europe, as well as in the Caribbean, Mexico and the Mediterranean Basin. Transat is headquartered in Montreal and publicly-traded on the Toronto Stock Exchange (TSE:TRZ). Additional information about

Transat and Air Transat may be found in Transat's Annual Report and Annual Information Form for its fiscal year ended 31 October 2016, copies of which are attached and marked as **Exhibits 1** and **2**, respectively.

9. Air Transat provides passenger air transportation services to Transat using a fleet of owned and leased aircraft. During the 2017 winter season (November 2016 through April 2017, Air Transat served approximately 44 destinations in 19 countries, flying primarily to southern sun destinations. In the summer of 2017 (May 2017 through October 2017), Air Transat offered direct flights between Canada and 29 European destinations in 13 countries.

10. Air Transat flies from up to 22 airports in Canada, including its principal bases at Montréal-Pierre Elliott Trudeau International Airport ("**YUL**"), Québec City Jean Lesage International Airport ("**YQB**"), Toronto Pearson International Airport ("**YYZ**"), YYC Calgary International Airport ("**YYC**") and YVR. In addition to its offering of direct flights, Air Transat's connecting flight program makes even more destinations accessible, by connecting various Canadian cities to Air Transat's principal bases in Canada. Detailed tables of Air Transat's routes may be found on pages 78 and 79 of the June 2017 – October 2017 edition of "Atmosphere", Air Transat's inflight magazine, a copy of which is attached and marked as **Exhibit 3**.

<u>Fleet</u>

11. As at 31 July 2017, Air Transat operates a core fleet of 32 aircraft, comprising 25 wide-body Airbus aircraft, and 7 narrow-body Boeing aircraft, as follows:

    a. 12 Airbus 330-200s – 8 with 345 seats (12 Club Class and 333 Economy Class) and 4 with 332 seats (12 Club Class and 320 Economy Class);

    b. 4 Airbus 330-300s – 3 with 375 seats (12 Club Class and 363 Economy Class) and 1 with 346 seats (12 Club Class and 334 Economy Class);

c. 9 Airbus 310-300s with 250 seats (12 Club Class and 238 Economy Class); and

d. 7 Boeing 737-800s with 189 Economy Class seats.

12. As part of its flexible fleet strategy aimed at meeting demand, Air Transat currently supplements its core fleet during the winter season by leasing approximately 13 additional Boeing 737s from several European airlines. Air Transat also leases a few of its own wide-body aircraft to other operators during the winter season.

Inflight Menu Offering

13. Air Transat offers its passengers a selection of meals, snacks and beverages onboard its aircraft. The specific menu offerings vary based on passenger class, flight duration and route.

14. For passengers travelling in Economy Class, Air Transat currently provides the following food and beverage offerings:

a. On flights to/from sun destinations and the United States, a “South Bistro” menu, a copy of which is attached and marked as **Exhibit 4**, featuring:

i. Complimentary non-alcoholic beverages (water, tea, coffee, juices and soft drinks);

ii. A buy-on-board (“**BOB**”) service, offering passengers the option to purchase, at affordable prices, alcoholic beverages, snacks (such as chips and chocolate bars), and, for flights longer than three hours, a selection of bistro-style meals (such as sandwiches and pizza); and

iii. Since spring 2017, a selection of freshly-prepared gourmet meals created by Quebec chef, Daniel Vézina, that include a choice of hot main course, cheese plate, dessert and wine, for purchase at a cost of $25 (for flights longer than three hours) (the "**Chef's Menu**");

b. On transatlantic flights, a "Europe Bistro" menu, a copy of which is attached and marked as **Exhibit 5**, featuring:

   i. Complimentary non-alcoholic beverages (water, tea, coffee, juices and soft drinks);

   ii. A choice from among three complimentary hot sandwiches, served with orzo salad for flights from Canada to Europe;

   iii. A choice from among three complimentary hot dishes, served with a ciabatta bun and couscous salad for flights from Europe to Canada;

   iv. BOB snacks and alcoholic beverages; and

   v. Since spring 2017, the Chef's Menu.

c. On domestic flights within Canada:

   i. Complimentary non-alcoholic beverages (water, tea, coffee, juices and soft drinks);

   ii. BOB snacks and alcoholic beverages; and

   iii. A selection of bistro-style meals offered at affordable prices for flights longer than three hours.

15. For passengers travelling in Club Class, Air Transat provides an enhanced menu offering. On all routes, passengers receive, on a complimentary basis, a welcome cocktail, a choice of select wines, beverages and snacks and, since spring 2017, for flights longer than three hours, a choice of gourmet meals from the Chef's Menu.

**AIR TRANSAT'S PROCUREMENT OF INFLIGHT CATERING**

Products & Services Procured

16. Air Transat procures a wide variety of inflight catering products and services in Canada. In doing so, Air Transat takes a multi-pronged approach.

    a. Air Transat makes volume purchases direct from manufacturers, distributors and wholesalers of:

        i. commissary items (non-alcoholic beverages and non-perishable food products, such as potato chips and chocolate bars);

        ii. disposable materials used in connection with the provision of inflight catering, such as salt and pepper shakers, plastic utensil kits, tray liners, coffee cups, plastic lids and similar items; and

        iii. reusable materials – items that are used, cleaned and re-used – in connection with the provision of inflight catering, such as plastic serving trays, table linen, cutlery and chinaware (for Club Class service).

    b. Through RFP processes, Air Transat contracts with specialized firms for the provision of:

        i. bar (alcoholic beverage) and duty-free products that are made available to passengers onboard Air Transat aircraft; and

        ii. South Bistro and Europe Bistro meals that are prepared fresh (except for pizza, which is frozen) and offered to Economy Class passengers onboard Air Transat aircraft for flights longer than three hours.

    c. Through an RFP process, Air Transat contracts with one or more specialized firms that, directly or indirectly (i.e., through subcontracting), provide inflight catering services in respect of Air Transat's aircraft when they are stationed at certain airports in Canada. These firms provide two general types of products and services to Air Transat – catering, and galley handling.

i. Catering comprises the preparation of Air Transat crew meals, Club Class passenger meals and special passenger meals (for those with dietary restrictions, such as vegetarian, diabetic, gluten-free, low sodium, etc.). It also involves tray set-up of the South Bistro and Europe Bistro meals that Air Transat has delivered to the inflight catering firm, and the supply of dairy (milk, milkettes and creamers) and ice. [redacted] That is, [redacted].

ii. Galley handling involves a variety of services necessary to prepare inflight catering supplies for use by crew and passengers onboard Air Transat aircraft. It consists of warehousing products that Air Transat procures and has delivered to the inflight catering firm (i.e., commissary, disposable and reusable equipment, bar and duty-free products and South Bistro and Europe Bistro meals). It also involves inventory management, the preparation of aircraft trolley carts, the trucking of inflight catering supplies to/from aircraft, and the loading/unloading of product on/from the aircraft. Firms providing galley handling to Air Transat are responsible for cleaning reusable equipment, garbage disposal, ensuring that inflight catering supplies are properly secured, handheld device management, reporting of sales and inventory for the purposes of customs duties, and Revenue Canada excise taxes and collecting and handling passenger donations to an Air Transat-supported charity. [redacted]

That is, [redacted].

Stations at which Air Transat Procures Inflight Catering

17. Air Transat has arrangements in place with one or more specialized firms that, directly or indirectly (i.e., through subcontracting), provide inflight catering services in respect of Air Transat's aircraft when they are stationed at the following 18 airports in Canada: Victoria International Airport ("**YYJ**"), YVR, Kelowna International Airport ("**YLW**"), YYC, Edmonton International Airport ("**YEG**"), Saskatoon John G. Diefenbaker International Airport ("**YXE**"), Regina International Airport ("**YQR**"), Winnipeg James Armstrong Richardson International Airport ("**YWG**"), Windsor International Airport ("**YQG**"), London International Airport ("**YXU**"), John C. Munro Hamilton International Airport ("**YHM**"), YYZ, Ottawa Macdonald–Cartier International Airport ("**YOW**"), YUL, YQB, Greater Moncton Roméo LeBlanc International Airport ("**YQM**"), Halifax Stanfield International Airport ("**YHZ**") and St. John's International Airport ("**YYT**") (collectively, "**Catering Stations**").

18. Air Transat flies from four additional stations in Canada, at which it does not procure inflight catering. At these airports – Thunder Bay International Airport ("**YQT**"), Rouyn-Noranda Airport ("**YUY**"), Bagotville Airport ("**YBG**") and Fredericton International Airport ("**YFC**") – Air Transat operates a limited number of flights (six flights per week across the four airports, to the Dominican Republic, Mexico and YUL), and only during the winter season. In addition inflight catering services are not available at these small stations, thus flights are scheduled to originate from, transit through or terminate at a Catering Station. As such, for these flights, Air Transat procures inflight catering when the aircraft passes through a Catering Station.

19. In contrast to YQT, YUY, YBG and YFC, it is imperative that Air Transat procure inflight catering at Catering Stations for flights departing those airports. This is the case for two principal reasons.

   a. First, most flights departing a Catering Station park overnight at the particular airport for a period of many hours. The aircraft then generally travels on a point-to-point route to a foreign destination, prior to returning to a Catering Station. As Air Transat does not procure inflight catering at its foreign destinations (other than ice, milk and dairy), the only opportunity to procure inflight catering for these flights is at a Catering Station. It is more cost effective for Air Transat to procure inflight catering in Canada instead of at foreign destinations, and at the same time reduces ground time at stations, allowing Air Transat to maximize its flying and aircraft utilization while respecting noise abatement requirements at our major airports.

   b. Second, Air Transat operates a significant volume of flights from Catering Stations, especially during the winter season. For example, in the 2017 winter season (November 2016 through April 2017), Air Transat had 101 departures per week from YUL, 25 departures per week from YQB, 88 departures per week from YYZ, 12 departures per week from YYC and 14 departures per week from YVR.

20. In addition, and specifically with respect to YVR, Air Transat cannot back haul or self-supply inflight catering as alternatives to procuring inflight catering at YVR.

   a. Back haul (also referred to in the industry as “double catering”) involves procuring inflight catering for a flight at one airport for use on a subsequent flight by the same aircraft departing another airport. Given Air Transat’s point-to-point route network, procuring inflight catering for a flight at an airport other than YVR for use on a flight departing YVR is not feasible. To back haul a flight departing YVR, Air Transat would need to either originate the flight at another Catering Station and enplane connecting passengers at YVR prior to onward travel to the final destination, or originate the flight at YVR with no catering onboard and transit through a Catering Station to receive inflight catering services prior to onward travel to the final destination. Neither option is feasible, from the perspective of passenger experience, logistics (i.e., constant flight re-routings) and cost (such as extra labour, fuel and airport charges) let alone maintaining food at safe and controlled temperatures.

b. Self-supply of inflight catering at YVR, or elsewhere, by Air Transat is also not feasible. Fundamentally, Air Transat's core business is passenger air transportation, not the self-handling of catering or galley handling, in respect of which it has no expertise. To introduce and maintain an inflight catering division at Air Transat solely to service Air Transat's flights would simply be cost-prohibitive.

### AIR TRANSAT'S 2015 INFLIGHT CATERING RFP

Background

21. From 2009 through 2015, Air Transat procured inflight catering (catering and galley handling) from Gate Gourmet Canada Inc. ("**Gate Gourmet**") and its predecessor, Cara Operations Limited ("**Cara**"), at 10 of the Catering Stations, specifically: YHZ, YUL, YOW, YYZ, YHM, YWG, YQR, YEG, YYC and YVR (the "**Gate Gourmet Stations**"). With the exception of YHM, Air Transat understands that Gate Gourmet maintained an inflight catering facility at each of the Gate Gourmet Stations. In respect of YHM, where Air Transat understands that Gate Gourmet did not have a facility, Air Transat utilized Scarlett House Catering Inc. ("**Scarlett House**"), which trucked catering from its kitchen at YYZ in order to provide inflight catering to Air Transat aircraft at YHM.

22. At the eight other Catering Stations that are not among the Gate Gourmet Stations – namely YYT, YQM, YQB, YXU, YQG, YXE, YLW and YYJ – historically, none of the four major inflight catering firms operating in Canada

(Gate Gourmet, CLS Catering Services Ltd. ("**CLS**"), Newrest Holding Canada Inc. ("**Newrest"**) and Sky Café) have maintained operations (with, to Air Transat's knowledge, the exception of Gate Gourmet, which previously operated at YQB, and Sky Café, which currently provides inflight catering at YLW). Thus, at these eight Catering Stations, Air Transat has generally procured inflight catering from small local firms in those cities.

23. In 2015, Air Transat undertook, as per its procurement practice for major expense accounts, to conduct a competitive RFP for inflight catering at the Gate Gourmet Stations, as well as for YQB, a principal base for Air Transat. (collectively, the "**RFP Stations**") Air Transat's decision to conduct an RFP was based primarily on two factors.

   a. First, for several years now, among the corporate objectives Transat has pursued are cost reduction and profitability improvement. For Air Transat, this means exploring competitive alternatives in the marketplace wherever possible, using a tender process. In recent years, Air Transat has become aware that new providers of inflight catering have begun or expanded operations in Canada. To determine whether this additional competition could deliver cost savings or other benefits, Air Transat decided to conduct an RFP for inflight catering.

   b. Second, [redacted]. [redacted]

Request for Proposal

24. In May 2015, Air Transat issued an RFP for inflight catering at the RFP Stations. The RFP asked potential bidders to state their intention to bid by 29 May 2015, and indicated that bid proposals were to be submitted by 7 July 2015. A copy of the RFP is attached and marked as **Exhibit 6**.

25. The RFP required bidders to provide [redacted]. [redacted] Pricing of proposed services was to reflect [redacted] To facilitate bidder proposals, the RFP included recent actual Air Transat flight schedules/volumes by station.

26. [redacted]:

a. [redacted];

b. [redacted];

c. [redacted];

d. [redacted]; and

e. [redacted]

[redacted]

27. After receiving the initial bids, Air Transat provided bidders with an opportunity to submit revised pricing, in light of feedback Air Transat provided to each of the bidders. Air Transat also requested that bidders submit pricing that reflected [redacted].

2015 RFP Results – Cost Savings and Service Assurance

28. Air Transat carefully considered the bids it received in response to the RFP, from both a price and service perspective.

29. With respect to price, Air Transat combined the proposed pricing provided by the bidders with Air Transat's flight schedules and volumes by airport. Air Transat was thus able to compare, on a station-by-station and overall basis, the proposed catering and galley handling pricing of each of the bidders. In this way, Air Transat determined that the lowest proposed pricing, from Optimum, represented an approximate [redacted]% cost savings, or $[redacted] over [redacted] years for stations across the country, over the prices proposed by [redacted].

30. In addition to pricing, assurance of quality service was an important consideration for Air Transat in evaluating the bids. Air Transat considered each of the bidder's food safety and quality control procedures, employee training, management structure, labour relationships and auditing policies. Air Transat also considered the ability of bidders to respond quickly to last-minute inflight catering changes or requests from the airline, and to meet Air Transat's strict on-time performance requirements.

31. In this latter respect, the RFP made clear that a successful bidder would be required to enter into a service level agreement ("**SLA**") with Air Transat. Under

the terms of the SLA, the firm must provide [redacted]. Delays in meeting the standard equal to or exceeding [redacted] minutes are subject to a penalty equaling [redacted]. Delays of less than [redacted] minutes are subject to penalties of [redacted], depending on the length of the delay.

32. On balance, Air Transat determined that Optimum's bid was preferred. Air Transat thus negotiated and entered into a [redacted]-year agreement with Optimum for the supply of catering and galley handling at each of the RFP Stations, with the exception of YVR. For service of Air Transat's aircraft at YVR, Air Transat entered into an agreement with Gate Gourmet.

33. While Air Transat determined that Optimum's bid for YVR was superior to that of Gate Gourmet, from both a price and service perspective, Air Transat was unable to contract with Optimum at YVR. Unlike at other RFP Stations, Air Transat understands that Sky Café – which would have provided the galley handling portion of inflight catering at YVR under subcontract to Optimum – was unable to obtain authorization from the airport authority, VAA, to operate at the airport. Without such authorization, there would be no feasible method by which the freshly-prepared meals served to Economy Class and Club Class passengers, prepared by a foodservice firm off-airport in Vancouver, could be handled and loaded onto Air Transat aircraft stationed at YVR.

34. Under the circumstances, Air Transat had no choice but to contract with Gate Gourmet for the supply of inflight catering at YVR, despite Gate Gourmet not being Air Transat's preferred provider. Air Transat understands that only Gate Gourmet and CLS held authorizations from VAA to provide inflight catering in respect of aircraft stationed at YVR. Because [redacted], and since, for the reasons previously mentioned, it is

imperative that Air Transat procure inflight catering at YVR, Air Transat entered into a contract with Gate Gourmet solely for this station.

35. In contracting with Gate Gourmet for inflight catering only at YVR, Air Transat was forced to [redacted] from Gate Gourmet, causing Air Transat [redacted] to Gate Gourmet – approximately [redacted] – than what it would have paid to Optimum for service at YVR. The high Gate Gourmet pricing at YVR [redacted] cost savings to Air Transat from switching to Optimum at the other RFP Stations. Additionally, Air Transat was not able to [redacted]

36. Since switching to Optimum for inflight catering in April 2016, Air Transat generally has received excellent quality of service and on-time performance. [redacted] Air Transat has no regrets about switching to Optimum.

### AIR TRANSAT'S COMMUNICATIONS WITH VAA CONCERNING INFLIGHT CATERING

37. Air Transat did not have any communications with VAA concerning its 2015 RFP for inflight catering or the ability of any particular firm to obtain authorization from VAA to operate at YVR.

38. In the summer of 2016, Air Transat did have communications with VAA concerning the supply of inflight catering at YVR, in the context of a potential disruption in service by Gate Gourmet due to a Gate Gourmet labour dispute. On 18 August 2016 I sent an email (the "**August Email**") to Mr. Steve Hankinson, Vice President, Operations and Maintenance, for VAA. In the August Email, I noted the significant negative impact to Air Transat's flight operations at YVR in the event of a Gate Gourmet service disruption and, as a contingency, requested, on a temporary basis, that Sky Café be granted authorization to provide inflight catering service to Air Transat aircraft at YVR. A copy of the August Email is attached and marked as **Exhibit 7**.

39. In response to the August Email, Rod Ramage, Air Transat's Regional manager, received a telephone call on 20 August 2016 from Mr. Dave Parson, Manager, Airline, Border Agencies and Above Wing Ground Handling Client Relations at VAA, seeking to discuss its contents. Mr. Ramage advised Mr. Parson that he should contact me with respect to the August Email.

40. On or about 20 August 2016 I received a call from Mr. Parson, concerning the August Email. Mr. Parson told me that VAA was denying Air Transat's request that VAA grant Sky Café temporary authorization to provide inflight catering services to Air Transat aircraft at YVR. I explained to Mr. Parson the very disruptive health, safety and passenger experience implications that would arise were a Gate Gourmet service disruption to occur. I mentioned that arriving long-haul Air Transat flights would have a large quantity of international garbage that would be without an authorized disposal option upon arrival at YVR that would need to be back hauled to Europe, and that the most Air Transat could accomplish in terms of self-supply would be to offer passengers a modest brown-bag snack of some sort. I further explained that, in such circumstances, Air Transat would be compelled to evaluate whether it could continue long-haul flight operations at YVR during the period of any inflight catering disruption. Mr. Parson was unmoved and reiterated that VAA would not issue a temporary authorization to another service provider but asked if the airport could extend any

other assistance to Air Transat. Ultimately, Gate Gourmet resolved its labour dispute prior to any disruption in Gate Gourmet's inflight catering service at YVR.

## CONCLUDING COMMENTS

41. Transat faces fierce competition in the holiday travel industry. Transat's ability to successfully compete in this industry, especially in respect of bundled holiday offerings (accommodations and flights) depends, in part, on Air Transat providing a high quality, cost-competitive and efficient air transportation service. It is in this context that Air Transat conducted a competitive RFP process in 2015 for inflight catering services.

42. Air Transat's RFP revealed that the airline could save approximately $[redacted] over [redacted] years on the cost of inflight catering by switching service providers. Air Transat would also have switched to Optimum at YVR, if its preferred galley handling subcontractor, Sky Café, were to have held an authorization from VAA to operate at the airport. As a result of Air Transat's inability to switch to a new-entrant provider at YVR, today Air Transat pays approximately [redacted]% more for inflight catering on an annualized basis at YVR, negatively impacting Air Transat's cost competitiveness.

43. In April 2015, VAA announced that it would start offering unlimited ground handling licenses at YVR, a significant departure from its previous policy limit of only three ground handling licenses at YVR in past years. The new policy was accompanied with certain safety and operational processes to be complied with by ground handlers. It begs the question as to why the same was not done for inflight catering so long as interested service providers met VAA's safety criteria. This would have resulted in more competition at YVR and better service at more competitive pricing at YVR for airlines, including Air Transat.

44. Going forward, wherever possible Air Transat will continue to explore opportunities to procure inflight catering from firms that can help Air Transat

achieve cost savings while at the same time provide a high-quality product for Air Transat passengers.

**SIGNED** this 31st day of October, 2017

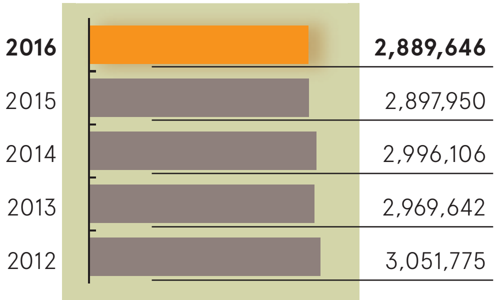
Barbara Stewart on behalf of
Air Transat A.T. Inc.

# EXHIBIT

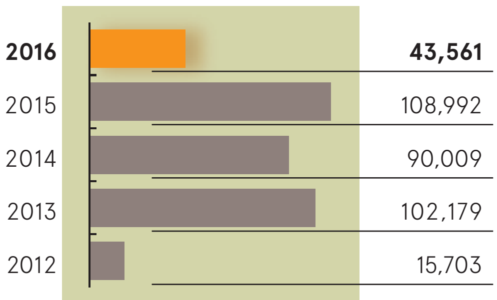
# 1

# Transat A.T. Inc.
Annual Report 2016

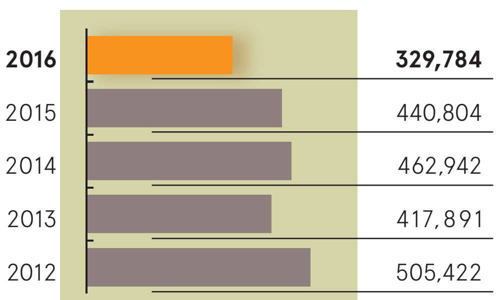
Revenues
*(In thousands of dollars)*



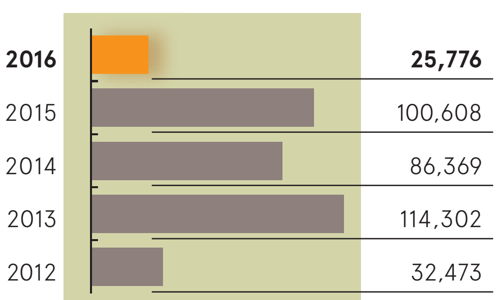

Cash flows relating to operating activities
*(In thousands of dollars)*



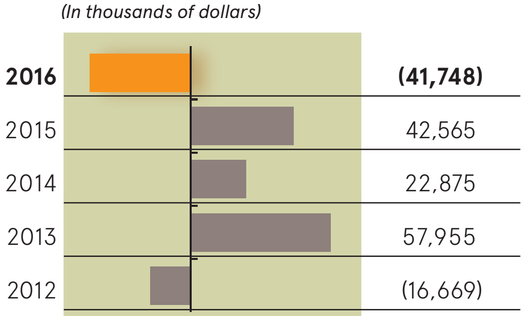

Aircraft fuel
*(In thousands of dollars)*



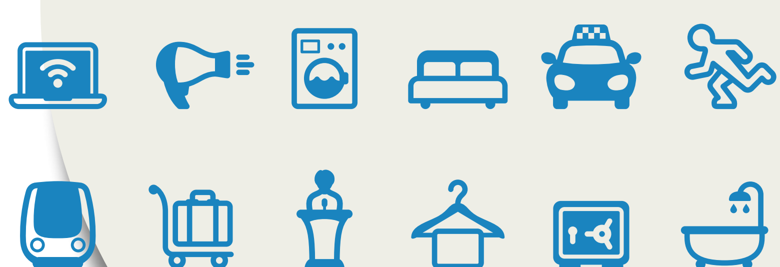

Adjusted operating income
*(In thousands of dollars)*




Net income (loss) attributable to shareholders
*(In thousands of dollars)*




*Transat A.T. Inc. is an integrated international tour operator that specializes in holiday travel. It offers some 25 destination countries and distributes products in more than 50 countries.*



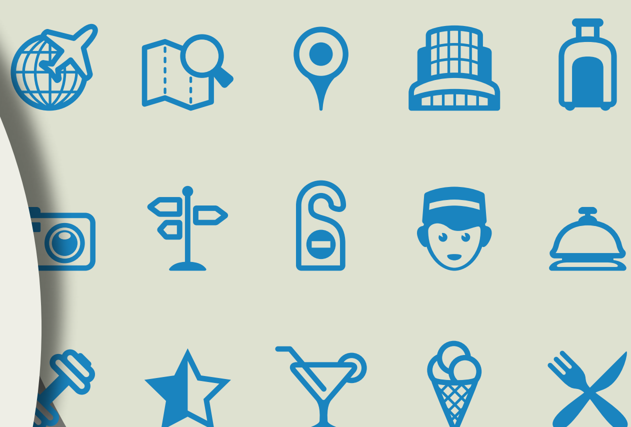
# *Highlights*

(In thousands of dollars, except per share amounts and ratios)

| | 2016 | 2015 | Variance $ | Variance % |
|---|---|---|---|---|
| Revenues | **2,889,646** | 2,897,950 | (8,304) | (0.3) |
| Adjusted operating income [1] | **25,776** | 100,608 | (74,832) | (74.4) |
| Net income (loss) | **(36,759)** | 46,964 | (83,723) | (178.3) |
| Net income (loss) attributable to shareholders | **(41,748)** | 42,565 | (84,313) | (198.1) |
| Diluted earnings (loss) per share | **(1.13)** | 1.10 | (2.23) | (202.7) |
| Cash flows related to operating activities | **43,561** | 108,992 | (65,431) | (60.0) |
| Cash and cash equivalents | **363,664** | 336,423 | 27,241 | 8.1 |
| Total assets | **1,277,420** | 1,513,764 | (236,344) | (15.6) |
| Long-tem debt (including current portion) | **—** | — | N/A | N/A |
| Debt ratio [2] | **0.64** | 0.65 | (0.01) | (1.5) |
| Stock price as at October 31 (TRZ) | **6.12** | 7.71 | (1.59) | (20.6) |
| Oustanding shares, end of year (in thousands) | **36,859** | 37,591 | (732) | (1.9) |

1 Adjusted operating income: Operating income before depreciation and amortization expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period.

2 Debt ratio: Total liabilities divided by total assets.



# *Message* to Shareholders

## Hastening the transition

This past fiscal year was Transat's 30th as a publicly traded company. The year 2017 will be an opportunity to officially celebrate our 30th anniversary and look back on the day we went public, February 13, 1987, as well as the day of our first commercial flight, which took off for Acapulco on November 14, 1987. Throughout those three decades, we have pooled the energy and enthusiasm of several thousand employees, all with a passion for travel, who have put all their heart and skills into serving tens of millions of travellers from all over the world. International tourism is continuing to grow, and there are no signs of that development slowing. But our industry is changing, and with 2016 now behind us, we turn our attention to our ongoing work to adapt to those changes and make Transat the leader of tomorrow.

While 2016 was certainly challenging for our bottom line, because of extremely demanding market conditions, it has borne fruit on the strategy front and it heralds a new phase of development for Transat.

We had an especially difficult winter season, caused by multiple adverse factors including the Zika virus epidemic, the threat of strike action by our pilots, terror attacks, and the overall state of Canada's economy, reflected in a weak dollar and muted demand in the Western Provinces.

The summer brought improvement, but the significant increase in overall capacity on the transatlantic market (14% higher than last year) meant that we were unable to duplicate our record performances of the three previous years, when we posted the best summer results in Transat's history. As a result, for the first time since 2012, our strong summer performance was not enough to offset the losses posted over the winter. Transat therefore ended the year with an adjusted operating income of $25.8 million and an adjusted net loss of $15.5 million, reflecting an adjusted operating loss of $36.7 million in the winter and an adjusted operating income of $62.5 million in the summer.

Worthy of note, however, is the performance of Jonview Canada, our Canadian incoming tour operator, which in 2016 surpassed even the historic highs of the previous year, both in terms of annual sales and adjusted operating income.

Behind the disappointing overall results, we need to focus on the far-reaching changes that we are currently implementing, and which are paving the way for the Transat of the future.

The most visible of those changes has been the winding up of our tour operating business units in France and Greece, finalized on October 31 following approval by the European Commission on October 21. In line with our strategic plan, we have begun our shift in focus to the Americas, stepping away from business lines that no longer fit with our core objectives. That disposal of assets also gives us additional means to follow through on our growth initiatives on this side of the Atlantic. We have announced that we were considering the opportunity of either purchasing the totality of the shares of Ocean Hotels, or selling the 35% we currently hold. We want to control our hotels. We are having discussions with our partner H10 on the topic.

In a similar vein, we made the decision to restructure our distribution in some European countries through outsourcing, which resulted in the closing of our Netherlands-based business unit. In addition, we grouped all of our direct seat sales under a single software tool, Datalex. Seats are also now grouped into a single centralized inventory, which has advantages for our customers as well as for Transat. We are therefore heading into 2017 with a more streamlined, more cost-effective, and dramatically more efficient distribution system.

We have further simplified our structure in Canada as well, among other means by consolidating our call centre operations in Montreal and refocusing our cruise business around value-added sales, in the form of packaged cruises.

These changes, besides providing us with a leaner organizational structure and greater agility, have served our ambitious cost-reduction and margin-improvement program, which has reached this year its $75 million target this year, which is $30 million more than in 2015 and sets us firmly on course to achieve our $100 million target for 2017. Among the factors contributing to that objective, in addition to commercial negotiations, insourcing of our narrow-body fleet, and our double flexible fleet model, it's important to note the strong growth in our ancillary revenues, which has exceeded our initial forecasts.

The year 2016 has also seen improvements to our air services. On the one hand, we have expanded our domestic feeder flights program, allowing us to offer more destinations through Montreal, Toronto, Quebec City, Vancouver and Calgary. On the other, we've increased frequency to and from our two main European destinations, Paris and London.

On the distribution side, we are very proud of our revamped website, which went live in September and now offers richer content as well as an improved user experience across all platforms, with search-results display speeds surpassing those of our main competitors. With the new applications installed last year and early this year, our online presence is now of the very highest standard. We are convinced that these technology upgrades will drive even stronger growth in direct sales, which were two percentage points higher this year than last.

Another of our major strategy initiatives concerns our branding. Last year, we permanently shelved the Nolitours and Vacances TMR brands, bringing them under the Transat and Air Transat banners, and completed the migration of our owned agencies to the Transat Travel / Voyages Transat banner. We also revisited and enhanced our brand platform, and strengthened our visibility at Montréal-Trudeau airport, inaugurating Espace Air Transat in the new international jetty. From here on, there's no doubt that for our customers, "vacation is calling."

Lastly, we renewed several collective agreements over the past year, including those with our pilots and flight attendants, thus ensuring stable labour relations for the years to come.

All of that fundamental work, along with our sound balance sheet, means that we head into fiscal 2017 well equipped for continued development, and well prepared to deliver on our plans for acquisitions in the hotel market and, subsequently, in the U.S. market. The strategy, as you can see, is to build on our strengths; in other words, to broaden our scope and wield greater control over Sun destinations market supply, with the ultimate goal of returning to profitability in winter.

Before concluding this message, I must remark—as I do every year—on our progress on sustainability. During 2016, Transat became the first tour operator in North America to be awarded Travelife Partner status, putting us in a strong position to achieve full certification within the next two years, as planned. Among other achievements and distinctions, we made Corporate Knights' list of the 10 Best Corporate Citizens in Canada, and for the sixth year in a row, Air Transat was ranked number one in North America and in the top 20 worldwide by the Atmosfair Airline Index, acknowledging its fuel-savings and emissions-reduction performance.

About distinctions, Air Transat has been recognized as the best vacation airline at North America in Skytrax's World Airline Awards, for the fifth year in a row, and Transat ranked first in three different categories in the Agents' Choice Awards, including best tour operator for the third consecutive year.

I wish to sincerely thank everyone who has made it possible for us to achieve all this progress: our employees, our partners, the members of the Board of Directors, and of course our customers.

*Jean-Marc Eustache*
*Chairman of the Board,*
*President and Chief Executive Officer*
*December 14, 2016*

# *Board* of Directors



## Committees

**Executive Committee**
Jean-Marc Eustache *(President)*
W. Brian Edwards
Jean-Yves Leblanc
Jacques Simoneau

**Human Resources and Compensation Committee**
W. Brian Edwards *(President)*
Susan Kudzman
Jean-Yves Leblanc
Louis-Marie Beaulieu

**Audit Committee**
Jean-Yves Leblanc *(President)*
Lucie Chabot
Jacques Simoneau
Raymond Bachand

**Risk Management and Corporate Governance Committee**
Jacques Simoneau *(President)*
W. Brian Edwards
Susan Kudzman

**Jean-Marc Eustache**
Chairman of the Board
President and Chief Executive Officer
Transat A.T. Inc.

**Jean-Yves Leblanc**
Lead Director
Corporate Director

**Jean Pierre Delisle**
Corporate Director
and Executor of estates

**Raymond Bachand**
Strategic Advisor
Norton Rose Fulbright

**W. Brian Edwards**
Corporate Director

**Louis-Marie Beaulieu**
Chairman of the Board and
President and Chief Executive Officer
Groupe Desgagnés inc.

**Susan Kudzman**
Executive Vice-President
and Chief Risk and Corporate
Affairs Officer,
Laurentian Bank of Canada

**Lucie Chabot**
Vice-President
and Chief Financial Officer
SAIL Outdoors Inc.

**Jacques Simoneau**
President and CEO
and Director Gestion Univalor, s.e.c.

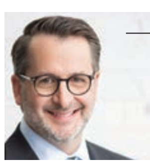
**Lina De Cesare**
Corporate Director

**Philippe Sureau**
Corporate Director

# *Senior* Management

**Jean-Marc Eustache**
Chairman of the Board
President and Chief Executive Officer
Transat A.T. Inc.

**Joseph Adamo**
President,
Transat Distribution Canada Inc.



**Jean-François Lemay**
President,
Air Transat A.T. Inc.

**Daniel Godbout**
Senior Vice-President
Transport and Yield Management
Transat A.T. Inc.

**André De Montigny**
President, Transat International
and Vice-President,
Corporate Development
Transat A.T. Inc.

**Michel Bellefeuille**
Vice-President
and Chief Information Officer
Transat A.T. Inc.

**Christophe Hennebelle**
Vice-President, Human Resources
and Corporate Affairs
Transat A.T. Inc.

**Annick Guérard**
President,
Transat Tours Canada Inc.

**Bernard Bussières**
Vice-President, General Counsel
and Corporate Secretary
Transat A.T. Inc.

**Denis Pétrin**
Vice-President,
Finance and Administration
and Chief Financial Officer
Transat A.T. Inc.

# MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2016, compared with the year ended October 31, 2015, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 14, 2016. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2016 and Annual Information Form.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). We occasionally refer to non-IFRS financial measures in the MD&A. See the Non-IFRS financial measures section for more information. All dollar figures in this MD&A are in Canadian dollars unless otherwise indicated. The terms "Transat," "we," "us," "our" and the "Corporation" mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

## This Management's Discussion and Analysis consists of the following sections:

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation. These forward-looking statements are identified by the use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “will,” “would,” the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, extreme weather conditions, fuel prices, armed conflicts, terrorist attacks, general industry, market and economic conditions, disease outbreaks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, labour relations, collective bargaining and labour disputes, pension issues, exchange and interest rates, availability of financing in the future, statutory changes, adverse regulatory developments or procedures, pending litigation and actions by third parties, and other risks detailed from time to time in the Corporation’s continuous disclosure documents.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation’s forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to place undue reliance on forward-looking statements.

The Corporation made a number of assumptions in making forward-looking statements in this MD&A such as certain economic, market, operational and financial assumptions and assumptions about transactions and forward-looking statements.

Examples of such forward-looking statements include, but are not limited to, statements concerning:

- The outlook whereby the Corporation should have the resources it needs to meet its 2017 objectives and continue building on its long-term strategies.
- The outlook whereby the Corporation expects revenues to increase and total travellers to remain stable compared with fiscal 2016.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2017.
- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately $50.0 million.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby operating income for the winter may show improvement over last year.

In making these statements, the Corporation has assumed, among other things, that travellers will continue to travel, that credit facilities will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full fiscal year and that fuel prices, foreign exchange rates and hotel and other destination-based costs will remain steady. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

The Corporation considers the assumptions on which these forward-looking statements are based to be reasonable.

These statements reflect current expectations regarding future events and operating performance, speak only as of the date this MD&A is issued, and represent the Corporation’s expectations as of that date. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable securities legislation.

## NON-IFRS FINANCIAL MEASURES

This MD&A was prepared using results and financial information determined under IFRS. In addition to IFRS financial measures, management uses non-IFRS measures to assess the Corporation's operational performance. It is likely that the non-IFRS financial measures used by the Corporation will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. The measures used by the Corporation are furnished to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures.

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of our financial statements with a better understanding of the results of our recurring operations and their related trends, while increasing transparency and clarity into our operating results. Management also believes these measures to be useful in assessing the Corporation's capacity to discharge its financial obligations.

By excluding from results items that arise mainly from long-term strategic decisions and/or do not, in our opinion, reflect the Corporation's operating performance for the period, such as the change in fair value of fuel-related derivatives and other derivatives, restructuring charges, impairment of goodwill, depreciation and amortization and other significant unusual items, we believe this MD&A helps users to better analyze the Corporation's results and ability to generate cash flows from operations. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in our industry.

The non-IFRS measures the Corporation uses to assess operational performance include adjusted operating income (loss), adjusted pre-tax income (loss) and adjusted net income (loss).

Management also uses total debt and total net debt to assess the Corporation's debt level, cash position, future cash needs and financial leverage ratio. Management believes these measures to be useful in assessing the Corporation's capacity to discharge its current and future financial obligations.

The non-IFRS measures used by the Corporation are as follows:

| | |
|---|---|
| Adjusted operating income (loss) | Operating income (loss) before depreciation and amortization expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. |
| Adjusted pre-tax income (loss) | Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, gain (loss) on disposal of a subsidiary, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. |
| Adjusted net income (loss) | Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, gain (loss) on disposal of a subsidiary, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period, net of related taxes. |
| Adjusted net income (loss) per share | Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share. |
| Adjusted operating leases | Aircraft rental expense for the past four quarters multiplied by 5. |
| Total debt | Long-term debt plus the amount for adjusted operating leases. |
| Total net debt | Total debt (described above) less cash and cash equivalents. |

The following table reconciles the non-IFRS financial measures to the most comparable IFRS financial measures:

| (in thousands of Canadian dollars, except per share amounts) | 2016<br>$ | 2015<br>$ | 2014<br>$ |
|---|---|---|---|
| Operating income (loss) | (30,335) | 54,791 | 36,401 |
| Lump-sum payments related to collective agreements | 7,263 | — | — |
| Restructuring charge | 6,562 | — | 6,387 |
| Depreciation and amortization | 50,038 | 45,817 | 43,581 |
| Premium related to fuel-related derivatives and other derivatives matured during the year | (7,752) | — | — |
| Adjusted operating income | 25,776 | 100,608 | 86,369 |
| | | | |
| Income (loss) before income tax expense | (97,374) | 61,732 | 21,508 |
| Lump-sum payments related to collective agreements | 7,263 | — | — |
| Restructuring charge | 6,562 | — | 6,387 |
| Change in fair value of fuel-related derivatives and other derivatives | (6,901) | 1,391 | 21,978 |
| Loss on disposal of a subsidiary | 843 | — | — |
| Asset impairment | 79,708 | — | 369 |
| Premium related to fuel-related derivatives and other derivatives matured during the year | (7,752) | — | — |
| Adjusted pre-tax income (loss) | (17,651) | 63,123 | 50,242 |
| | | | |
| Net income (loss) attributable to shareholders | (41,748) | 42,565 | 22,875 |
| Net loss (income) from discontinued operations | (49,772) | 2,355 | (6,282) |
| Lump-sum payments related to collective agreements | 7,263 | — | — |
| Restructuring charge | 6,562 | — | 6,387 |
| Change in fair value of fuel-related derivatives and other derivatives | (6,901) | 1,391 | 21,978 |
| Loss on disposal of a subsidiary | 843 | — | — |
| Asset impairment | 79,708 | — | 369 |
| Premium related to fuel-related derivatives and other derivatives matured during the year | (7,752) | — | — |
| Tax impact | (3,745) | (397) | (7,566) |
| Adjusted net income (loss) | (15,542) | 45,914 | 37,761 |
| | | | |
| Adjusted net income (loss) | (15,542) | 45,914 | 37,761 |
| Adjusted weighted average number of outstanding shares used in computing earnings per share | 36,899 | 38,558 | 39,046 |
| Adjusted net income (loss) per share | (0.42) | 1.19 | 0.97 |

| | October 31, 2016<br>$ | October 31, 2015<br>$ | October 31, 2014<br>$ |
|---|---|---|---|
| Aircraft rent | 135,813 | 98,859 | 87,229 |
| Multiple | 5 | 5 | 5 |
| Adjusted operating leases | 679,065 | 494,295 | 436,145 |
| | | | |
| Long-term debt | — | — | — |
| Adjusted operating leases | 679,065 | 494,295 | 436,145 |
| Total debt | 679,065 | 494,295 | 436,145 |
| | | | |
| Total debt | 679,065 | 494,295 | 436,145 |
| Cash and cash equivalents | (363,664) | (336,423) | (308,887) |
| Total net debt | 315,401 | 157,872 | 127,258 |

## FINANCIAL HIGHLIGHTS

| (in thousands of Canadian dollars, except per share amounts) | 2016 $ | 2015 $ | 2014 $ | Change 2016 % | Change 2015 % |
|---|---|---|---|---|---|
| **Consolidated Statements of Income (Loss)** | | | | | |
| Revenues | 2,889,646 | 2,897,950 | 2,996,106 | (0.3) | (3.3) |
| Adjusted operating income[1] | 25,776 | 100,608 | 86,369 | (74.4) | 16.5 |
| Net income (loss) attributable to shareholders | (41,748) | 42,565 | 22,875 | (198.1) | 86.1 |
| Basic earnings (loss) per share | (1.13) | 1.11 | 1.51 | (201.8) | (26.5) |
| Diluted earnings (loss) per share | (1.13) | 1.10 | 1.51 | (202.7) | (27.2) |
| Adjusted net income (loss) [1] | (15,542) | 45,914 | 37,761 | (133.9) | 21.6 |
| Adjusted net income (loss) per share[1] | (0.42) | 1.19 | 0.97 | (135.3) | 22.7 |
| **Consolidated Statements of Cash Flows** | | | | | |
| Operating activities | 43,561 | 108,992 | 90,009 | (60.0) | 21.1 |
| Investing activities | 5,093 | (53,854) | (52,683) | 109.5 | (2.2) |
| Financing activities | (9,823) | (12,672) | 191 | 22.5 | (6,734.6) |
| Effect of exchange rate changes on cash and cash equivalents | (12,132) | 3,402 | (2,262) | (456.6) | 250.4 |
| Net change in cash and cash equivalents | 26,699 | 45,868 | 35,255 | (41.8) | 30.1 |

| | As at October 31, 2016 $ | As at October 31, 2015 $ | As at October 31, 2014 $ | Change 2016 % | Change 2015 % |
|---|---|---|---|---|---|
| **Consolidated Statements of Financial Position** | | | | | |
| Cash and cash equivalents | 363,664 | 336,423 | 308,887 | 8.1 | 8.9 |
| Cash and cash equivalents in trust or otherwise reserved (current and non-current) | 338,581 | 412,099 | 380,184 | (17.8) | 8.4 |
| | 702,245 | 748,522 | 689,071 | (6.2) | 8.6 |
| Total assets | 1,277,420 | 1,513,764 | 1,375,030 | (15.6) | 10.1 |
| Debt (current and non-current) | — | — | — | — | — |
| Total debt[1] | 679,065 | 494,295 | 436,145 | 37.4 | 13.3 |
| Total net debt[1] | 315,401 | 157,872 | 127,258 | 99.8 | 24.1 |

[1] SEE NON-IFRS FINANCIAL MEASURES

# OVERVIEW

## THE HOLIDAY TRAVEL INDUSTRY

The holiday travel industry consists of tour operators, traditional and online travel agencies, destination service providers, hotel operators, and air carriers. Each of these subsectors includes companies with different operating models.

Generally, outgoing tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets, through travel agencies or via the Web. Incoming tour operators design travel packages or other travel products consisting of services they purchase in their local market for sale in foreign markets, generally through other tour operators or travel agencies. Destination service providers are based at destination and sell a range of optional services to travellers onsite for spontaneous consumption, such as excursions or sightseeing tours. These companies also provide outgoing tour operators with logistical support services, such as ground transfers between airports and hotels. Travel agencies, operating independently, in networks or online, are distributors serving as intermediaries between suppliers and consumers. Hotel operators sell accommodation, on an all-inclusive basis or not, either directly, through travel agencies or through tour operators. Air carriers sell seats through travel agencies or directly to tour operators that use them in building packages, or directly to consumers.

## CORE BUSINESS, VISION AND STRATEGY

### CORE BUSINESS

Transat is an integrated international tour operator. We operate solely in the holiday travel industry and market our services in the Americas and Europe. As a tour operator, Transat's core business consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services purchased in Canada and abroad and reselling them primarily in Canada, France, the U.K. and in ten other European countries, directly or through intermediaries, as part of a multi-channel strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. Transat relies on its subsidiary Air Transat for a significant portion of its needs, but also deals with other air carriers as needed. Transat offers destination services to Canada, Mexico, the Dominican Republic and Jamaica. Transat holds an interest in a hotel business which owns, operates or manages properties in Mexico, Cuba and the Dominican Republic.

### VISION

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, heart-warming and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. We intend to expand our business to other countries where we see high growth potential for an integrated tour operator specializing in holiday travel.

### STRATEGY

To deliver on its vision, the Corporation has considerably improved the effectiveness of its airline operations and launched technological initiatives to improve its efficiency as a distributor. The strategy also includes entry into new source markets and the launch of new destinations, targeting new markets for its traditional destinations and increasing its buying power for these routes. Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains to improve its operating income and maintain or grow market share in all its markets. Given the growing strategic importance of sustainable development in the holiday and air travel industries, Transat has undertaken to adopt avant-garde policies on corporate responsibility and sustainable tourism.

For fiscal 2017, Transat has set the following objectives:

- Increase the competitiveness of our distribution, notably by reinforcing our product offering and network, continuing to increase our controlled sales and client intimacy and optimizing our revenue management.
- Continue to improve Air Transat's operational efficiency and plan for the optimization and renewal of our fleet.
- Increase our presence in hotels and acquire more hotel management competencies.
- Pursue our cost reduction t and unit margin improvement efforts.
- Continue working on employee engagement.

## REVIEW OF 2016 OBJECTIVES AND ACHIEVEMENTS

The main objectives and achievements for fiscal 2016 were as follows:

**Implement an integrated distribution and brand strategy, including an enhanced online shopping experience, higher controlled sales, deployment of the Transat brand and finalization of the required technological projects.**

Transat has made a major step this year in the implementation of an integrated distribution and brand strategy by eliminating the Nolitours and Tours Mont-Royal brands and focusing all of our offering under the brands Transat and Air Transat. The conversion of Transat-owned travel agencies to the Transat Travel banner has also been finalized, with an additional 29 agencies converted this year, to reach a total of 49 agencies under the new banner.

The Corporation has deployed a 'best of breed' website offering all of its products, thus vastly improving the online shopping experience especially through a reduction of the response time.

The direct sales made through the web and call centre have increased from 14.5% to 16.5% of the total sales, with a more modest increase of the total controlled sales from 35% to 36%.

**Increase capacity and improve the competitiveness of our sun destination offering, strengthen our presence and increase our capacity in the transatlantic market.**

Transat has increased its capacity on the sun market in the winter by 4.6%, to 1.043 million seats in the winter and that of the transatlantic market by 7.6% to 883,000 seats in the summer.

The Corporation has improved the regularity of flight times to its annual destinations, Paris and London. It has also added connecting flights (between Montréal and Toronto, from Québec to Montréal and from Vancouver and Calgary to Toronto), which allows to offer more destinations from each of those cities.

**Reduce winter financial losses and maintain summer profitability, in particular by continuing our cost reduction and unit margin improvement program, with gains of $30 million expected in 2016.**

The cost and margin initiatives have delivered the target gain of $30 million in 2016.

However, the Zika epidemic, combined with a threat of strike from pilots and a weak Canadian dollar, have constituted a strong headwind in the winter, which has prevented us from reducing our financial losses.

Summer profitability has been in the norm of Transat history, though reduced when compared to the record levels of the past few years, in a market where capacity has increased by 15% year on year.

**Enter a new market via acquisition and optimize our hotel strategy, particularly through our interest in Ocean Hotels.**

We have been active in reviewing acquisitions opportunities throughout the year and will continue to do so moving forward. Our hotel joint venture, Ocean Hotels, has acquired land in Jamaica and our plans to increase our number of rooms are well under way.

Simplify the organizational structure and optimize the succession management plan.

We have simplified our international network by selling our French and Greek subsidiaries, Transat France and Tourgreece, to TUI, while closing our office in Amsterdam and subcontracting our sales in the Netherlands, Belgium, Germany and Switzerland.

We have also simplified our Canadian operations and product offering by regrouping our call centres in Montréal and limiting our cruise products to a packaged offering.

We have streamlined our succession management plan and have continued developing our internal talent.

Obtain Travelife Partner status.

In May 2016, Transat became the first tour operator in North America to earn Travelife Partner status in recognition of its commitment to sustainable development. That exercise enabled us to map out a new action plan, broken down into seven areas. Implementing it should allow us to fulfil the final step in the certification process within two years.

## KEY PERFORMANCE DRIVERS

The following key performance drivers are essential to the successful implementation of our strategy and the achievement of our objectives.

| | |
|---|---|
| ADJUSTED OPERATING INCOME | Obtain an adjusted operating income margin higher than 3% of revenues. |
| MARKET SHARE | Consolidate or increase market share in all regions in Canada and in Europe. |
| REVENUE GROWTH | Grow revenues by more than 3%, excluding acquisitions. |

## ABILITY TO DELIVER ON OUR OBJECTIVES

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed in the past to the success of our strategies and achievement of our objectives.

Our financial resources are as follows:

| | |
|---|---|
| Cash | Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled \$363.7 million as at October 31, 2016. Our continued focus on expense reductions and operating income growth should maintain these balances at healthy levels. |
| Credit facilities | We can also draw on credit facilities totalling approximately \$50.0 million. |

Our non-financial resources include:

| | |
|---|---|
| Brand | The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach. |
| Structure | Our vertically integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency. |
| Employees | Our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe the Corporation is managed by a seasoned leadership team. |
| Supplier relationships | We have exclusive access to certain hotels at sun destinations as well as over 25 years of privileged relationships with many hotels at these destinations and in Europe. |

Transat has the resources it needs to meet its 2017 objectives and continue building on its long-term strategies.

## DISCONTINUED OPERATIONS

On October 31, 2016, the Corporation completed the sale of its tour operating businesses in France (Transat France) and Greece (Tourgreece) for an amount of €63.4 million ($93.3 million) to TUI AG, a multinational tourism company. The price could be adjusted at the final closing of accounts and completion of the audit within 90 business days following the sale, due to a working capital adjustment. European competition authorities approved the transaction on October 21, 2016.

As at October 31, 2015, the tour operating businesses in France and Greece were not identified as discontinued operations or as assets held for sale. The Corporation announced on January 12, 2016 the initiation of a process to seek interest from third parties that could potentially lead to the sale of certain assets held by the Corporation outside Canada, namely its tour operators in France and Greece. Accordingly, the comparative consolidated statements of income (loss) and comprehensive income (loss) were restated to report discontinued operations separately from continuing operations.

A gain on disposal of $49.7 million, net of transaction costs of $7.1 million, was also recognized in the consolidated statement of income (loss) and the proceeds of disposal amounting to $93.3 million, net of cash disposed of, are shown in the consolidated statement of cash flows. The gain on disposal and the net consideration received are detailed as follows:

| | Consolidated statements of income<br>$ | Consolidated statements of cash flows<br>$ |
|---|---|---|
| Selling price | 93,254 | 93,254 |
| Transaction costs | (7,073) | (2,228) |
| Cash and cash equivalents disposed of | (22,978) | (22,978) |
| Net assets disposed of (excluding cash and cash equivalents) | (13,511) | — |
| | 49,692 | 68,048 |

The disposal of Transat France and Tourgreece will have no impact on Transat's transatlantic program or on Air Transat's operations.

## CONSOLIDATED OPERATIONS

| (in thousands of dollars) | 2016<br>$ | 2015<br>$ | 2014<br>$ | Change<br>% | <br>% |
|---|---|---|---|---|---|
| Continuing operations | | | | | |
| Revenues | 2,889,646 | 2,897,950 | 2,996,106 | (0.3) | (3.3) |
| Operating expenses | | | | | |
| Costs of providing tourism services | 1,309,430 | 1,260,250 | 1,402,230 | 3.9 | (10.1) |
| Salaries and employee benefits | 346,899 | 340,280 | 327,026 | 1.9 | 4.1 |
| Aircraft fuel | 329,784 | 440,804 | 462,942 | (25.2) | (4.8) |
| Aircraft maintenance | 178,317 | 146,006 | 128,892 | 22.1 | 13.3 |
| Aircraft rent | 135,813 | 98,859 | 87,229 | 37.4 | 13.3 |
| Airport and navigation fees | 128,695 | 117,862 | 119,977 | 9.2 | (1.8) |
| Commissions | 92,018 | 95,170 | 105,440 | (3.3) | (9.7) |
| Other | 341,504 | 305,156 | 284,095 | 11.9 | 7.4 |
| Share of net income of an associate | (6,342) | (7,045) | (8,094) | (10.0) | (13.0) |
| Depreciation and amortization | 50,038 | 45,817 | 43,581 | 9.2 | 5.1 |
| Special items | 13,825 | — | 6,387 | N/A | (100.0) |
| Operating expenses | 2,919,981 | 2,843,159 | 2,959,705 | 2.7 | (3.9) |
| Operating income (loss) | (30,335) | 54,791 | 36,401 | (155.4) | 50.5 |
| Financing costs | 1,669 | 1,775 | 1,541 | (6.0) | 15.2 |
| Financing income | (6,996) | (7,576) | (7,872) | (7.7) | (3.8) |
| Change in fair value of fuel-related derivatives and other derivatives | (6,901) | 1,391 | 21,978 | (596.1) | (93.7) |
| Foreign exchange gain on non-current monetary items | (1,284) | (2,531) | (1,123) | (49.3) | 125.4 |
| Loss on disposal of a subsidiary | 843 | — | — | N/A | — |
| Asset impairment | 79,708 | — | 369 | N/A | (100.0) |
| Income (loss) before income tax expense | (97,374) | 61,732 | 21,508 | (257.7) | 187.0 |
| Income taxes (recovery) | | | | | |
| Current | (17,188) | 14,041 | 11,924 | (222.4) | 17.8 |
| Deferred | 6,345 | (1,628) | (10,200) | (489.7) | (84.0) |
| | (10,843) | 12,413 | 1,724 | (187.4) | 620.0 |
| Net income (loss) from continuing operations | (86,531) | 49,319 | 19,784 | (275.5) | 149.3 |
| Discontinued operations | | | | | |
| Net income (loss) from discontinued operations | 49,772 | (2,355) | 6,282 | (2,213.5) | (137.5) |
| Net income (loss) for the year | (36,759) | 46,964 | 26,066 | (178.3) | 80.2 |
| Net income (loss) attributable to: | | | | | |
| Shareholders | (41,748) | 42,565 | 22,875 | (198.1) | 86.1 |
| Non-controlling interests | 4,989 | 4,399 | 3,191 | 13.4 | 37.9 |
| | (36,759) | 46,964 | 26,066 | (178.3) | 80.2 |
| Earnings (loss) per share from continuing operations | | | | | |
| Basic | (2.48) | 1.17 | 0.43 | (312.0) | 172.1 |
| Diluted | (2.48) | 1.16 | 0.42 | (313.8) | 176.2 |
| Earnings (loss) per share | | | | | |
| Basic | (1.13) | 1.11 | 0.59 | (201.8) | 88.1 |
| Diluted | (1.13) | 1.10 | 0.59 | (202.7) | 86.4 |

## REVENUES

We derive our revenues from outgoing tour operators, air transportation, travel agencies, distribution, incoming tour operators and services at travel destinations.

For the year ended October 31, 2016, our revenues were down $8.3 million (0.3%), owing to our summer season during which average selling prices and load factors decreased following the 14% increase in overall capacity in the transatlantic market, among other factors. Lower fuel prices also contributed to the decrease in average selling prices. During the summer, total travellers increased by 5.1% across all our markets compared with 2015. The lower revenues during the summer season was partly offset by higher revenues during our winter season which saw an overall 5.9% increase in total travellers across all our markets as well as higher average selling prices for package-type products to sun destinations, our main market for the period. Overall, during the year, total travellers were up 5.5%.

For 2017, we expect revenues to increase compared with 2016 with total travellers remaining stable.

## OPERATING EXPENSES

Our total operating expenses increased $76.8 million (2.7%) during the year compared with 2015. The increase resulted primarily from our winter season during which the number of total travellers increased, driven by our decision to increase by 4.5% our sun destination product offering to sun destinations, our main market for the period, and the weakening of the dollar against the U.S. dollar. Although capacity increased by 6.2% during the summer in our transatlantic segment, our main market for the period, operating expenses remained stable.

### COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. The $49.2 million (3.9%) increase resulted mainly from the dollar's weakening against the U.S. dollar and the increase in our sun destination product offering during the winter season, offset by lower hotel room costs. Additions to our Boeing 737 fleet compared with 2015 (seven aircraft during winter and three during summer) also contributed to the decline in our flight purchases from air carriers other than Air Transat.

### SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits rose $6.6 million (1.9%) to $346.9 million for the year ended October 31, 2016. The increase resulted primarily from the hiring of pilots, cabin crew and mechanics following the addition of Boeing 737s to our aircraft fleet, and annual salary reviews.

### AIRCRAFT FUEL

Aircraft fuel expense was down $111.0 million (25.2%) for the year, due to lower fuel price indicators in financial markets. However, the Corporation was unable to fully benefit from this decrease due to the fuel price hedging program it has in place. The dollar's weakening against the U.S. dollar (fuel is paid mainly in U.S. dollars) and the expansion of our aircraft fleet compared with 2015 also contributed to mitigate the decrease in aircraft fuel prices.

### AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Compared with 2015, these expenses rose $32.3 million (22.1%) during the year. This increase was largely due to expansion in our aircraft fleet compared with 2015 and to the dollar's weakening against the U.S. dollar.

### AIRCRAFT RENT

In line with our strategic plan, we implemented a flexible aircraft fleet at the beginning of fiscal 2015. In addition to our permanent fleet, this flexible fleet allows us, among other options, to operate a seasonal fleet including a greater number of Boeing 737s during the winter than during the summer season.

During winter 2016, Air Transat's permanent fleet consisted of twelve Airbus A330s, nine Airbus A310s and four Boeing 737-800s. For its flexible fleet, the Corporation had seasonal lease agreements for fifteen Boeing 737s compared with fourteen during winter 2015. During summer 2016, Air Transat's permanent fleet consisted of fourteen Airbus A330s, nine Airbus A310s and seven Boeing 737-800s. Of this number, two Airbus A330s and three Boeing 737-800s were commissioned during summer 2016.

The $37.0 million (37.4%) increase in aircraft rent during the year resulted from the addition of aircraft and the weakening of the dollar against the U.S. dollar.

### AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. During the year, these fees rose $10.8 million (9.2%) compared with 2015. The increase was due to expansion in our aircraft fleet compared with 2015 and the dollar's weakening against the U.S. dollar.

### COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commissions amounted to $92.0 million, down $3.2 million (3.3%) compared with fiscal 2015. As a percentage of revenues, commissions decreased and accounted for 3.2% of our revenues for the year compared with 3.3% in 2015. The decrease was attributable to the increase in revenues on which no commissions are calculated.

### OTHER

Other expenses rose $36.3 million (11.9%) during the year, compared with 2015. The increase resulted primarily from a rise in other air costs following the expansion of our fleet compared with 2015.

### SHARE OF NET INCOME OF AN ASSOCIATE

Our share of net income of an associate represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. Our share of net income of an associate for the current fiscal year totalled $6.3 million compared with $7.0 million for 2015. The decrease in our share of net income was driven by a foreign exchange loss, offset by an improved operating profitability.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes the depreciation of property, plant and equipment, and the amortization of intangible assets subject to amortization and deferred incentive benefits. Depreciation and amortization expense rose $4.2 million during fiscal 2015. The increase resulted from additions and improvements to our aircraft fleet.

### SPECIAL ITEMS

Special items include the restructuring charge, lump-sum payments related to collective agreements and other significant unusual items. During the year ended October 31, 2016, lump-sum payments in the amount of $7.3 million were recognized in connection with the renewal of the collective agreement with cabin crews, in addition to a restructuring charge of $6.6 million, comprising mainly termination benefits related to the closure of call centres and a tour operator in the Netherlands.

## OPERATING RESULTS

In light of the foregoing, the Corporation recorded an operating loss of $30.3 million (1.0%) for the year compared with operating income of $54.8 million (1.9%) for the previous year. Operating results by season are summarized as follows:

| | | | | Change | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016 | 2015 |
| (in thousands of dollars) | $ | $ | $ | % | % |
| Winter season | | | | | |
| Revenues | 1,613,944 | 1,559,102 | 1,675,704 | 3.5 | (7.0) |
| Operating expenses | 1,668,187 | 1,596,641 | 1,698,528 | 4.5 | (6.0) |
| Operating loss | (54,243) | (37,539) | (22,824) | (44.5) | (64.5) |
| Operating loss (%) | (3.4) | (2.4) | (1.4) | (39.6) | (76.8) |
| Summer season | | | | | |
| Revenues | 1,275,702 | 1,338,848 | 1,320,402 | (4.7) | 1.4 |
| Operating expenses | 1,251,794 | 1,246,518 | 1,261,177 | 0.4 | (1.2) |
| Operating income | 23,908 | 92,330 | 59,225 | (74.1) | 55.9 |
| Operating income (%) | 1.9 | 6.9 | 4.5 | (72.8) | 53.7 |

We recognized an operating loss for the winter season amounting to $54.2 million (3.4%) compared with an operating loss of $37.5 million (2.4%) in 2015. The higher operating loss was mainly attributable to the weakening of the dollar against the U.S. dollar, which, combined with the decrease in fuel prices, led to a rise in operating expenses of $49.0 million for sun packages. Nearly 60% of this increase was offset by our cost reduction initiatives and the increase in average selling prices for our sun packages. Lastly, consumer fears about the Zika virus, the risk of strike action by Air Transat pilots and a slowdown in demand in the West precluded an improvement in profitability.

During the summer, the Corporation generated operating income of $23.9 million (1.9%) compared with $92.3 million (6.9%) for the previous year. The decline in operating income resulted primarily from decreases in load factors and average selling prices on the transatlantic market following higher overall capacity, partly offset by lower fuel costs, which, combined with the weakening of the dollar against the U.S. dollar, led to a $28.3 million decrease in operating expenses in the transatlantic market. The special items also contributed to the deterioration in operating results.

During the winter season, the Corporation reported an adjusted operating loss of $36.7 million (2.3%) compared with $15.0 million (1.0%) in fiscal 2015. For the summer season, we recorded adjusted net income of $62.5 million (4.9%) compared with $115.6 million (8.6%) for 2015. Overall, for the fiscal year, we reported adjusted operating income of $25.8 million (0.9%) compared with $100.6 million (3.5%) in 2015.

## OTHER EXPENSES AND REVENUES

### FINANCING COSTS

Financing costs comprise interest on long-term debt and other interest, standby fees, and financial expenses. Financing costs were down $0.1 million in 2016 compared with 2015.

### FINANCING INCOME

Financing income during the year was down $0.6 million from 2015, owing primarily to lower interest rates.

### Change in fair value of fuel-related derivatives and other derivatives

The change in fair value of fuel-related derivatives and other derivatives represents the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the year, the fair value of fuel-related derivatives and other derivatives rose $6.9 million, compared with a $1.4 million decrease in fair value in 2015. The increase resulted from the favourable change in fuel price indices relating to outstanding derivatives and to matured foreign exchange derivatives, partially offset by the unfavourable change in the dollar compared with the U.S. dollar relating to outstanding foreign exchange derivatives.

### Foreign exchange gain on non-current monetary items

The foreign exchange gain on non-current monetary items, amounting to $1.3 million for the year compared with $2.5 million in 2015, resulted mainly from a favourable foreign exchange effect on our foreign currency deposits.

### Loss on disposal of a subsidiary

On April 1, 2016, the Corporation closed the sale of its Travel Superstore subsidiary for a total cash consideration of $0.3 million and recorded a $0.8 million loss on disposal of a subsidiary.

### Impairment of assets

During the fiscal year ended October 31, 2016, the Corporation recognized a $79.7 million asset impairment charge consisting of $15.8 million in impairment of trademarks and $63.9 million in impairment of goodwill.

The accounting policies adopted by the Corporation require that intangible assets with indefinite lives be tested for impairment annually on April 30. Accordingly, the Corporation performed an impairment test on April 30, 2016 to determine if the carrying amounts of the cash-generating units ("CGUs"), for the purposes of goodwill and trademarks, were higher than their recoverable amounts. After performing the test, the Corporation recognized a $15.8 million asset impairment charge in respect of its trademarks. The impairment resulted from the implementation of an integrated distribution and brand strategy, including the introduction of a new reservation platform which, for European travellers, favours the purchasing of seats directly from our Air Transat subsidiary instead of through our European subsidiaries, and the greater use of the Transat brand while decreasing the use of certain trademarks held by the Corporation.

As at October 31, 2016, important changes in the environment in which the Corporation operates, such as significant capacity increases in markets served by the Corporation and their effect on selling prices and load factors, volatile exchange rates and fuel prices and the recent deterioration in results of the summer season have led management to review its assumptions for future cash flows and to perform a new impairment test. Following this impairment test, the Corporation recognized a goodwill impairment charge of $63.9 million, representing the balance of goodwill of its sole CGU. As at October 31, 2016, reasonable changes in the assumptions used in goodwill impairment testing would not lead to an additional impairment charge related to the assets.

In 2014, following the closure of its French Affair division, the Corporation wrote off $0.4 million in related goodwill.

## Income taxes

For the year ended October 31, 2016, income tax recovery amounted to $10.8 million compared with an income tax expense of $12.4 million for the previous fiscal year. Excluding the share of net income of an associate, the effective tax rate stood at 11.1% for the fiscal year ended October 31, 2016 and 20.0% for the preceding fiscal year. The change in tax rates between fiscal 2016 and 2015 resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.

## NET INCOME (LOSS) FROM CONTINUING OPERATIONS

In light of the items discussed in the Consolidated operations section, our net loss from continuing operations for the year ended October 31, 2016 amounted to $86.5 million, compared with net income from continuing operations of $49.3 million in 2015.

For the year ended October 31, 2016, our adjusted net loss amounted to $15.5 million ($0.42 per share) compared with adjusted net income of $45.9 million ($1.19 per share) in 2015.

## NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

As mentioned in the Discontinued operations section, for the year ended October 31, 2016 and for the previous year, the net income of our subsidiaries Transat France and Tourgreece, which is generated from sales made to clients in Europe and Canada, is reported as net income (loss) from discontinued operations.

For the fiscal year, revenues of our Transat France and Tourgreece subsidiaries were up $17.4 million (2.6%). The increase resulted from a 3.5% increase in the average selling price, partially offset by a 2.9% decrease in total travellers. Our discontinued operations reported a net income of $0.4 million (0.1%) related to operating activities, compared with a net loss of $2.4 million (0.4%) in 2015. The increase in net income resulted primarily from higher margins on tour and package revenues, particularly in the Caribbean.

For the year ended October 31, 2016, discontinued operations generated net income of $49.8 million, compared with a net loss of $2.4 million (0.4%) in 2015. The increase in net income is due primarily to the $49.7 million gain on disposal realized on the sale of the Transat France and Tourgreece subsidiaries for a total cash consideration of $93.3 million.

## NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders amounted to $41.8 million or $1.13 per share (basic and diluted), compared with net income attributable to shareholders of $42.6 million or $1.11 per share (basic) and $1.10 per share (diluted) for the previous fiscal year. The weighted average number of outstanding shares used to compute basic per share amounts was 36,899,000 for fiscal 2016 and 38,442,000 for fiscal 2015 (36,899,000 and 38,558,000, respectively, for diluted loss per share).

## SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Compared with the corresponding quarters of the previous year, quarterly revenues were higher in the winter season, yet lower in the summer season. For the winter season (Q1 and Q2), total travellers increased while average selling prices decreased. For the summer season (Q3 and Q4), average selling prices were lower in the transatlantic market , our main market for the period, owing to the decline in fuel prices and a 14% rise in overall capacity in the transatlantic market, while there was an increase in total travellers compared with 2015. In terms of operating results, increases in average selling prices for sun packages in winter combined with cost reduction and margin improvement initiatives were not sufficient to offset the foreign exchange effect on our costs arising from the strength of the U.S. dollar. For the summer season, the decline in average selling prices and load factors were only partially offset by lower fuel prices. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

| Selected unaudited quarterly financial information | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands of dollars, except per share data) | Q1-2015<br>$ | Q2-2015<br>$ | Q3-2015<br>$ | Q4-2015<br>$ | Q1-2016<br>$ | Q2-2016<br>$ | Q3-2016<br>$ | Q4-2016<br>$ |
| Revenues | 683,951 | 875,151 | 704,844 | 634,004 | 725,723 | 888,221 | 663,591 | 612,111 |
| Aircraft rent | 23,167 | 24,684 | 24,702 | 26,306 | 32,275 | 38,749 | 31,946 | 32,843 |
| Operating income (loss) | (33,500) | (4,039) | 34,480 | 57,850 | (40,542) | (13,701) | (2,990) | 26,898 |
| Adjusted operating income (loss) | (22,746) | 7,751 | 44,798 | 70,805 | (31,683) | (5,002) | 15,964 | 46,497 |
| Net income (loss) | (63,088) | 26,267 | 13,820 | 69,965 | (59,803) | (23,817) | 10,548 | 36,313 |
| Net income (loss) attributable to shareholders | (64,314) | 24,704 | 13,067 | 69,108 | (61,155) | (24,952) | 9,439 | 34,920 |
| Basic earnings (loss) per share | (1.66) | 0.64 | 0.34 | 1.82 | (1.64) | (0.68) | 0.26 | 0.95 |
| Diluted earnings (loss) per share | (1.66) | 0.64 | 0.34 | 1.82 | (1.64) | (0.68) | 0.26 | 0.95 |
| Net income (loss) from continuing operations attributable to shareholders | (53,607) | 26,434 | 13,058 | 59,035 | (53,394) | (25,333) | 7,704 | (20,497) |
| Basic earnings (loss) per share from continuing operations | (1.38) | 0.68 | 0.34 | 1.56 | (1.44) | (0.69) | 0.21 | (0.56) |
| Diluted earnings (loss) per share from continuing operations | (1.38) | 0.68 | 0.34 | 1.55 | (1.44) | (0.69) | 0.21 | (0.56) |
| Adjusted net income (loss) | (22,882) | (2,738) | 26,886 | 44,648 | (30,380) | (11,868) | 2,523 | 24,183 |
| Adjusted net income (loss) per share | (0.59) | (0.07) | 0.70 | 1.18 | (0.82) | (0.32) | 0.07 | 0.66 |

## FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $612.1 million in revenues, down $21.9 million (3.5%) from $634.0 million for the corresponding period of 2015. This decrease is due primarily to the 8.9% decline in average selling prices in the transatlantic market, our main market for the period, while total travellers increased by 3.4%. In this market, the Corporation increased its capacity by 7.4% compared with 2015 while overall capacity increased by nearly 14%. For sun destinations, average selling prices were up 3.7%, while our capacity and total travellers increased by 5.0% and 2.2%, respectively, compared with 2015. Our continuing operations generated operating income of $26.9 million, which includes a restructuring charge of $5.9 million compared with $57.9 million in 2015. The decline in operating income resulted primarily from decreases in load factors and average selling prices, which were not fully offset by lower fuel prices and cost reduction efforts. The lower fuel costs combined with the dollar's weakening against the U.S. dollar, led to a $7.5 million decrease in operating expenses across our markets.

Compared with 2015, revenues from discontinued operations were down $17.8 million (8.7%). The decline in revenues resulted from a 4.1% decrease in total travellers, particularly in Tunisia and Turkey due to their geopolitical situations, and a 1.7% drop in average selling prices. Operating income from discontinued operations also decreased, to $8.1 million from $14.4 million in fiscal 2015. Net income from discontinued operations amounted to $55.4 million compared with $10.1 million in 2015. The significant improvement in net income from discontinued operations resulted from the $49.7 million gain on the disposal of subsidiaries Transat France and Tourgreece.

The Corporation recorded fourth-quarter net income amounting to $35.9 million, compared with $70.0 million in 2015. Net income attributable to shareholders amounted to $34.9 million ($0.95 per share basic and diluted) compared with $69.1 million ($1.82 per share basic and diluted) in 2015.

The Corporation's fourth-quarter adjusted net income amounted to $24.2 million ($0.66 per share) compared with $44.6 million ($1.18 per share) in 2015.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2016, cash and cash equivalents totalled $363.7 million compared with $336.4 million as at October 31, 2015. Cash and cash equivalents in trust or otherwise reserved amounted to $338.6 million as at the end of fiscal 2016, compared with $412.1 million as at the end of fiscal 2015. The Corporation's statement of financial position reflected $192.5 million in working capital, for a ratio of 1.28, compared with $80.4 million in working capital and a ratio of 1.09 as at October 31, 2015.

Total assets decreased by $236.3 million (15.6%) from $1,513.8 million as at October 31, 2015 to $1,277.4 million as at October 31, 2016. The decrease is mainly attributable to the disposal of the Transat France and Tourgreece subsidiaries, the write-off of goodwill and the $75.1 million decrease in cash and cash equivalents in trust or otherwise reserved, following the decline in deposits due to the restructuring of the cruise operations. Equity decreased $72.9 million, from $537.3 million as at October 31, 2015 to $464.4 million as at October 31, 2016. This decrease resulted mainly from the $36.8 million net loss, the $13.7 million foreign exchange loss on translation of the financial statements of foreign subsidiaries, the $12.5 million change in fair value of foreign exchange derivatives and the repurchase of shares totalling $9.4 million.

## CASH FLOWS

| (in thousands of dollars) | 2016<br>$ | 2015<br>$ | 2014<br>$ | Change 2016<br>% | Change 2015<br>% |
|---|---|---|---|---|---|
| Cash flows related to operating activities | 43,561 | 108,992 | 90,009 | (60.0) | 21.1 |
| Cash flows related to investing activities | 5,093 | (53,854) | (52,683) | 109.5 | (2.2) |
| Cash flows related to financing activities | (9,823) | (12,672) | 191 | 22.5 | (6,734.6) |
| Effect of exchange rate changes on cash | (12,132) | 3,402 | (2,262) | (456.6) | 250.4 |
| Net change in cash and cash equivalents related to continuing operations | 26,699 | 45,868 | 35,255 | (41.8) | 30.1 |
| Net cash flows related to discontinued operations | 542 | (18,332) | 7,814 | 103.0 | (334.6) |

### OPERATING ACTIVITIES

Operating activities generated $43.6 million in cash flows, compared with $109.0 million in 2015. This $65.4 million decline during the fiscal year resulted primarily from a $50.1 million decrease in profitability and a $15.9 million decrease in the net change in the provision for overhaul of leased aircraft.

We expect to continue to generate positive cash flows from our operating activities in fiscal 2017.

### INVESTING ACTIVITIES

Cash flows generated by investing activities totalled $5.1 million for the current year, up $58.9 million from fiscal 2015. The increase resulted from proceeds of $68.0 million, net of cash ceded, from the disposal of subsidiaries, partially offset by a $15.6 million increase in additions to property, plant and equipment and other intangible assets. In 2016, our acquisitions totalled $70.8 million and consisted primarily of aircraft improvements resulting from the growth in our aircraft fleet and computer hardware and software.

In fiscal 2017, additions to property, plant and equipment and intangible assets could amount to approximately $50.0 million.

### FINANCING ACTIVITIES

Cash flows used in financing activities totalled $9.8 million, compared with $12.7 million in in 2015. Lower utilization of cash flows than in fiscal 2015 resulted primarily from the $7.1 million in share repurchases during the year, compared with a total of $9.4 million in share repurchases for the previous fiscal year.

### CASH FLOWS RELATED TO DISCONTINUED OPERATIONS

Discontinued operations generated cash flows totalling $0.5 million, compared with $18.3 million in cash flows used in 2015. The higher cash flows generated by discontinued operations resulted primarily from the $9.6 million increase in net change in other assets and liabilities related to operations and a $5.4 million increase in profitability.

## CONSOLIDATED FINANCIAL POSITION

| | October 31, 2016 $ | October 31, 2015 $ | Difference $ | Main reasons for significant differences |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 363,664 | 336,423 | 27,241 | See the Cash flows section |
| Cash and cash equivalents in trust or otherwise reserved | 338,581 | 412,099 | (73,518) | Decrease in funds received from clients to be held in trust or otherwise reserved |
| Trade and other receivables | 105,003 | 129,223 | (24,220) | Sale of tour operators in France and Greece |
| Income taxes receivable | 39,858 | 16,900 | 22,958 | Increase in income taxes recoverable given deductible losses |
| Inventories | 12,354 | 9,079 | 3,275 | Expansion of aircraft fleet |
| Prepaid expenses | 58,657 | 80,318 | (21,661) | Sale of tour operators in France and Greece |
| Derivative financial instruments | 18,517 | 25,573 | (7,056) | Foreign currency derivatives matured during the year |
| Deposits | 42,044 | 58,901 | (16,857) | Sale of tour operators in France and Greece |
| Deferred tax assets | 15,055 | 32,939 | (17,884) | Sale of tour operators in France and Greece and decrease in deferred tax related to derivatives |
| Property, plant and equipment | 134,959 | 133,502 | 1,457 | Additions during the year, partially offset by depreciation |
| Goodwill | — | 99,527 | (99,527) | Impairment of goodwill and sale of tour operators in France and Greece |
| Intangible assets | 50,327 | 79,863 | (29,536) | Sale of tour operators in France and Greece, amortization and impairment |
| Investment in an associate | 97,668 | 97,897 | (229) | Share of net income of an associate and foreign exchange difference, partially offset by dividend received |
| Other assets | 733 | 1,520 | (787) | No significant difference |
| **Liabilities** | | | | |
| Trade and other payables | 247,795 | 355,656 | (107,861) | Sale of tour operators in France and Greece |
| Provision for overhaul of leased aircraft | 40,861 | 42,962 | (2,101) | Impact of maintenance schedule, partially offset by additions to aircraft fleet |
| Income taxes payable | 976 | 1,431 | (455) | No significant difference |
| Customer deposits and deferred revenues | 409,045 | 489,622 | (80,577) | Sale of tour operators in France and Greece and restructuring of cruise operations |
| Derivative financial instruments | 21,358 | 23,203 | (1,845) | Favourable change in fuel prices and unfavourable change in the dollar compared with U.S. currency relating to outstanding forward contracts |
| Other liabilities | 88,011 | 52,026 | 35,985 | Increase in non-current non-controlling interests and deferred incentive benefits |
| Deferred tax liabilities | 4,988 | 11,612 | (6,624) | Decrease in deferred tax related to derivative financial instruments |
| **Equity** | | | | |
| Share capital | 214,250 | 218,134 | (3,884) | Repurchase of shares, net of shares issued from treasury |
| Share-based payment reserve | 17,849 | 17,105 | 744 | Share-based payment expense, net of options exercised |
| Retained earnings | 218,821 | 263,812 | (44,991) | Net loss |
| Unrealized gain on cash flow hedges | 2,211 | 14,960 | (12,749) | Net loss on financial instruments designated as cash flow hedges |
| Cumulative exchange differences | 11,255 | 23,241 | (11,986) | Foreign exchange loss on translation of financial statements of foreign subsidiaries |

## FINANCING

As at December 14, 2016, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

On February 19, 2016, the Corporation renewed its $50 million revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2020, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at October 31, 2016, all the financial ratios and criteria were met and the credit facility was undrawn.

### OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the consolidated financial statements and others in the notes to the financial statements. The Corporation did not report any obligations in the statements of financial position as at October 31, 2016 and October 31, 2015.

Obligations that are not reported as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and consist of the following:

- Guarantees (see notes 16 and 25 to the audited consolidated financial statements)
- Operating leases (see note 24 to the audited consolidated financial statements)
- Purchase obligations (see note 24 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated amounted to approximately $820.1 million as at October 31, 2016 ($998.6 million as at October 31, 2015), and are detailed as follows:

| OFF-BALANCE SHEET ARRANGEMENTS<br>(in thousands of dollars) | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Guarantees | | |
| Irrevocable letters of credit | 17,723 | 36,838 |
| Collateral security contracts | 721 | 1,490 |
| Operating leases | | |
| Obligations under operating leases | 691,841 | 675,385 |
| | 710,285 | 713,713 |
| Agreements with suppliers | 109,845 | 284,878 |
| | 820,130 | 998,591 |

In the normal course of business, guarantees are required in the travel industry to provide indemnifications and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and collateral security contracts. Historically, Transat has not made any significant payments under such guarantees. Operating leases are entered into to enable the Corporation to lease certain items rather than acquire them.

The Corporation has a $75.0 million annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2016, $66.2 million had been drawn down, of which $46.5 million was to insure the benefits to participants under senior executive defined benefit pension agreements; such irrevocable letters of credit are held by a third-party trustee. In the event of a change of control, the irrevocable letters of credit issued to insure the benefit to the participants under the senior executives defined benefit pension agreements will be drawn down.

In addition, the Corporation has a $35.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2016, $17.7 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £10.7 million [$17.4 million], which has been fully drawn down.

As at October 31, 2016, off-balance sheet arrangements were down $178.5 million. The decline resulted primarily from the disposal of subsidiaries Transat France and Tourgreece, which had significant agreements with suppliers, and repayments made during the year, and was offset by the agreements signed during the second quarter to lease two Airbus A330s and three Boeing 737-800s.

We believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

| CONTRACTUAL OBLIGATIONS BY YEAR | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 and beyond | Total |
|---|---|---|---|---|---|---|---|
| Year ending October 31 | $ | $ | $ | $ | $ | $ | $ |
| Contractual obligations | | | | | | | |
| Long-term debt | — | — | — | — | — | — | — |
| Leases (aircraft) | 140,611 | 138,613 | 110,697 | 55,799 | 37,895 | 44,199 | 527,814 |
| Leases (other) | 28,364 | 21,742 | 19,394 | 16,649 | 14,528 | 63,350 | 164,027 |
| Agreements with suppliers and other obligations | 110,692 | 2,376 | 2,385 | 2,372 | 2,367 | 30,053 | 150,245 |
| | 279,667 | 162,731 | 132,476 | 74,820 | 54,790 | 137,602 | 842,086 |

### DEBT LEVELS

The Corporation did not report any debt on its statement of financial position.

The Corporation's total debt increased $184.8 million to $679.1 million compared with 2015, owing primarily to the addition of Boeing 737s and Airbus A330s to our aircraft fleet.

Total net debt increased $157.5 million from $157.9 million as at October 31, 2015 to $315.4 million as at October 31, 2016. The increase in total net debt results from the increase in total debt, partially offset by higher cash and cash equivalents balances than in 2015.

### OUTSTANDING SHARES

As at October 31, 2016, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at December 9, 2016, there were 36,893,278 total voting shares outstanding.

Since November 16, 2015 Class A Variable Voting Shares and Class B Voting Shares of the Corporation are traded on the Toronto Stock Exchange under a single symbol, namely "TRZ."

### STOCK OPTIONS

As at December 9, 2016, there were a total of 2,611,891 stock options outstanding, 2,400,323 of which were exercisable.

# OTHER

## FLEET

Air Transat's fleet currently consists of fourteen Airbus A330s (332, 345 or 375 seats), nine Airbus A310s (249 seats) and seven Boeing 737-800s (189 seats). Of this number, two Airbus A330s and three Boeing 737-800s were commissioned in summer 2016.

The Corporation also had lease agreements, during the 2016 winter season, for thirteen Boeing 737-800s (189 seats) and two Boeing 737-700 (149 seats). Under current agreements, thirteen Boeing 737s will be added to the fleet for the 2017 winter season.

## RENEWAL OF COLLECTIVE AGREEMENTS

The agreement-in-principle between Air Transat and the pilots' union to renew the collective agreement which expired on April 30, 2015 was approved by the pilots on March 22, 2016. The five-year work contract is now in force, retroactive to April 30, 2015.

The agreement-in-principle between Air Transat and the cabin crew union to renew the collective agreement was approved by our cabin crews on July 23, 2016. The six-year work contract is now in force, retroactive to November 1, 2015.

## NORMAL COURSE ISSUER BID

Pursuant to its normal course issuer bid approved on April 10, 2015, the Corporation was authorized to purchase for cancellation up to a maximum of 2,274,921 Class A Variable Voting Shares and Class B Voting Shares, representing approximately 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares.

The normal course issuer bid was designed to allow the Corporation proper utilization, depending on the circumstances and in a wise manner, of a portion of the Corporation's excess cash.

Purchases under the Corporation's normal course issuer bid were made on the open market through the TSX in accordance with its policy on normal course issuer bids. The price paid by the Corporation for repurchased shares was the market price at the time of acquisition plus brokerage fees, where applicable. Purchases began as of April 15, 2015 and terminated on March 4, 2016.

On March 4, 2016, the Corporation completed its normal course issuer bid for a 12-month period launched on April 10, 2015; the Corporation repurchased a total of 2,274,921 Class B Voting Shares as of March 4, 2016, for a total cash consideration of $16.5 million. During the year ended October 31, 2016, the Corporation repurchased a total of 978,831 Class B Voting Shares for a cash consideration of $7.1 million.

# ACCOUNTING

## CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. We periodically review these estimates, which are based on historical experience, changes in the business environment and other factors, including expectations of future events, that management considers reasonable under the circumstances. Our estimates involve judgments we make based on the information available to us. However, accounting estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market events or to circumstances beyond the Corporation's control. Such changes are reflected in the assumptions when they occur.

This discussion addresses only those estimates that we consider important based on the degree of uncertainty and the likelihood of a material impact if we had used different estimates. There are many other areas in which we use estimates about uncertain matters.

DEPRECIATION AND AMORTIZATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, AND INTANGIBLE ASSETS

GOODWILL

Material amounts recorded under goodwill and intangible assets in the statement of financial position are calculated using the historical cost method. We are required to perform impairment tests on goodwill and intangible assets with indefinite lives, such as trademarks, annually or when events or circumstances indicate that the carrying amount may be impaired.

Impairment exists when the carrying amount of an asset or CGU, in the case of goodwill, exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are generally derived from the budget or financial forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These analyses require us to make a variety of judgments concerning our future operations. The cash flow forecasts used to determine the values of assets of CGUs may change in the future due to market conditions, competition and other risk factors (see Risks and uncertainties).

The Corporation performed its annual impairment test as at April 30, 2016 to determine whether the carrying amount of CGUs was higher than their recoverable amount. No impairment of goodwill was identified by the Corporation as at that date.

As at October 31, 2016, important changes in the environment in which the Corporation operates, such as significant capacity increases in markets served by the Corporation and their effect on selling prices and load factors, volatile exchange rates and fuel prices and the recent deterioration in results of the summer season have led management to review the assumptions for future cash flows and to perform a new impairment test. Following this impairment test, the Corporation recognized a goodwill impairment charge of $63.9 million which corresponds to the balance of goodwill of its sole CGU as at October 31, 2016.

The recoverable amount is determined based on value in use, using a discounted cash flow model. The Corporation prepares cash flow forecasts based on the most recently approved annual budgets and three-year plans of the relevant business. Cash flow forecasts reflect the risk associated with each CGU, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets.

As at April 30, 2016 and October 31, 2016, an after-tax discount rate of 10.1% was used for testing the various CGUs for impairment [10.3% as at April 30, 2015]. The perpetual growth rate used for impairment testing was 1% [1% as at April 30, 2015].

INTANGIBLE ASSETS

The Corporation performed an impairment test as at April 30, 2016 to determine whether the carrying amount of trademarks was higher than their recoverable amount.

The recoverable amount is determined based on value in use, using a discounted cash flow model. The Corporation prepares cash flow forecasts based on the most recently approved annual budgets and three-year plans of the relevant business. Cash flow forecasts reflect the risk associated with each asset, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on nil growth rates. The cash flow forecasts used also reflect the effects of implementing the Corporation's integrated distribution and brand strategy aiming to further expand the Transat brand, therefore decreasing the use of certain trademarks held by the Corporation.

Following the introduction of our new reservation platform which, for European travellers, favours the purchasing of seats directly from Air Transat instead of through our U.K. subsidiary, the Corporation concluded that the recoverable amount of its Canadian Affair trademark, determined based on value in use, was less than its carrying amount due to a decline in revenues and profitability generated by this trademark. As a result, the Corporation recorded an impairment charge of $9.7 million.

Implementation of the Corporation's integrated strategy to further expand the Transat brand resulted in the discontinuation of its Vacances Tours Mont-Royal ("TMR") brand, which the Corporation uses for the sale of sun packages outbound from Canada. As this brand is no longer used, the Corporation has recorded an impairment charge of $4.5 million, which represents its carrying amount.

Also as part of the implementation of the Corporation's distribution and brand strategy aiming to further expand the Transat brand, the Corporation is currently changing its wholly owned Marlin Travel agency banners to Voyages Transat. Following these changes, the Corporation concluded that the recoverable amount of its Marlin Travel trademark, determined based on value in use, was less than its carrying amount due to a decline in revenues and profitability generated by this trademark. As a result, the Corporation recorded an impairment charge of $1.6 million.

As at April 30, 2016, after-tax discount rates used for impairment testing for trademarks ranged from 10.3% to 18.0% [10.3% as at April 30, 2015].

As at April 30, 2016, a 1% increase in the after-tax discount rate used for impairment testing, assuming that all others variables remained the same, would have resulted in an additional impairment charge of $0.2 million.

As at April 30, 2016, a 10% decrease in the cash flows used for impairment testing, assuming that all other variables remained the same, would have resulted in an additional impairment charge of $0.3 million.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

Property, plant and equipment reported in the statement of financial position represent material amounts based on historical costs. Property, plant and equipment and intangible assets with finite lives are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. Aircraft and aircraft components account for a major class of property, plant and equipment. Depreciation expense depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal. The amortization period is determined based on the fleet renewal schedule, currently slated for completion by 2018. The estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal is supported by periodically reviewed external valuations. Our fleet renewal schedule and the realizable value of our aircraft obtainable upon fleet renewal depend on numerous factors such as supply and demand for aircraft at the scheduled fleet renewal date. Changes in estimated useful life and residual value of aircraft could have a significant impact on depreciation expense. Generally speaking, the main assumptions would have to be reduced by 10% to produce a loss in value and have a material impact on our results and financial position. However, reducing these assumptions would not result in cash outflows and would not affect our cash flows.

No event or change in situation arising during the year ended October 31, 2016 could have required an impairment of property, plant and equipment and intangible assets with finite lives. As at October 31, 2016, reasonable changes in the assumptions used in the goodwill impairment test would not lead to an additional impairment loss related to the assets.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. The Corporation also takes into account its own credit risk and the credit risk of the counterparty in determining fair value for its derivative financial instruments based on whether they are financial assets or financial liabilities. When the market for a derivative financial instrument is not active, the Corporation determines the fair value by applying valuation techniques, such as using available information on market transactions involving other instruments that are substantially the same, discounted cash flow analysis or other techniques, where appropriate. The Corporation ensures, to the extent practicable, that its valuation technique incorporates all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments, including the credit risk of the party involved.

### PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

Under aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and to follow the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. The estimates used to determine the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leased aircraft return conditions, and other facts and reasonable assumptions in the circumstances. Generally speaking, the main assumptions used to calculate this provision would have to be reduced by 5% to 15% to result in additional expenses that could have a material impact on our results, financial position and cash flows.

### NON-CONTROLLING INTERESTS

Non-controlling interests in respect of which the shareholders may require the Corporation to buy back their shares are reclassified as liabilities at their estimated redemption value, deeming exercise of this option. In the absence of a predetermined calculation formula, the estimated redemption value is established using fair value. The fair value calculation is based on a discounted cash flow model. The cash flows are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the subsidiary’s performance. The fair value is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Generally speaking, the main assumptions used to calculate this provision would have to be adversely changed by over 15% to generate additional expenses that could have a material impact on our comprehensive income, financial position and cash flows.

### EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives. The pension expense for these employees is determined from annual actuarial calculations using the projected unit credit method and management’s best estimate assumptions for the increase in eligible earnings and the retirement age of employees. Plan obligations are discounted using current market interest rates. Given that various assumptions are used in determining the cost and obligations associated with employee future benefits, the actuarial valuation process involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

A 0.25 percentage point increase in the actuarial assumptions below would have the following impacts, all other actuarial assumptions remaining the same:

| | Cost of retirement benefits for the year ended October 31, 2016 | Retirement benefit obligations as at October 31, 2016 |
|---|---|---|
| Increase (decrease) | $ | $ |
| Discount rate | (9) | (1,248) |
| Rate of increase in eligible earnings | 11 | 52 |

### TAXES

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the fiscal treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities and notices of assessment in this regard were received during the year. No provisions are made in connection with this issue, which could result in expenses of approximately $16.2 million, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, this resulted in outflows of $15.1 million during the year ended October 31, 2016. This amount is recognized as income taxes receivable as at October 31, 2016.

## FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation is exposed to credit and counterparty risk, liquidity risk and market risk arising from changes in certain foreign exchange rates, changes in fuel prices and changes in interest rates. The Corporation manages these risk exposures on an ongoing basis. In order to limit the effects of changes in foreign exchange rates, fuel prices and interest rates on its revenues, expenses and cash flows, the Corporation can avail itself of various derivative financial instruments. The Corporation's management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing or anticipated risks, commitments or obligations based on its past experience.

### FOREIGN EXCHANGE RISK MANAGEMENT

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 61% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 17% of revenues are incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts, expiring in generally less than 18 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

The Corporation documents certain foreign exchange derivatives as hedging instruments and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These foreign exchange derivatives are designated as cash flow hedges.

All derivative financial instruments are recorded at fair value in the consolidated statement of financial position. For the derivative financial instruments designated as cash flow hedges, changes in value of the effective portion are recognized in Other comprehensive income in the consolidated statement of comprehensive income. Any ineffectiveness within a cash flow hedge is recognized through profit or loss as it arises in the account Change in fair value of fuel-related derivatives and other derivatives. Should the hedging of a cash flow hedge relationship become ineffective, previously unrealized gains and losses remain within Unrealized gain (loss) on cash flow hedges until the hedged item is settled and future changes in value of the derivative are recognized in income prospectively. The change in value of the effective portion of a cash flow hedge remains in Accumulated other comprehensive income (loss) until the related hedged item is settled, at which time amounts recognized in Unrealized gain (loss) on cash flow hedges are reclassified to the same income statement account in which the hedged item is recognized.

### MANAGEMENT OF FUEL PRICE RISK

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes using foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than 18 months.

The derivative financial instruments used for fuel purchases are measured at fair value at the end of each period, and the unrealized gains or losses arising from remeasurement are recorded and reported under Change in fair value of fuel-related derivatives and other derivatives in the consolidated statement of income. When realized, at maturity of fuel-related derivative financial instruments, any gains or losses are reclassified to Aircraft fuel.

### CREDIT AND COUNTERPARTY RISK

Credit risk is primarily attributable to the potential inability of customers, service providers, aircraft and engine lessors and financial institutions, including the other counterparties to cash equivalents and derivative financial instruments, to discharge their obligations.

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled $39.6 million as at October 31, 2016. Trade accounts receivable consist of a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2016, approximately 8% of accounts receivable were over 90 days past due, whereas approximately 75% were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2016, these deposits totalled $22.0 million and are generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $20.0 million as at October 31, 2016 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. These cash security deposits with lessors are generally returned to the Corporation following receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2016, the cash security deposits with lessors that had been claimed totalled $21.3 million and were included under Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2016 related to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by Dominion Bond Rating Service [DBRS]], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2016.

#### LIQUIDITY RISK

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management's oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.

#### INTEREST RATE RISK

The Corporation is exposed to interest rate fluctuations, primarily due to its variable-rate credit facility. The Corporation manages its interest rate exposure and could potentially enter into swap agreements consisting in exchanging variable rates for fixed rates.

Furthermore, interest rate fluctuations could have an effect on the Corporation's interest income derived from its cash and cash equivalents.

### RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Corporation enters into transactions with related companies. These transactions are carried out at arm's length. During the fiscal year, the Corporation recorded $32.3 million in person-nights purchased at hotels belonging to its associate CIBV, compared with $17.9 million in 2015. As at October 31, 2016, a $0.9 million amount payable to CIBV was included under Trade and other payables, compared to $0.3 million as at October 31, 2015.

## FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards.

### IFRS 9, *FINANCIAL INSTRUMENTS*

In July 2014, the IASB completed its three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement* by issuing IFRS 9, Financial Instruments. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces a forward-looking expected-loss impairment model as well as a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit or loss, will be presented in other comprehensive income rather than in the statement of income.

IFRS 9 also introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Application of IFRS 9 will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

### IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more relevant and comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective for the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

### IFRS 16, *LEASES*

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under the current IAS 17 standard, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

The application of IFRS 16 is mandatory and will be effective for the Corporation's fiscal year beginning on November 1, 2019, with earlier adoption permitted if the new IFRS 15 standard on revenue has also been applied. The Corporation is currently assessing the impact of adopting IFRS 16 on its financial statements.

## RISKS AND UNCERTAINTIES

This section provides an overview of the general risks as well as specific risks to which Transat and its subsidiaries are exposed, and which are likely to have a significant impact on the Corporation's financial position, operating results and activities. It does not purport to cover all contingencies or to describe all factors that are likely to affect the Corporation or its activities. Moreover, the risks and uncertainties described may or may not materialize, and may develop differently or have consequences other than those contemplated in this MD&A. Additional risks and uncertainties not currently known to the Corporation or that are currently considered immaterial could also materialize in the future and adversely affect the Corporation.

To improve its risk management capacities, the Corporation has set up a framework for identifying, assessing and managing the different risks applicable to its industry and to companies in general. This framework is based on the following principles:

- Promote a culture of risk awareness at the head office and in subsidiaries; and
- Integrate risk management into strategic, financial and operating objectives.

For each risk, an owner has been designated as accountable for designing and implementing measures to mitigate the consequences of risks for which he or she is responsible, and/or limit the likelihood of these risks materializing.

In addition, the Corporation has adopted an on-going risk management process that includes a quarterly assessment of risk exposures for the Corporation and its subsidiaries, under the oversight of the Audit Committee (financial risks), the Human Resources and Compensation Committee (human resource risks) and the Risk Management and Corporate Governance Committee (strategic and operational risks).

Business risks are classified to facilitate an overall understanding of risks to which the Corporation is exposed. The different types of business risks are discussed below:

### ECONOMIC AND GENERAL RISKS

The holiday travel industry is sensitive to global, national, regional and local economic conditions. Economic factors such as a significant downturn in the economy, a recession or a decline in consumer purchasing power or the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services. Although there are signs of economic recovery in certain tourist areas served by the Corporation, financial markets could slide back into negative economic growth.

Seasonal planning of flight and person-night capacity is a risk in the tourism industry. For the Corporation, it entails forecasting traveller demand in advance and anticipating trends in future preferred destinations. Poor planning for those needs could unfavourably impact our business, financial situation and operating results.

Our operating results could also be adversely affected by factors beyond Transat's control, including the following: extreme weather conditions, climate-related or geological disasters, war, political instability, terrorism whether actual or apprehended, epidemics or disease outbreaks, consumer preferences and spending patterns, consumer perceptions of destination-based service and airline safety, demographic trends, disruptions to air traffic control systems, and costs of safety, security and environmental measures. Furthermore, our revenues are sensitive to events affecting domestic and international air travel as well as the level of car rentals and hotel and cruise reservations.

### COMPETITION RISKS

Transat operates in an industry where competition is intense. In recent years, air carriers and tour operators have entered into or expanded their presence in markets served by Transat. Some of them are larger, with strong brand name recognition and an established presence in specific geographic areas, substantial financial resources and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to travellers at very competitive prices. The Corporation could thus be unable to compete successfully against existing or potential competitors, and increased competition could have a material adverse effect on its operations, prospects, revenues and profit margin.

In addition, traveller needs dictate how our industry evolves. In recent years, travellers have demanded higher value, better product selection and personalized service, all at competitive prices. The widespread popularity of the Internet has resulted in travellers being able to access information about travel products and services and purchase such products and services directly from suppliers, thus bypassing not only vacation providers such as Transat, but also retail travel agents through whom we generate a substantial portion of our revenues. Since our available seat capacity and person-nights are also influenced by market forces, our business model is called into question in some respects. The Corporation's inability to rapidly meet those expectations in a proactive manner could adversely impact its competitive positioning while reducing profitability of its products.

Further, given that we rely to some extent on retail travel agencies for access to travellers and revenues, any consumer shift away from travel agencies and toward direct purchases from travel suppliers could impact the Corporation.

These competitive pressures could adversely impact our revenues and margins since we would likely have to match competitors' prices. The Corporation's performance in all of the countries in which it operates will depend on its continued ability to offer quality products at competitive prices.

## REPUTATION RISK

The ability to maintain favourable relationships with its existing customers and attract new customers greatly depends on Transat's service offering and its reputation. While the Corporation has already implemented sound governance practices, including a code of ethics, and developed certain mechanisms over the years to prevent its reputation from being adversely affected, there can be no assurance that Transat will continue to enjoy a good reputation or that events beyond its control will not tarnish its reputation. The loss or tarnishing of its reputation could have a material unfavourable effect on the Corporation's operations, prospects, financial position and operating results.

## FINANCIAL RISKS

The travel industry in general and our operations in particular are seasonal. As a result, our quarterly operating results are subject to fluctuations. In our view, comparisons of our operating results between quarters or between six-month periods are not necessarily meaningful and should not be relied on as indicators of future performance. Furthermore, due to the economic and general factors described herein, our operating results in future periods could fall short of the expectations of securities analysts and investors, thus affecting the market price of our shares.

While Transat has cash on hand to respond to competitive pressures or capitalize on growth opportunities, the availability of financing under our existing credit facilities is subject to compliance with certain criteria and financial ratios. There can be no guarantee that, in the future, our ability to use our existing credit facilities or to obtain additional financing will not be jeopardized. Moreover, financial market volatility could limit access to credit and raise borrowing costs, hampering access to additional funding under satisfactory terms and conditions. Our business, financial position and operating results could thus be adversely affected.

Transat is particularly exposed to fluctuations in fuel costs. Due to competitive pressures in the industry, there can be no assurance that we would be able to pass along any increase in fuel prices to our customers by increasing fares, or that any such fare increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results.

Transat has significant non-cancellable lease obligations relating to its aircraft fleet. If revenues from aircraft operations were to decrease, the payments to be made under our existing lease agreements could have a substantial impact on our business.

Transat is exposed, due to its many arrangements with foreign-based suppliers, to fluctuations in exchange rates mainly concerning the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro. These exchange rate fluctuations could increase our operating costs or decrease our revenues. Changes in interest rates could also impact interest income from our cash and cash equivalents as well as interest expenses on our variable-rate debt instruments, which in turn could affect our interest income and interest expenses.

In the normal course of business, we receive customer deposits and advance payments. If funds from advance payments were to diminish or be unavailable to pay our suppliers, we would be required to secure alternative capital funding. There could be no assurance that additional funding would be available under terms and conditions suitable to the Corporation, which could adversely affect our business. Moreover, these advance payments generate interest income for Transat. In accordance with our investment policy, we are required to invest these deposits and advance payments exclusively in investment-grade securities. Any failure of these investment securities to perform at historical levels could reduce our interest income.

As a Corporation that processes information with respect to credit cards used by our customers, we must comply with the regulatory requirements of our credit card processors. Failure to comply with certain financial ratios or certain rules regarding deposits or bank card data security may result in penalties or in the suspension of service by credit card processors. The inability to use credit cards could have a significant negative impact on our reservations and consequently on our operating results and profitability.

Last, it is sometimes difficult to foresee how certain Canadian or international tax laws will be interpreted by the appropriate tax authorities. Subsequent to interpretation of these laws by the different authorities, the Corporation may have to review its own interpretations of tax laws, which in turn could have an adverse impact on our profit margin.

### KEY SUPPLIES AND SUPPLIER RISKS

Despite being well positioned due to our vertical integration, we depend on third parties who supply us with certain components of our packages. Any significant interruption in the flow of goods and services from these suppliers, which may be outside our control, could have a significant adverse impact on our business, financial position and operating results.

Our dependence, among others, on Airbus, Boeing, Rolls-Royce, General Electric and Lufthansa Technik means that we could be adversely affected by problems connected with Airbus and Boeing aircraft and Rolls-Royce or General Electric engines, including defective material, mechanical problems or negative perceptions among travellers. The Corporation also relies on certain suppliers for its information system security and maintenance. See Technological risks.

We are also dependent on non-group airlines and a large number of hotels, several of which are exclusive to the Corporation. In general, these suppliers can terminate or modify existing agreements with us on relatively short notice. The potential inability to replace these agreements, to find similar suppliers, or to renegotiate agreements at reduced rates could have an adverse effect on our business, financial position and operating results.

Furthermore, any decline in the quality of travel products or services provided by these suppliers, or any perception by travellers of such a decline, could adversely affect our reputation. Any loss of contracts, changes to our pricing agreements, access restrictions to travel suppliers' products and services or negative shifts in public opinion regarding certain travel suppliers resulting in lower demand for their products and services could have a significant effect on our results.

### AVIATION RISKS

To carry on business or extend its outreach, the Corporation requires access to aircraft that are largely operated by its subsidiary Air Transat. This fleet consists primarily of aircraft leased for several years, sometimes under renewable leases, with varying renewal dates and conditions. If the Corporation were unable to renew its leases, secure timely access to appropriate aircraft under adequate conditions or retire certain aircraft as anticipated, such an outcome could adversely affect the Corporation.

Our focus on three types of aircraft could result in significant downtime for part of our fleet if mechanical problems arise or if the regulator releases any mandatory inspection or maintenance directives applicable to our types of aircraft. If our operations are disrupted due to aircraft unavailability, the loss of associated revenues could have an adverse impact on our business, financial position and operating results.

An incident involving one of our aircraft during our operations could give rise to repair costs or major replacement costs for the damaged aircraft, service interruption, and claims. Consequently, such an event could have an unfavourable impact on the Corporation's reputation.

The Corporation also requires access to airport facilities in its source markets and multiple destinations. In particular, the Corporation must have access to takeoff and landing slots and gates under conditions that allow it to be competitive. Accordingly, any difficulty in securing such access or disruptions in airport operations caused, for instance, by labour conflicts or other factors could adversely affect our business.

With the privatization of airports and air navigation authorities over the past decade in Canada, new airports and air navigation authorities have imposed significant increases in airport user fees and air navigation fees. This is particularly the case given that some of those airports are located in U.S. cities in close proximity to the Canadian border and are not subject to such fees. If these user and navigation fees were to increase substantially, our business, financial position and operating results could be adversely affected, which would result in certain routes being conceded to our U.S. competitors.

## TECHNOLOGICAL RISKS

Transat relies heavily on various information and telecommunications technologies to operate its business, increase its revenues and reduce its operating expenses. Our business depends on our ability to manage reservation systems, including handling high telephone call volumes on a daily basis, monitor product profitability and inventory, adjust prices quickly, access and protect information, distribute our products to retail travel agents and other travel intermediaries, and stave off information system intrusions. Furthermore, the exploitation of system vulnerabilities through cyberattacks is increasingly sophisticated and requires constant management of and developments in the measures taken. Rapid changes in these technologies and growing demand for web-based or mobile reservations could require higher-than-anticipated capital expenditures to improve customer service, which could impact our operating results.

These technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third-party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunication systems failures, power failures, computer viruses, computer hacking, unauthorized or fraudulent users, and other operational and security issues. While Transat continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any systems failures or outages could materially and adversely affect the Corporation's operations and its customer relationships and could have an adverse effect on its operating results and financial position.

Furthermore, several of those information technology systems depend on third-party providers, such as Softvoyage, Datalex and Radixx. Those suppliers sell more external solutions (through partnerships or cloud services) requiring additional control measures. If these providers were to become incapable of maintaining or improving efficient technology solutions in a profitable and timely manner, the Corporation would be unable to react effectively to information security attacks, obtain new systems to meet growth in its customer base or support new products offered by the Corporation. Consequently, such situations could generate additional expenses, which would unfavourably impact the Corporation's financial position.

## REGULATORY RISKS

The industry in which Transat operates is subject to extensive Canadian and foreign government regulations. These relate to, among other things, security, safety, consumer rights, permits, licensing, intellectual property rights, privacy, competition, pricing and the environment. Consequently, Transat's future results may vary depending on the actions of government authorities with jurisdiction over our operations. These actions include the granting and timing of certain government approvals or licenses; the adoption of regulations impacting customer service standards (such as new passenger security standards); the adoption of more stringent noise restrictions or curfews; and the adoption of provincial regulations impacting the operations of retail and wholesale travel agencies. In addition, the adoption of new or different regulatory frameworks or amendments to existing legislation or regulations and tax policy changes could affect our operations, particularly as regards hotel room taxes, car rental taxes, airline taxes and airport fees.

In the fight against climate change, the International Civil Aviation Organization (ICAO) has established an international model whereby taxes would be imposed on greenhouse gas emissions to offset emissions. For domestic air transportation, Canada intends to implement a carbon pricing system that is yet to be defined. In light of its airline operations, the Corporation is directly exposed to such measures, which generally give rise to additional costs that the Corporation might be unable to fully pass on through its product selling prices. In such a scenario, its margin would be adversely affected.

In the course of our business in the air carrier and travel industry, the Corporation is exposed to claims and legal proceedings, including class action suits. Litigation and claims could adversely affect our business and operating results.

## HUMAN RESOURCE RISKS

Labour costs constitute one of Transat's largest operating cost items. There can be no assurance that Transat will be able to maintain such costs at levels that do not negatively affect its business, results from operations and financial position.

The Corporation's ability to achieve its business plan is a function of the experience of its key executives and employees, and their expertise in the tourism, travel and air carrier industries. The loss of key employees could adversely affect our business and operating results. Further, our recruitment program, salary structure, performance management programs, succession plan, as well as our training plan carry risks that could have adverse effects on our ability to attract and retain the skilled resources needed to sustain the Corporation's growth and success.

As at October 31, 2016, the Corporation had approximately 5,000 employees, almost 45% of whom are unionized personnel covered by six collective agreements. As at October 31, 2016, three of the six collective agreements had expired. Negotiations to renew these collective agreements could give rise to work stoppages or slowdowns or higher labour costs that could unfavourably impact our operations and operating income.

## INSURANCE COVERAGE RISKS

The airline insurance market for risks associated with war and terrorist acts has undergone various changes. Our liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. The limit for any single event is US$1.25 billion with the exception of War Risk Bodily Injury/Property Damage to Third Parties excluding passengers where the limit is US$250 million for any single event and in the aggregate.

In this latter regard, additional insurance is carried and maintained for War Risk Bodily Injury/Property Damage to Third Parties excluding passengers covering the excess of US$250 million up to the limit of US$1 billion any single event and in the aggregate. Through our Audit Committee and our Risk Management and Corporate Governance Committee, our Board of Directors identifies and evaluates at least once annually the principal risk factors related to our business and approves strategies and systems proposed to manage such risks, including those specifically related to the aviation industry.

However, there can be no assurance of all risks being covered in this manner or our ability to secure coverage providing favourable levels and conditions at an acceptable cost.

We feel that we and our suppliers have adequate liability insurance to cover risks arising in the normal course of business, including claims for serious injury or death arising from accidents involving aircraft or other vehicles carrying our customers. Although we have never faced a liability claim for which we did not have adequate insurance coverage, there can be no assurance that our coverage will be sufficient to cover larger claims or that the insurer concerned will be solvent at the time of any covered loss. In addition, there can be no assurance that we will be able to obtain coverage at acceptable levels and cost in the future. These uncertainties could adversely affect our business and operating results.

## CONTROLS AND PROCEDURES

The implementation of the Canadian Securities Administrators National Instrument 52-109 represents a continuous improvement process, which has prompted the Corporation to formalize existing processes and control measures and introduce new ones. Transat has chosen to make this a corporate-wide project, which will result in operational improvements and better management.

In accordance with this instrument, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures (DC&P) and the design and effectiveness of internal control over financial reporting (ICFR).

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have designed DC&P or caused them to be designed under their supervision to provide reasonable assurance that material information relating to the Corporation has been made known to them and that information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

Also, the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have designed ICFR or have caused it to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for financial reporting purposes in accordance with IFRS.

### EVALUATION OF DC&P AND ICFR

An evaluation of the design and operating effectiveness of DC&P and ICFR was carried out under the supervision of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer. This evaluation consisted of a review of documentation, audits and other procedures that management considered appropriate in the circumstances. Among other things, the evaluation took into consideration the Corporate Disclosure Policy, the code of professional ethics, the sub-certification process and the operation of the Corporation's Disclosure Committee.

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework (COSO-Framework 2013) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2016.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2016 that materially affected, or are likely to materially affect, the Corporation's ICFR.

## OUTLOOK

*For the first six-month period* - On the Sun destinations market outbound from Canada, the Corporation's main market segment in the winter, Transat's capacity is approximately 3% lower than that offered last year. To date, 50% of that capacity has been sold, bookings are ahead by 2.2%, and load factors are higher by 3.3%. The impact of the weakened Canadian dollar, added to the increase in fuel costs, will be a 3.0% increase in operating costs if the dollar and fuel costs remain at their current level. At this moment, margins are lower by 1.5% compared with last year at the same date.

On the transatlantic market, where it is low season, Transat's capacity is greater by 8% than that of last winter. To date, 49% of that capacity has been sold, bookings are ahead by 10%, load factors are higher by 0.8%, and selling prices are lower by 4.4%. Higher fuel costs, in combination with currency variations, will result in an increase in operating costs of 2.7% if the dollar remains at its current level against the U.S. dollar, the euro and the pound, and if fuel prices remain stable. Margins are currently lower by 7.8% compared with last year at the same date.

With the winter of 2016 having been affected by several important events (worry over the Zika virus, the threat of strike action by pilots and terror attacks in Europe), the situation deteriorated as of the beginning of December. In comparison, the results may therefore show improvement over last year, once the season is over, despite the indicators mentioned above.

## MANAGEMENT'S REPORT

The consolidated financial statements and MD&A of Transat A.T. Inc., and all other information in the financial report, are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with IFRS issued by the International Accounting Standards Board. The MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. Management's responsibility in these respects includes the selection of appropriate accounting principles as well as the exercise of sound judgment in establishing reasonable and fair estimates in accordance with IFRS and the requirements of the Canadian Securities Administrators, and which are adequate in the circumstances. The financial information presented throughout the MD&A and elsewhere in this Annual Report is consistent with that appearing in the financial statements.

The Corporation and its affiliated companies have set up accounting and internal control systems designed to provide reasonable assurance that the Corporation's assets are safeguarded against loss or unauthorized use and that its books of account may be relied upon for the preparation of financial statements and the MD&A.

The Board of Directors is responsible for the financial information presented in the consolidated financial statements and the MD&A, primarily through its Audit Committee. The Audit Committee, which is appointed by the Board of Directors and comprised entirely of independent and financially literate directors, reviews the annual consolidated financial statements and the MD&A and recommends their approval to the Board of Directors. The Audit Committee is also responsible for analyzing, on an ongoing basis, the results of the audits by the external auditors, the accounting methods and policies used as well as the internal control systems set up by the Corporation. These consolidated financial statements have been audited by Ernst & Young LLP. Their report on the consolidated financial statements appears on the next page.

Jean-Marc Eustache
Chairman of the Board,
President and Chief Executive Officer

Denis Pétrin
Vice-President, Finance and Administration
and Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Transat A.T. Inc.,

We have audited the accompanying consolidated financial statements of Transat A.T. Inc., which comprise the consolidated statements of financial position as at October 31, 2016 and 2015, and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Transat A.T. Inc. as at October 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
December 14, 2016
[1] CPA auditor, CA, public accountancy permit No. A121006

| As at October 31<br>(in thousands of Canadian dollars) | 2016<br>$ | 2015<br>$ |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | 363,664 | 336,423 |
| Cash and cash equivalents in trust or otherwise reserved *[note 5]* | 292,131 | 367,199 |
| Trade and other receivables *[note 6]* | 105,003 | 129,223 |
| Income taxes receivable | 24,758 | 1,800 |
| Inventories | 12,354 | 9,079 |
| Prepaid expenses | 58,657 | 80,318 |
| Derivative financial instruments *[note 7]* | 18,318 | 25,277 |
| Current portion of deposits | 13,067 | 18,298 |
| Current assets | 887,952 | 967,617 |
| Cash and cash equivalents reserved *[note 5]* | 46,450 | 44,900 |
| Deposits *[note 8]* | 28,977 | 40,603 |
| Income taxes receivable *[note 21]* | 15,100 | 15,100 |
| Deferred tax assets *[note 21]* | 15,055 | 32,939 |
| Property, plant and equipment *[note 11]* | 134,959 | 133,502 |
| Goodwill *[note 12]* | — | 99,527 |
| Intangible assets *[note 12]* | 50,327 | 79,863 |
| Derivative financial instruments *[note 7]* | 199 | 296 |
| Investment in an associate *[note 13]* | 97,668 | 97,897 |
| Other assets | 733 | 1,520 |
| Non-current assets | 389,468 | 546,147 |
| | 1,277,420 | 1,513,764 |
| LIABILITIES | | |
| Trade and other payables *[note 14]* | 247,795 | 355,656 |
| Current portion of provision for overhaul of leased aircraft | 16,232 | 17,281 |
| Income taxes payable | 976 | 1,431 |
| Customer deposits and deferred revenues | 409,045 | 489,622 |
| Derivative financial instruments *[note 7]* | 21,358 | 23,188 |
| Current liabilities | 695,406 | 887,178 |
| Provision for overhaul of leased aircraft *[note 15]* | 24,629 | 25,681 |
| Other liabilities *[note 17]* | 88,011 | 52,026 |
| Derivative financial instruments *[note 7]* | — | 15 |
| Deferred tax liabilities *[note 21]* | 4,988 | 11,612 |
| Non-current liabilities | 117,628 | 89,334 |
| EQUITY | | |
| Share capital *[note 18]* | 214,250 | 218,134 |
| Share-based payment reserve | 17,849 | 17,105 |
| Retained earnings | 218,821 | 263,812 |
| Unrealized gain on cash flow hedges | 2,211 | 14,960 |
| Cumulative exchange differences | 11,255 | 23,241 |
| | 464,386 | 537,252 |
| | 1,277,420 | 1,513,764 |

Commitments and contingencies *[note 24]*
See accompanying notes to consolidated financial statements
On behalf of the Board,

Director

Director

| (in thousands of Canadian dollars, except per share amounts) | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Continuing operations | | |
| Revenues | 2,889,646 | 2,897,950 |
| Operating expenses | | |
| Costs of providing tourism services | 1,309,430 | 1,260,250 |
| Salaries and employee benefits *[notes 19 and 23]* | 346,899 | 340,280 |
| Aircraft fuel | 329,784 | 440,804 |
| Aircraft maintenance | 178,317 | 146,006 |
| Aircraft rent | 135,813 | 98,859 |
| Airport and navigation fees | 128,695 | 117,862 |
| Commissions | 92,018 | 95,170 |
| Other | 341,504 | 305,156 |
| Share of net income of an associate *[note 13]* | (6,342) | (7,045) |
| Depreciation and amortization *[note 19]* | 50,038 | 45,817 |
| Special items *[note 20]* | 13,825 | — |
| | 2,919,981 | 2,843,159 |
| Operating income (loss) | (30,335) | 54,791 |
| Financing costs | 1,669 | 1,775 |
| Financing income | (6,996) | (7,576) |
| Change in fair value of fuel-related derivatives and other derivatives | (6,901) | 1,391 |
| Foreign exchange gain on non-current monetary items | (1,284) | (2,531) |
| Loss on disposal of a subsidiary *[note 10]* | 843 | — |
| Asset impairment *[note 12]* | 79,708 | — |
| Income (loss) before income tax expense | (97,374) | 61,732 |
| Income taxes (recovery) *[note 21]* | | |
| Current | (17,188) | 14,041 |
| Deferred | 6,345 | (1,628) |
| | (10,843) | 12,413 |
| Net income (loss) from continuing operations | (86,531) | 49,319 |
| Discontinued operations | | |
| Net income (loss) from discontinued operations *[note 9]* | 49,772 | (2,355) |
| Net income (loss) for the year | (36,759) | 46,964 |
| Net income (loss) attributable to: | | |
| Shareholders | (41,748) | 42,565 |
| Non-controlling interests | 4,989 | 4,399 |
| | (36,759) | 46,964 |
| Earnings (loss) per share from continuing operations *[note 18]* | | |
| Basic | (2.48) | 1.17 |
| Diluted | (2.48) | 1.16 |
| Earnings (loss) per share *[note 18]* | | |
| Basic | (1.13) | 1.11 |
| Diluted | (1.13) | 1.10 |

See accompanying notes to consolidated financial statements

| Years ended October 31<br>(in thousands of Canadian dollars) | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Net income (loss) from continuing operations | (86,531) | 49,319 |
| | | |
| Other comprehensive income (loss) from continuing operations | | |
| Items that will be reclassified to net income (loss) | | |
| Change in fair value of derivatives designated as cash flow hedges | (42,803) | (65,478) |
| Reclassification to net income (loss) | 25,723 | 70,944 |
| Deferred taxes *[note 21]* | 4,589 | (1,506) |
| | (12,491) | 3,960 |
| Foreign exchange gain on translation of financial statements of foreign subsidiaries | (13,673) | 19,707 |
| | | |
| Items that will never be reclassified to net income (loss) | | |
| Retirement benefits – Net actuarial losses *[note 23]* | (3,230) | 388 |
| Deferred taxes *[note 21]* | 870 | (101) |
| | (2,360) | 287 |
| Total other comprehensive income (loss) from continuing operations | (28,524) | 23,954 |
| Comprehensive income (loss) from continuing operations | (115,055) | 73,273 |
| | | |
| Net income (loss) from discontinued operations *[note 9]* | 49,772 | (2,355) |
| Other comprehensive income (loss) from discontinued operations | 1,093 | (1,241) |
| Comprehensive income (loss) from discontinued operations | 50,865 | (3,596) |
| Comprehensive income (loss) for the year | (64,190) | 69,677 |
| | | |
| Attributable to: | | |
| Shareholders | (69,811) | 61,738 |
| Non-controlling interests | 5,621 | 7,939 |
| | (64,190) | 69,677 |

See accompanying notes to consolidated financial statements

| (in thousands of Canadian dollars) | Share capital | Share-based payment reserve | Retained earnings | Accumulated other comprehensive income (loss): Unrealized gain (loss) on cash flow hedges | Accumulated other comprehensive income (loss): Cumulative exchange differences | Accumulated other comprehensive income (loss): Reserve related to assets held for sale | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Balance as at October 31, 2014 | 224,679 | 15,444 | 227,872 | 11,712 | 3,239 | — | 482,946 | — | 482,946 |
| Net income for the year | — | — | 42,565 | — | — | — | 42,565 | 4,399 | 46,964 |
| Other comprehensive income (loss) | — | — | (537) | 3,248 | 16,462 | — | 19,173 | 3,540 | 22,713 |
| Comprehensive income for the year | — | — | 42,028 | 3,248 | 16,462 | — | 61,738 | 7,939 | 69,677 |
| Issued from treasury | 973 | — | — | — | — | — | 973 | — | 973 |
| Share-based payment expense | — | 1,661 | — | — | — | — | 1,661 | — | 1,661 |
| Repurchase of shares | (7,518) | — | (1,906) | — | — | — | (9,424) | — | (9,424) |
| Dividends | — | — | — | — | — | — | — | (4,221) | (4,221) |
| Fair value changes in non-controlling interest liabilities | — | — | (4,182) | — | — | — | (4,182) | 4,182 | — |
| Reclassification of non-controlling interest liabilities | — | — | — | — | — | — | — | (4,360) | (4,360) |
| Reclassification of non-controlling interest exchange difference | — | — | — | — | 3,540 | — | 3,540 | (3,540) | — |
| | (6,545) | 1,661 | (6,088) | — | 3,540 | — | (7,432) | (7,939) | (15,371) |
| Balance as at October 31, 2015 | 218,134 | 17,105 | 263,812 | 14,960 | 23,241 | — | 537,252 | — | 537,252 |
| Net income (loss) for the year | — | — | (41,748) | — | — | — | (41,748) | 4,989 | (36,759) |
| Other comprehensive income (loss) | — | — | (2,360) | (12,491) | (14,305) | 1,093 | (28,063) | 632 | (27,431) |
| Comprehensive income (loss) for the year | — | — | (44,108) | (12,491) | (14,305) | 1,093 | (69,811) | 5,621 | (64,190) |
| Issued from treasury | 1,219 | — | — | — | — | — | 1,219 | — | 1,219 |
| Exercise of options | 577 | (177) | — | — | — | — | 400 | — | 400 |
| Share-based payment expense | — | 921 | — | — | — | — | 921 | — | 921 |
| Repurchase of shares | (5,680) | — | (1,427) | — | — | — | (7,107) | — | (7,107) |
| Dividends | — | — | — | — | — | — | — | (4,335) | (4,335) |
| Discontinued operations | — | — | (336) | (258) | 1,687 | (1,093) | — | — | — |
| Fair value changes in non-controlling interest liabilities | — | — | 1,049 | — | — | — | 1,049 | (1,049) | — |
| Other changes in non-controlling interest liabilities | — | — | (169) | — | — | — | (169) | 169 | — |
| Reclassification of non-controlling interest liabilities | — | — | — | — | — | — | — | 226 | 226 |
| Reclassification of non-controlling interest exchange difference | — | — | — | — | 632 | — | 632 | (632) | — |
| | (3,884) | 744 | (883) | (258) | 2,319 | (1,093) | (3,055) | (5,621) | (8,676) |
| Balance as at October 31, 2016 | 214,250 | 17,849 | 218,821 | 2,211 | 11,255 | — | 464,386 | — | 464,386 |

See accompanying notes to consolidated financial statements

| Years ended October 31<br>(in thousands of Canadian dollars) | 2016<br>$ | 2015<br>$ |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net income (loss) for the year | (86,531) | 49,319 |
| Operating items not involving an outlay (receipt) of cash: | | |
| Depreciation and amortization | 50,038 | 45,817 |
| Change in fair value of fuel-related derivatives and other derivatives | (6,901) | 1,391 |
| Foreign exchange gain on non-current monetary items | (1,284) | (2,531) |
| Loss on disposal of a subsidiary | 843 | — |
| Asset impairment | 79,708 | — |
| Share of net income of an associate | (6,342) | (7,045) |
| Deferred taxes | 6,345 | (1,628) |
| Employee benefits | 2,657 | 2,602 |
| Share-based payment expense | 921 | 1,661 |
| | 39,454 | 89,586 |
| Net change in non-cash working capital balances related to operations | 5,181 | 2,731 |
| Net change in provision for overhaul of leased aircraft | (2,101) | 13,841 |
| Net change in other assets and liabilities related to operations | 1,027 | 2,834 |
| Cash flows related to operating activities | 43,561 | 108,992 |
| INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment and other intangible assets | (70,754) | (55,140) |
| Increase in cash and cash equivalent reserved | (1,550) | (5,420) |
| Net proceeds from disposal of subsidiary | 200 | — |
| Proceeds from sale of discontinued operations *[note 9]* | 68,048 | — |
| Dividend received from an associate | 9,149 | 6,706 |
| Cash flows related to investing activities | 5,093 | (53,854) |
| FINANCING ACTIVITIES | | |
| Proceeds from issuance of shares | 1,619 | 973 |
| Repurchase of shares | (7,107) | (9,424) |
| Dividends paid by a subsidiary to a non-controlling shareholder | (4,335) | (4,221) |
| Cash flows related to financing activities | (9,823) | (12,672) |
| Effect of exchange rate changes on cash and cash equivalents | (12,132) | 3,402 |
| Net change in cash and cash equivalents related to continuing operations | 26,699 | 45,868 |
| Net cash flows related to discontinued operations *[note 9]* | 542 | (18,332) |
| Cash and cash equivalents, beginning of year | 336,423 | 308,887 |
| Cash and cash equivalents, end of year | 363,664 | 336,423 |
| Supplementary information (as reported in operating activities) | | |
| Income taxes paid | 8,162 | 24,952 |
| Interest paid | 514 | 513 |

See accompanying notes to consolidated financial statements

October 31, 2016 and 2015
[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share amounts]

## Note 1 CORPORATE INFORMATION

Transat A.T. Inc. [the "Corporation"], headquartered at 300 Léo-Pariseau Street, Montréal, Québec, Canada, is incorporated under the *Canada Business Corporations Act*. The Class A Variable Voting Shares and Class B Voting Shares are listed on the Toronto Stock Exchange. Since November 16, 2015, Class A Variable Voting Shares and Class B Voting Shares of the Corporation are traded on the Toronto Stock Exchange under a single symbol, namely "TRZ."

The Corporation is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. As at October 31, 2016, the core of its business consists of a tour operator based in Canada which is vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations and accommodations.

The consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2016 were approved by the Corporation's Board of Directors on December 14, 2016.

## Note 2 SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

These consolidated financial statements of the Corporation and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"] and as adopted by the Accounting Standards Board of Canada.

These consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, except where otherwise indicated. Each entity of the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

These consolidated financial statements have been prepared on a going concern basis, using historical cost accounting, except for certain financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and measured at fair value.

### BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Corporation and its subsidiaries.

#### SUBSIDIARIES

Subsidiaries are entities over which the Corporation has control. Control is achieved where the Corporation has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date when such control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- Cost is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, excluding transaction costs which are expensed as incurred;
- Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the statement of income;
- Contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the statement of income when the contingent consideration is a financial liability;

- Upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the statement of income; and
- For each business combination including non-controlling interests, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Non-controlling interests, which represent the portion of net income (loss) and net assets in subsidiaries that are not 100% owned by the Corporation, are reported separately within equity in the consolidated statement of financial position. Non-controlling interests in respect of which shareholders hold an option entitling them to require the Corporation to buy back their shares are reclassified from equity to liabilities, deeming exercise of the option. The carrying amount of reclassified interests is also adjusted to match the estimated redemption value. Any changes in the estimated redemption value are recognized as equity transactions in retained earnings.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company and using consistent accounting policies. All intragroup balances, transactions, unrealized gains and losses resulting from intragroup transactions and dividends are fully eliminated on consolidation.

INVESTMENT IN AN ASSOCIATE

An associate is an entity over which the Corporation has significant influence, but no control. The Corporation's investment in an associate is accounted for using the equity method as follows:

- Investment is initially recognized at cost;
- Investment in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss;
- The Corporation's share of post-acquisition net income (loss) is recognized in the statement of income and is also added to (netted against) the carrying amount of the investment; and
- Gains on transactions between the Corporation and its equity method investee are eliminated to the extent of the Corporation's interest in this entity and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the functional currency spot rate of exchange at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions as well as from the translation of monetary assets and liabilities not denominated in the functional currency of the subsidiary are recognized in the statement of income, except for qualifying cash flow hedges, which are deferred and presented as Unrealized gain (loss) on cash flow hedges in Accumulated other comprehensive income (loss) in the statement of changes in equity.

GROUP COMPANIES

Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated at the period-end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The exchange differences arising from translation are recognized in Cumulative exchange differences in Accumulated other comprehensive income (loss) in equity. On disposal of an interest, the exchange difference component relating to that particular interest is recognized in the consolidated statement of income.

CASH EQUIVALENTS

Cash equivalents consist primarily of term deposits and bankers' acceptances that are highly liquid and readily convertible into known amounts of cash with initial maturities of less than three months.

### INVENTORIES

Inventories, consisting primarily of supplies and aircraft parts, are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. Net realizable value is the estimated selling price in the normal course of business less estimated costs to sell. Replacement cost may be indicative of net realizable value.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation and provision for impairment, if any.

Depreciation on property, plant and equipment is calculated on a straight line basis, unless otherwise specified, and serves to write down the cost of the assets to their estimated residual value over their expected useful lives as follows:

| | |
|---|---|
| Aircraft equipment, including spare engines and rotable spare parts | 5–10 years or use |
| Office furniture and equipment | 3–10 years |
| Leasehold improvements | Lease term or useful life |
| Administrative building | 10–45 years |

The fleet includes owned aircraft and improvements to aircraft under operating leases. A portion of the cost of owned aircraft is allocated to the "major maintenance activities" subclass, which relates to airframe, engine and landing gear overhaul costs, and the remaining cost is allocated to Aircraft. Aircraft and major maintenance activities are depreciated taking into account their expected estimated residual value. Aircraft are depreciated on a straight-line basis over seven- to ten-year periods, and major maintenance activities are depreciated according to the type of maintenance activity on a straight-line basis or based on the use of the corresponding aircraft until the next related major maintenance activity, or their expected useful lives. Subsequent major maintenance activity expenses are capitalized as major maintenance activities and are depreciated according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income as incurred. Improvements to aircraft under operating leases are depreciated on a straight-line basis over the shorter of the corresponding lease term and their useful life.

Estimated residual values and useful lives are reviewed annually and adjusted as appropriate.

### GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash-generating units ["CGUs"] that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

### INTANGIBLE ASSETS

Intangible assets are recorded at cost. The cost of intangible assets acquired in a business combination is recorded at fair value as at the acquisition date. Internally generated intangible assets include developed or modified application software. These costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software product and make it available for use;
- Management intends to complete the software product and use it;
- The Corporation has ability to use the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and use the software product are available;
- The expenditures attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project.

Following initial recognition, intangible assets are carried at cost less any accumulated depreciation and impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over their respective useful economic lives, as follows:

| | |
|---|---|
| Software | 3–10 years |
| Customer lists | 7–10 years |

Intangible assets with finite useful lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually and adjusted as appropriate.

Intangible assets with indefinite useful lives, consisting mainly of trademarks, are not amortized but are tested for impairment at least annually, either individually or at the CGU level. The indefinite useful life of those assets is reviewed annually, at a minimum, to determine whether events and circumstances continue to support an indefinite useful life assessment for the assets. If they do not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

OPERATING LEASE AND DEFERRED LEASE INDUCEMENTS

Leases where substantially all the risks and rewards of ownership of the asset are not transferred to the Corporation are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the related lease term.

Deferred lease inducements consist of lease incentive amounts received from landlords and rent-free lease periods. These lease inducements are recognized through other liabilities and are amortized over the life of the initial lease term on a straight-line basis as a reduction of amortization expense.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, trade and other receivables other than amounts receivable due from government, deposits on leased aircraft and engines, and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables other than amounts due to government, long-term debt, derivative financial instruments with a negative fair value and put options held by non-controlling interests.

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: financial assets/liabilities at fair value through profit or loss, loans and receivables, or other financial liabilities. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as financial assets or liabilities at fair value through profit or loss unless they are designated within an effective hedging relationship. Classification is determined by management on initial recognition based on the purpose for their acquisition.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

*Financial assets and financial liabilities at fair value through profit or loss*

Financial assets, financial liabilities and derivative financial instruments classified as financial assets or liabilities at fair value through profit or loss are measured at fair value at the period-end date. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are reflected in the consolidated statement of income as incurred.

*Loans and receivables and other financial liabilities*

Financial assets classified as loans and receivables and financial liabilities classified as other financial liabilities are recorded at amortized cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Corporation uses derivative financial instruments to hedge against future foreign currency fluctuations in relation to its operating lease payments, receipts of revenues from certain tour operators and disbursements pertaining to certain operating expenses in foreign currencies. For hedge accounting purposes, the Corporation designates some of its foreign currency derivatives as hedging instruments.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. This process includes linking all derivative financial instruments to forecasted cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging instruments are highly effective in offsetting the changes in the fair value or cash flows of the hedged items.

These derivative financial instruments are designated as cash flow hedges.

All derivative financial instruments are recorded at fair value in the consolidated statement of financial position. For the derivative financial instruments designated as cash flow hedges, changes in the fair value of the effective portion are recognized in Other comprehensive income in the consolidated statement of comprehensive income. Any ineffective portion within a cash flow hedge is recognized in net income, as incurred, in the account Change in fair value of fuel-related derivatives and other derivatives. Should the cash flow hedge cease to be effective, previously unrealized gains and losses remain within Accumulated other comprehensive income (loss) as Unrealized gain (loss) on cash flow hedges until the hedged item is settled, and future changes in value of the derivative instrument are recognized in income prospectively. The change in value of the effective portion of a cash flow hedge remains in Accumulated other comprehensive income (loss) as Unrealized gain (loss) on cash flow hedges until the related hedged item is settled, at which time amounts recognized in Unrealized gain (loss) on cash flow hedges are reclassified to the same consolidated statement of income account in which the hedged item is recognized. For derivative financial instruments designated as fair value hedges, periodic changes in fair value are recognized in the same account in the consolidated statement of income as the hedged item.

DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

In the normal course of business, the Corporation also uses fuel-related derivatives to manage its exposure to unstable fuel prices as well as certain foreign currency derivatives to offset the future risks of fluctuations in foreign currencies that have not been designated for hedge accounting. These derivatives are measured at fair value at the end of each period, and the unrealized gains or losses on remeasurement are recorded and presented under Change in fair value of fuel-related derivatives and other derivatives in the consolidated statement of income. When realized, at maturity of fuel-related derivative financial instruments, any gains or losses are reclassified to Aircraft fuel.

It is the Corporation's policy not to speculate on derivative financial instruments; accordingly, these instruments are normally purchased for risk management purposes and held to maturity.

TRANSACTION COSTS

Transaction costs related to financial assets and financial liabilities classified as financial assets or liabilities at fair value through profit or loss are expensed as incurred. Transaction costs related to financial assets classified as loans and receivables or to financial liabilities classified as other financial liabilities are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest method.

FAIR VALUE

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted prices in an active market at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

The Corporation categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets accessible to the Corporation at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

IMPAIRMENT OF FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset [an incurred loss event] and that incurred loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Impairment losses are recognized through profit or loss.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Value in use is calculated using estimated net cash flows, typically based on detailed projections over a five-year period with subsequent years extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model may be used. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized through profit or loss.

The following criteria are also applied in assessing impairment of specific assets:

GOODWILL

Goodwill is tested annually [as at April 30] for impairment and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each CGU [or group of CGUs] to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

INTANGIBLE ASSETS

Intangible assets with indefinite useful lives are tested for impairment annually [as at April 30] either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

REVERSAL OF IMPAIRMENT LOSSES

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the Corporation estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. The reversal is recognized in the statement of income. Impairment losses relating to goodwill cannot be reversed in future periods.

PROVISIONS

Provisions are recognized when the Corporation has a present, legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. Provisions are measured at their present value.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

Under aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and adhere to the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. The excess of the maintenance obligation over maintenance deposits made to lessors and unclaimed is included in liabilities under Provision for overhaul of leased aircraft. All maintenance work done on aircraft engines under contracts with billing based on flight hours are charged to operating expenses in the statement of income are expensed as incurred.

EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives. Certain non-Canadian employees also benefit from post-employment benefits. The net periodic pension expense for these plans is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Actual results will differ from estimated results based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the statement of income. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits vest.

The liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the term of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in Retained earnings and included in the statement of comprehensive income.

Contributions to defined contribution pension plans are expensed as incurred, which is as the related employee service is rendered.

In certain jurisdictions, termination benefits are payable when employment is terminated by the Corporation before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Corporation recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

REVENUE RECOGNITION

The Corporation recognizes revenue once the service is rendered and all the significant risks and rewards of the service have been transferred to the customer. As a result, revenue earned from passenger transportation is recognized when such transportation is provided. Revenue from tour operators and the related costs are recognized when passengers depart. Commission revenue from travel agencies is recognized when travel is reserved. Amounts received from customers for services not yet rendered are included in current liabilities as Customer deposits and deferred revenues.

Revenue for which the Corporation provides multiple services such as air transportation, tour operator and travel agency services is recognized once the service is provided to the customer based on the Corporation's accounting policy for revenue recognition. The Corporation treats these different services as separate units of accounting as each service has a value to the customer on a stand-alone basis and the consideration paid for these services is allocated using the relative fair value of each deliverable.

### INCOME TAXES

The Corporation provides for income taxes using the liability method. Under this method, deferred tax assets and liabilities are calculated based on differences between the carrying value and tax basis of assets and liabilities and measured using substantively enacted tax rates and laws expected to be in effect when the differences reverse.

Deferred tax assets and liabilities are recognized directly through profit or loss, other comprehensive income, or equity based on the classification of the item to which they relate.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforwards of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### SHARE-BASED PAYMENT PLANS

The Corporation operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Corporation or cash-settled payments.

#### EQUITY-SETTLED TRANSACTIONS

For equity-settled share-based compensation [stock option plan and performance share unit plan], the compensation expense is based on the grant date fair value of the share-based awards expected to vest over the period in which the performance and/or service conditions are fulfilled, with a corresponding increase in the share-based payment reserve. Compensation expense related to the stock option plan is calculated using the Black-Scholes model, whereas the performance share unit expense is measured based on the closing price of the shares of the Corporation on the Toronto Stock Exchange at the grant date adjusted to take into account the terms and conditions upon which the units were granted. For awards with graded vesting, the fair value of each tranche is recognized through profit or loss over its respective vesting period. Any consideration paid by employees on exercising these awards and the corresponding portion previously credited to the share-based payment reserve are credited to share capital.

#### CASH-SETTLED TRANSACTIONS

For cash-settled share-based compensation [deferred share unit plan and restricted share unit plan], the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled. The value of the compensation is measured based on the closing price of the shares of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the units were granted, and is based on the units that are expected to vest. The expense is recognized over the period in which the performance or service conditions are satisfied. At the end of each reporting period, the Corporation re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions through profit or loss.

#### EMPLOYEE SHARE PURCHASE PLANS

The Corporation's contributions to the employee share purchase plans [stock ownership incentive and capital accumulation plan and permanent stock ownership incentive plan] consist of shares acquired in the marketplace by the Corporation. These contributions are measured at cost and are recognized over the period from the acquisition date to the date that the award vests to the participant. Any consideration paid by the participant to purchase shares under the share purchase plan is credited to share capital.

### EARNINGS (LOSS) PER SHARE

Basic earnings per share is computed based on net income attributable to shareholders of the Corporation, divided by the weighted-average number of Class A Variable Voting Shares and Class B Voting Shares outstanding during the year.

Diluted earnings per share is calculated by adjusting net income attributable to shareholders of the Corporation for any changes in income or expense that would result from the exercise of dilutive elements. The weighted-average number Class A Variable Voting Shares and Class B Voting Shares outstanding is increased by the weighted-average number of additional Class A Variable Voting Shares and Class B Voting Shares that would have been outstanding assuming the exercise of all dilutive elements.

## Note 3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, accounting estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market events or to circumstances beyond the Corporation's control. Such changes are reflected in the assumptions when they occur.

### DEPRECIATION AND AMORTIZATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND INTANGIBLE ASSETS

Impairment exists when the carrying amount of an asset or CGU, in the case of goodwill, exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget or financial forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the various CGUs, including a sensitivity analysis, are discussed in note 12.

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. Aircraft and aircraft components account for a major subclass of property, plant and equipment. Depreciation expense depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal.

Changes in estimated useful life and residual value of aircraft could have a significant impact on depreciation expense. Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

### FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. The Corporation also takes into account its own credit risk and the credit risk of the counterparty in determining fair value for its derivative financial instruments based on whether they are financial assets or financial liabilities. When the market for a derivative financial instrument is not active, the Corporation determines the fair value by applying valuation techniques, such as using available information on market transactions involving other instruments that are substantially the same, discounted cash flow analysis or other techniques, where appropriate. The Corporation ensures, to the extent practicable, that its valuation technique incorporates all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments, including the credit risk of the party involved.

### PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The estimates used to determine the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leased aircraft return conditions, the U.S. dollar exchange rate and other facts and reasonable assumptions in the circumstances. Given that various assumptions are used in determining the provision for overhaul of leased aircraft, the calculation involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

### NON-CONTROLLING INTERESTS

Non-controlling interests in respect of which the shareholders may require the Corporation to buy back their shares are reclassified as liabilities at their estimated redemption value, deeming exercise of this option. In the absence of a predetermined calculation formula, the estimated redemption value is established using fair value. The fair value calculation is based on a discounted cash flow model. The cash flows are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the subsidiary's performance. The fair value is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

### EMPLOYEE FUTURE BENEFITS

The cost of defined benefit pension plans and other post-employment benefits and the present value of the associated obligations are determined using actuarial valuations. These actuarial valuations require the use of assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Given that various assumptions are used in determining the cost and obligations associated with employee future benefits, the actuarial valuation process involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

### TAXES

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax legislation and the amount and timing of future taxable income. Given the Corporation's wide range of international business relationships, differences arising between actual results and the assumptions made, or future changes in such assumptions, could give rise to future adjustments in the amounts of income taxes previously reported. Such interpretive differences may arise in a variety of areas depending on the conditions specific to the respective tax jurisdiction of the Corporation's subsidiaries. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgment is required by management to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

## Note 4 FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards.

### IFRS 9, *FINANCIAL INSTRUMENTS*

In July 2014, the IASB completed its three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement* by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces a forward-looking expected-loss impairment model as well as a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit or loss, will be presented in other comprehensive income rather than in the statement of income.

IFRS 9 also introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Application of IFRS 9 will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

### IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more relevant and comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

### IFRS 16, *LEASES*

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under the current IAS 17 standard, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single lessee accounting model under which most of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

The application of IFRS 16 is mandatory and will be effective for the Corporation's fiscal year beginning on November 1, 2019, with earlier adoption permitted if the new IFRS 15 standard on revenue has also been applied. The Corporation is currently assessing the impact of adopting IFRS 16 on its financial statements.

## Note 5 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at October 31, 2016, cash and cash equivalents in trust or otherwise reserved included $254,311 [$310,883 as at October 31, 2015] in funds received from customers, consisting primarily of Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $84,270, of which $46,450 was recorded as non-current assets [$101,216 as at October 31, 2015, of which $44,900 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

## Note 6 TRADE AND OTHER RECEIVABLES

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Trade receivables | 39,571 | 68,695 |
| Government receivables | 15,262 | 23,400 |
| Other receivables | 50,170 | 37,128 |
| | 105,003 | 129,223 |

## Note 7 FINANCIAL INSTRUMENTS

### CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of financial instruments, other than derivative financial instruments designated as hedges, and their carrying amounts and fair values are detailed as follows:

| | Carrying amount | | | | |
|---|---|---|---|---|---|
| | Financial assets/liabilities at fair value through profit or loss | Loans and receivables | Other financial liabilities | Total | Fair value |
| | $ | $ | $ | $ | $ |
| As at October 31, 2016 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 363,664 | — | — | 363,664 | 363,664 |
| Cash and cash equivalents in trust or otherwise reserved | 338,581 | — | — | 338,581 | 338,581 |
| Trade and other receivables | — | 89,741 | — | 89,741 | 89,741 |
| Deposits on leased aircraft and engines | — | 20,043 | — | 20,043 | 20,043 |
| Derivative financial instruments | | | | | |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | 8,614 | — | — | 8,614 | 8,614 |
| -Other foreign currency derivatives | 2,208 | — | — | 2,208 | 2,208 |
| | 713,067 | 109,784 | — | 822,851 | 822,851 |
| Financial liabilities | | | | | |
| Trade and other payables | — | — | 227,862 | 227,862 | 227,862 |
| Derivative financial instruments | | | | | |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | 2,619 | — | — | 2,619 | 2,619 |
| -Other foreign currency derivatives | 13,878 | — | — | 13,878 | 13,878 |
| Non-controlling interests | — | — | 29,984 | 29,984 | 29,984 |
| | 16,497 | — | 257,846 | 274,343 | 274,343 |

| | Carrying amount | | | | |
|---|---|---|---|---|---|
| | Financial assets/liabilities at fair value through profit or loss | Loans and receivables | Other financial liabilities | Total | Fair value |
| | $ | $ | $ | $ | $ |
| As at October 31, 2015 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 336,423 | — | — | 336,423 | 336,423 |
| Cash and cash equivalents in trust or | 412,099 | — | — | 412,099 | 412,099 |
| Trade and other receivables | — | 105,823 | — | 105,823 | 105,823 |
| Deposits on leased aircraft and engines | — | 16,530 | — | 16,530 | 16,530 |
| Derivative financial instruments | | | | | |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | 180 | — | — | 180 | 180 |
| -Other foreign currency derivatives | 142 | — | — | 142 | 142 |
| | 748,844 | 122,353 | — | 871,197 | 871,197 |
| Financial liabilities | | | | | |
| Trade and other payables | — | — | 312,964 | 312,964 | 312,964 |
| Derivative financial instruments | | | | | |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | 17,953 | — | — | 17,953 | 17,953 |
| -Other foreign currency derivatives | 1,344 | — | — | 1,344 | 1,344 |
| Non-controlling interests | — | — | 32,800 | 32,800 | 32,800 |
| | 19,297 | — | 345,764 | 365,061 | 365,061 |

DETERMINATION OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The following methods and assumptions were used to measure fair value:

The fair value of cash and cash equivalents, in trust or otherwise reserved or not, trade and other receivables, and accounts payable and accrued liabilities approximates their carrying amount due to the short-term maturity of these financial instruments.

The fair value of forward purchase contracts and other derivative financial instruments related to fuel or currencies is measured using a generally accepted valuation method, i.e., by discounting the difference between the value of the contract at expiration determined according to contract price or rate and the value of the contract at expiration determined according to contract price or rate that the financial institution would have used had it renegotiated the same contract under the same conditions at the current date. The Corporation also factors in the financial institution's credit risk when determining contract value.

The fair value of deposits on leased aircraft and engines approximates their carrying amount given that they are subject to terms and conditions similar to those available to the Corporation for instruments with comparable terms.

The fair value of non-controlling interests in respect of which non-controlling shareholders hold an option to require the Corporation to buy back their shares corresponds to their redemption price. The redemption price is based either on a formula that factors in financial and non-financial indicators or on the fair value of shares held, which is determined using a discounted cash flow model similar to that used for the goodwill impairment test *[see note 12].*

The following table details the fair value hierarchy of financial instruments by level:

| | Quoted prices in active markets (Level 1) | Other observable inputs (Level 2) | Unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| As at October 31, 2016 | | | | |
| Financial assets | | | | |
| Derivative financial instruments | | | | |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | — | 8,614 | — | 8,614 |
| -Foreign exchange forward contracts and other foreign currency derivatives | — | 9,903 | — | 9,903 |
| | — | 18,517 | — | 18,517 |
| Financial liabilities | | | | |
| Derivative financial instruments | | | | |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | — | 2,619 | — | 2,619 |
| -Foreign exchange forward contracts and other foreign currency derivatives | — | 18,739 | — | 18,739 |
| Non-controlling interests | — | — | 29,984 | 29,984 |
| | — | 21,358 | 29,984 | 51,342 |

| | Quoted prices in active markets (Level 1) | Other observable inputs (Level 2) | Unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| As at October 31, 2015 | | | | |
| Financial assets | | | | |
| Derivative financial instruments | | | | |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | — | 180 | — | 180 |
| -Foreign exchange forward contracts and other foreign currency derivatives | — | 25,393 | — | 25,393 |
| | — | 25,573 | — | 25,573 |
| Financial liabilities | | | | |
| Derivative financial instruments | | | | |
| -Fuel purchasing forward contracts and other fuel-related derivative financial instruments | — | 17,953 | — | 17,953 |
| -Foreign exchange forward contracts and other foreign currency derivatives | — | 5,250 | — | 5,250 |
| Non-controlling interests | — | — | 32,800 | 32,800 |
| | — | 23,203 | 32,800 | 56,003 |

The changes in non-controlling interests are as follows:

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Balance, beginning of year | 32,800 | 24,900 |
| Net income | 4,989 | 4,399 |
| Other comprehensive income | 632 | 3,540 |
| Dividends | (4,335) | (4,221) |
| Disposal of subsidiaries | (3,053) | — |
| Change in fair value of non-controlling interests | (1,049) | 4,182 |
| | 29,984 | 32,800 |

### MANAGEMENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation is exposed to credit and counterparty risk, liquidity risk and market risk arising from changes in certain foreign exchange rates, changes in fuel prices and changes in interest rates. The Corporation manages these risk exposures on an ongoing basis. In order to limit the effects of changes in foreign exchange rates, fuel prices and interest rates on its revenues, expenses and cash flows, the Corporation can avail itself of various derivative financial instruments. The Corporation's management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing or anticipated risks, commitments or obligations based on its past experience.

### CREDIT AND COUNTERPARTY RISK

Credit risk is primarily attributable to the potential inability of customers, service providers, aircraft and engine lessors and financial institutions, including the other counterparties to cash equivalents and derivative financial instruments, to discharge their obligations.

Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled $39,571 as at October 31, 2016 [$68,695 as at October 31, 2015]. Trade accounts receivable consist of a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2016 and 2015. As at October 31, 2016, approximately 8% [approximately 3% as at October 31, 2015] of accounts receivable were over 90 days past due, whereas approximately 75% [approximately 82% as at October 31, 2015] were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled $22,001 as at October 31, 2016 [$42,371 as at October 31, 2015] and are generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $20,043 as at October 31, 2016 [$16,530 as at October 31, 2015] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2016, the cash security deposits with lessors that have been claimed totalled $21,277 [$21,587 as at October 31, 2015] and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2016 relates to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by Dominion Bond Rating Service [DBRS]], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2016.

LIQUIDITY RISK

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management's oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows.

The maturities of the Corporation's financial liabilities as at October 31, 2016 are summarized in the following table:

| | Maturing in under 1 year | Maturing in 1 to 2 years | Maturing in 2 to 5 years | Contractual cash flows Total | Carrying amount Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 227,862 | — | — | 227,862 | 227,862 |
| Non-controlling interests | 4,984 | — | 25,000 | 29,984 | 29,984 |
| Derivative financial instruments | 21,344 | — | — | 21,344 | 21,358 |
| Total | 254,190 | — | 25,000 | 279,190 | 279,204 |

MARKET RISK

FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 61% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 17% of revenues are incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts and other types of derivative financial instruments, expiring in generally less than 18 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

Expressed in Canadian dollar terms, the net financial assets and net financial liabilities of the Corporation and its subsidiaries denominated in currencies other than the measurement currency of the financial statements as at October 31, based on their financial statement measurement currency, are summarized in the following tables:

| Net assets (liabilities) | U.S. dollar | Euro | Pound sterling | Canadian dollar | Other currencies | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| 2016 | | | | | | |
| Financial statement measurement currency of the group's companies | | | | | | |
| Euro | 9,356 | — | — | — | — | 9,356 |
| Pound sterling | (4,155) | 100,963 | — | 671 | — | 97,479 |
| Canadian dollar | (10,296) | (6,862) | 3,287 | — | (1,339) | (15,210) |
| Other currencies | (673) | 19 | — | (6) | 876 | 216 |
| Total | (5,768) | 94,120 | 3,287 | 665 | (463) | 91,841 |

| Net assets (liabilities) | U.S. dollar | Euro | Pound sterling | Canadian dollar | Other Currencies | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| 2015 | | | | | | |
| Financial statement measurement currency of the group's companies | | | | | | |
| Euro | (34,967) | — | (446) | (1,886) | 11 | (37,288) |
| Pound sterling | 97 | 238 | — | (215) | — | 120 |
| Canadian dollar | 8,839 | 2,974 | (3,868) | — | (220) | 7,725 |
| Other currencies | (333) | 102 | — | (18) | 1,884 | 1,635 |
| Total | (26,364) | 3,314 | (4,314) | (2,119) | 1,675 | (27,808) |

As at October 31, 2016, the proceeds of disposal of subsidiaries Transat France and Tourgreece were received in euros by a subsidiary in the United Kingdom.

For the year ended October 31, 2016, a 1% rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $3,199 increase or decrease [$1,307 in 2015], respectively, in the Corporation's net income for the year, whereas other comprehensive loss would have decreased or increased by $3,085 [$2,213 in 2015], respectively.

As at October 31, 2016, 37% of estimated requirements for fiscal 2016 were covered by foreign currency derivatives [45% of estimated requirements for fiscal 2015 were covered as at October 31, 2015].

RISK OF FLUCTUATIONS IN FUEL PRICES

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than 18 months.

For the year ended October 31, 2016, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $6,170 decrease or increase [$3,322 in 2015], respectively, in the Corporation's net income for the year.

As at October 31, 2016, 48% of estimated requirements for fiscal 2016 were covered by fuel-related derivative financial instruments [36% of estimated requirements for fiscal 2015 were covered as at October 31, 2015].

INTEREST RATE RISK

The Corporation is exposed to interest rate fluctuations, primarily due to its variable-rate credit facility. The Corporation manages its interest rate exposure and could potentially enter into swap agreements consisting in exchanging variable rates for fixed rates.

Furthermore, interest rate fluctuations could have an effect on the Corporation's interest income derived from its cash and cash equivalents. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.

For the year ended October 31, 2016, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $1,727 increase or decrease [$1,815 in 2015], respectively, in the Corporation's net income.

CAPITAL RISK MANAGEMENT

The Corporation's capital management objectives are first to ensure the longevity of the Corporation so as to support its continued operations, provide its shareholders with a return, generate benefits for its other stakeholders and maintain the most optimal capitalization possible with a view to keeping capital costs to a minimum.

The Corporation manages its capitalization in accordance with changes in economic conditions. In order to maintain or adjust its capitalization, the Corporation may elect to declare dividends to shareholders, return capital to its shareholders and repurchase its shares in the marketplace or issue new shares.

The Corporation monitors its capitalization using the adjusted debt/equity ratio. This ratio is calculated by dividing net debt by equity. Net debt is equal to the aggregate of long-term debt and obligations under adjusted operating leases, less cash and cash equivalents [not held in trust or otherwise reserved]. The amount of adjusted operating leases is equal to the annualized aircraft rental expense multiplied by 5.0, a factor used in the industry. Although commonly used, this measure does not reflect the fair value of operating leases as it does not take into account the remaining contractual payments, the discount rates implicit in the leases or current rates for similar obligations with similar terms and risks.

The Corporation's strategy is to maintain its adjusted debt/equity ratio below 1. The calculation of the adjusted debt/equity ratio is summarized as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **Net debt** | | |
| Long-term debt | — | — |
| Adjusted operating leases | 679,065 | 494,295 |
| Cash and cash equivalents | (363,664) | (336,423) |
| | 315,401 | 157,872 |
| Equity | 464,386 | 537,252 |
| Adjusted debt/equity ratio | 67.9% | 29.4% |

The Corporation's credit facilities are subject to certain covenants including a debt/equity ratio and a fixed-charge coverage ratio. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2016, the Corporation was in compliance with these ratios. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

## Note 8 DEPOSITS

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Deposits on leased aircraft and engines | 20,043 | 16,530 |
| Deposits with suppliers | 22,001 | 42,371 |
| | 42,044 | 58,901 |
| Less current portion | 13,067 | 18,298 |
| | 28,977 | 40,603 |

## Note 9 DISCONTINUED OPERATIONS

On October 31, 2016, the Corporation completed the sale of its tour operating business in France (Transat France) and Greece (Tourgreece) for an amount of €63,428 ($93,254) to TUI AG, a multinational tourism company. The price could be adjusted at the final closing of accounts and completion of the audit within 90 business days following the sale, due to a working capital adjustment.

As at October 31, 2015, the tour operating businesses in France and Greece were not identified as discontinued operations or as assets held for sale. The Corporation announced on January 12, 2016 the initiation of a process to seek interest from third parties that could potentially lead to the sale of certain assets held by the Corporation outside Canada, namely its tour operators in France and Greece. Accordingly, the comparative consolidated statements of income (loss) and comprehensive income (loss) were restated to present after-tax income or loss from discontinued operations as a single amount, separately from continuing operations. Unless otherwise specified, all other notes to consolidated financial statements include amounts from continuing operations.

A gain on disposal of $49,692, net of transaction costs of $7,073, was also recognized in the consolidated statement of income (loss) and the proceeds of disposal $93,254, net of cash disposed of, of are shown in the consolidated statement of cash flows.

The net income (loss) from discontinued operations is entirely attributable to common shareholders of the Corporation and is detailed as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Revenues | 685,780 | 668,418 |
| Operating expenses and other expenses | 683,709 | 672,823 |
| Income (loss) from operating activities | 2,071 | (4,405) |
| Income tax expense (recovery) | 1,677 | (2,050) |
| Net income (loss) from operating activities | 394 | (2,355) |
| Gain on disposal of discontinued operations | 49,692 | — |
| Foreign exchange loss on disposal of discontinued operations | (854) | — |
| Foreign exchange gain realized on disposal of discontinued operations | 540 | — |
| Net income (loss) from discontinued operations | 49,772 | (2,355) |
| Earnings (loss) per share from discontinued operations | | |
| Basic | 1.35 | (0.06) |
| Diluted | 1.35 | (0.06) |

The net change in cash flows related to discontinued operations is as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Cash flows related to operating activities | 4,811 | (14,992) |
| Cash flows related to investing activities | (4,269) | (4,155) |
| Effect of exchange rate changes on cash and cash equivalents | — | 815 |
| Net cash flows related to discontinued operations | 542 | (18,332) |

The assets and liabilities disposed of in connection with discontinued operations are as follows:

| | 2016 |
|---|---|
| | $ |
| Cash and cash equivalents | (22,978) |
| Cash and cash equivalents in trust or otherwise reserved | (3,893) |
| Trade and other receivables | (32,590) |
| Income taxes receivable | (2,666) |
| Prepaid expenses | (14,731) |
| Derivative financial instruments | (567) |
| Deposits | (18,489) |
| Deferred tax assets | (9,322) |
| Property, plant and equipment | (9,229) |
| Goodwill | (31,255) |
| Intangible assets | (18,869) |
| Trade and other payables | 83,857 |
| Customer deposits and deferred revenues | 38,701 |
| Other liabilities | 5,111 |
| Deferred tax liabilities | 431 |
| Net assets disposed of | (36,489) |
| Consideration received, satisfied in cash | 93,254 |
| Transaction costs, satisfied in cash | (2,228) |
| Cash and cash equivalents disposed of | (22,978) |
| Net cash inflow | 68,048 |

## Note 10 DISPOSAL OF A SUBSIDIARY

On April 1, 2016, the Corporation concluded the sale of its subsidiary Travel Superstore, which operates the website tripcentral.ca and 27 travel agencies. The cash consideration totalled $300 and the carrying amount of net assets disposed of stood at $1,312, which resulted in a reversal of retained earnings of $169 and a loss on disposal of a subsidiary of $843.

## Note 11 PROPERTY, PLANT AND EQUIPMENT

| | Fleet | Aircraft equipment | Office furniture and equipment | Building and leasehold improvements | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| *Cost* | | | | | |
| Balance as at October 31, 2015 | 303,925 | 88,893 | 64,943 | 46,939 | 504,700 |
| Additions | 35,524 | 8,884 | 5,035 | 3,676 | 53,119 |
| Disposals of subsidiaries | — | — | (11,362) | (16,423) | (27,785) |
| Write-off | — | — | (9,043) | (722) | (9,765) |
| Exchange difference | — | — | (687) | — | (687) |
| Balance as at October 31, 2016 | 339,449 | 97,777 | 48,886 | 33,470 | 519,582 |
| *Accumulated amortization* | | | | | |
| Balance as at October 31, 2015 | 215,357 | 72,299 | 51,413 | 32,129 | 371,198 |
| Amortization | 30,537 | 3,559 | 4,654 | 1,919 | 40,669 |
| Disposals of subsidiaries | — | — | (9,306) | (7,763) | (17,069) |
| Write-off | — | — | (9,043) | (722) | (9,765) |
| Exchange difference | — | — | (410) | — | (410) |
| Balance as at October 31, 2016 | 245,894 | 75,858 | 37,308 | 25,563 | 384,623 |
| Net book value as at October 31, 2016 | 93,555 | 21,919 | 11,578 | 7,907 | 134,959 |

| | Fleet | Aircraft equipment | Office furniture and equipment | Building and leasehold improvements | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| *Cost* | | | | | |
| Balance as at October 31, 2014 | 277,913 | 84,670 | 71,607 | 46,529 | 480,719 |
| Additions | 28,274 | 4,371 | 6,569 | 2,582 | 41,796 |
| Write-off | (2,262) | (148) | (14,103) | (2,511) | (19,024) |
| Exchange difference | — | — | 870 | 339 | 1,209 |
| Balance as at October 31, 2015 | 303,925 | 88,893 | 64,943 | 46,939 | 504,700 |
| *Accumulated amortization* | | | | | |
| Balance as at October 31, 2014 | 191,703 | 70,036 | 58,703 | 31,717 | 352,159 |
| Amortization | 25,916 | 2,411 | 6,234 | 2,753 | 37,314 |
| Write-off | (2,262) | (148) | (14,103) | (2,511) | (19,024) |
| Exchange difference | — | — | 579 | 170 | 749 |
| Balance as at October 31, 2015 | 215,357 | 72,299 | 51,413 | 32,129 | 371,198 |
| Net book value as at October 31, 2015 | 88,568 | 16,594 | 13,530 | 14,810 | 133,502 |

## Note 12 GOODWILL AND OTHER INTANGIBLE ASSETS

| | Goodwill | Software | Trademarks | Customer lists | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| *Cost* | | | | | |
| Balance as at October 31, 2015 | 114,527 | 158,913 | 22,041 | 14,262 | 309,743 |
| Additions | — | 17,635 | — | — | 17,635 |
| Disposals of subsidiaries | (47,087) | (35,525) | — | — | (82,612) |
| Write-off and impairment | — | (124) | — | — | (124) |
| Exchange difference | (3,541) | (84) | (1,791) | (2,043) | (7,459) |
| Balance as at October 31, 2016 | 63,899 | 140,815 | 20,250 | 12,219 | 237,183 |
| *Accumulated amortization and impairment* | | | | | |
| Balance as at October 31, 2015 | 15,000 | 101,950 | — | 13,403 | 130,353 |
| Amortization | — | 8,591 | — | 775 | 9,366 |
| Disposals of subsidiaries | (15,000) | (15,484) | — | — | (30,484) |
| Write-off and impairment | 63,899 | (124) | 15,809 | — | 79,584 |
| Exchange difference | — | (4) | — | (1,959) | (1,963) |
| Balance as at October 31, 2016 | 63,899 | 94,929 | 15,809 | 12,219 | 186,856 |
| Net book value as at October 31, 2016 | — | 45,886 | 4,441 | — | 50,327 |

| | Goodwill | Software | Trademarks | Customer lists | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| *Cost* | | | | | |
| Balance as at October 31, 2014 | 110,601 | 142,642 | 20,429 | 13,043 | 286,715 |
| Additions | — | 17,499 | — | — | 17,499 |
| Write-off | — | (1,877) | — | — | (1,877) |
| Exchange difference | 3,926 | 649 | 1,612 | 1,219 | 7,406 |
| Balance as at October 31, 2015 | 114,527 | 158,913 | 22,041 | 14,262 | 309,743 |
| *Accumulated amortization and impairment* | | | | | |
| Balance as at October 31, 2014 | 15,000 | 92,096 | — | 11,249 | 118,345 |
| Amortization | — | 11,356 | — | 1,061 | 12,417 |
| Write-off | — | (1,877) | — | — | (1,877) |
| Exchange difference | — | 375 | — | 1,093 | 1,468 |
| Balance as at October 31, 2015 | 15,000 | 101,950 | — | 13,403 | 130,353 |
| Net book value as at October 31, 2015 | 99,527 | 56,963 | 22,041 | 859 | 179,390 |

IMPAIRMENT TEST IN 2016

In compliance with the accounting policies adopted by the Corporation, annual impairment testing for intangible assets with indefinite lives is required on April 30 and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each asset, cash-generating unit ("CGU") or group of CGUs. Where the recoverable amount of the asset, CGU or group of CGUs is less than its carrying amount, an impairment loss is recognized.

The $79,708 asset impairment charge consists of impairment of goodwill and trademarks of $63,899 and $15,809, respectively.

The aggregate carrying amounts of goodwill and trademarks allocated to each CGU are as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Goodwill | Trademarks | Goodwill | Trademarks |
| | $ | $ | $ | $ |
| Canada – United Kingdom – Netherlands | — | 4,441 | 67,537 | 22,041 |
| France | — | — | 21,016 | — |
| Other * | — | — | 10,974 | — |
| Net book value | — | 4,441 | 99,527 | 22,041 |

* Multiple individual CGUs

INTANGIBLE ASSETS

The Corporation performed its annual impairment test as at April 30, 2016 to determine whether the carrying amount of trademarks was higher than their recoverable amount.

The recoverable amount is determined based on value in use, using a discounted cash flow model. The Corporation prepares cash flow forecasts based on the most recently approved annual budgets and three-year plans of the relevant business. Cash flow forecasts reflect the risk associated with each asset, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on nil growth rates. The cash flow forecasts used also reflect the effects of implementing the Corporation's integrated distribution and brand strategy aiming to further expand the Transat brand, therefore decreasing the use of certain trademarks held by the Corporation.

Following the introduction of its new reservation platform which, for European travellers, favours the purchasing of seats directly from Air Transat instead of through its U.K. subsidiary, the Corporation concluded that the recoverable amount of its Canadian Affair trademark, determined based on value in use, was less than its carrying amount due to a decline in revenues and profitability generated by this trademark. As a result, the Corporation recorded an impairment charge of $9,726.

Implementation of the Corporation's integrated strategy to further expand the Transat brand will result in the discontinuation of its Vacances Tours Mont-Royal ("TMR") brand, which the Corporation uses for the sale of sun packages outbound from Canada. As this brand is no longer used, the Corporation has recorded an impairment charge of $4,483, which corresponds to its carrying amount.

Also as part of the implementation of the Corporation's distribution and brand strategy aiming to further expand the Transat brand, the Corporation is currently changing its wholly owned Marlin Travel agency banners to Voyages Transat. Following these changes, the Corporation concluded that the recoverable amount of its Marlin Travel trademark, determined based on value in use, was less than its carrying amount due to a decline in revenues and profitability generated by this trademark. As a result, the Corporation recorded an impairment charge of $1,600.

As at April 30, 2016, after-tax discount rates used for impairment testing for trademarks ranged from 10.3% to 18.0% [10.3% as at April 30, 2015].

As at April 30, 2016, a 1% increase in the after-tax discount rate used for impairment testing, assuming that all others variables remained the same, would have resulted in an additional impairment charge of $200.

As at April 30, 2016, a 10% decrease in the cash flows used for impairment testing, assuming that all other variables remained the same, would have resulted in an additional impairment charge of $300.

As at October 31, 2016, there was no indication suggesting that the conclusions of trademarks impairment test might have changed since April 30, 2016.

GOODWILL

The Corporation performed its annual impairment test as at April 30, 2016 to determine whether a CGU's carrying amount was higher than its recoverable amount. No impairment of goodwill was identified by the Corporation as at that date.

As at October 31, 2016, important changes in the environment in which the Corporation operates, such as significant capacity increases in markets served by the Corporation and their effect on selling prices and load factors, volatile exchange rates and fuel prices and the recent deterioration in results of the summer season have led management to review the assumptions for future cash flows and to perform a new impairment test. Following this impairment test, the Corporation recognized a goodwill impairment charge of $63,899 which corresponds to the balance of goodwill of its sole CGU as at October 31, 2016.

The recoverable amount is determined based on value in use, using a discounted cash flow model. The Corporation prepares cash flow forecasts based on the most recently approved annual budgets and three-year plans of the relevant business. Cash flow forecasts reflect the risk associated with each CGU, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets.

As at April 30, 2016 and October 31, 2016, an after-tax discount rate of 10.1% was used for testing the various CGUs for impairment [10.3% as at April 30, 2015]. The perpetual growth rate used for impairment testing was 1% [1% as at April 30, 2015].

As at October 31, 2016, reasonable changes in the assumptions used in the goodwill impairment test would not lead to an additional impairment charge related to the assets.

## Note 13 INVESTMENTS AND OTHER ASSETS

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Investment in an associate – Caribbean Investments B.V. [“CIBV”] | 97,668 | 97,897 |
| Deferred costs, unamortized | 299 | 355 |
| Sundry | 434 | 1,165 |
| | 98,401 | 99,417 |

Transat has a 35% interest in CIBV, which operates hotels in Mexico, the Dominican Republic and Cuba. CIBV’s fiscal year-end is December 31, and the Corporation recognizes its investment using the equity method and results for the 12-month period ended September 30 of each year.

The change in the investment in CIBV is detailed as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Balance, beginning of year | 97,897 | 83,949 |
| Share of net income | 6,342 | 7,045 |
| Dividend received | (9,149) | (6,706) |
| Translation adjustment | 2,578 | 13,609 |
| | 97,668 | 97,897 |

The following table shows the condensed financial information regarding CIBV as at September 30:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Statement of financial position: | | |
| Current assets | 47,811 | 56,987 |
| Non-current assets | 386,903 | 375,441 |
| Current liabilities | 46,795 | 49,619 |
| Non-current liabilities | 108,867 | 103,102 |
| Net assets of CIBV | 279,052 | 279,707 |
| Carrying amount of investment in CIBV (35% of net assets) | 97,668 | 97,897 |
| | | |
| Statement of comprehensive | | |
| Revenues | 131,889 | 116,389 |
| Net income and comprehensive | 18,120 | 20,129 |
| Share of net income | 6,342 | 7,045 |

## Note 14 TRADE AND OTHER PAYABLES

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Trade payables | 117,258 | 184,357 |
| Accrued expenses | 58,133 | 68,970 |
| Salaries and employee benefits payable | 52,471 | 59,637 |
| Government remittances | 14,949 | 9,892 |
| Non-controlling interests *[note 17]* | 4,984 | 32,800 |
| | 247,795 | 355,656 |

## Note 15 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

| | $ |
|---|---|
| Balance as at October 31, 2015 | 42,962 |
| Additional provisions | 19,192 |
| Utilization of provisions | (18,264) |
| Unused amounts released | (3,029) |
| Balance as at October 31, 2016 | 40,861 |
| Current provisions | 16,232 |
| Non-current provisions | 24,629 |
| Balance as at October 31, 2016 | 40,861 |

The provision for overhaul of leased aircraft relates to the maintenance obligation for leased aircraft and spare parts used by the Corporation's airline under operating leases.

## Note 16 LONG-TERM DEBT

On February 19, 2016, the Corporation renewed its $50,000 revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2020, the Corporation may increase the credit limit to $100,000, with the approval of lenders. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at October 31, 2016, all the financial ratios and criteria were met and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2016, $66,220 had been drawn down under the facility [$66,943 as at October 31, 2015], of which $46,450 is to guarantee the benefits to participants under senior executives defined benefit pension agreements; such irrevocable letters of credit are held by a third-party trustee. In the event of a change of control, the irrevocable letters of credit issued to guarantee the benefits to participants under the senior executives defined benefit pension agreements will be drawn down.

## Note 17 Other liabilities

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Employee benefits *[note 23]* | 40,400 | 39,265 |
| Deferred lease inducements | 22,611 | 12,761 |
| Non-controlling interests *[note 7]* | 29,984 | 32,800 |
| | 92,995 | 84,826 |
| Less non-controlling interests included in Trade and other payables *[note 14]* | (4,984) | (32,800) |
| | 88,011 | 52,026 |

### Non-controlling interests

a) The minority shareholder in the subsidiary Jonview Canada Inc., which is also a shareholder of the Corporation, may require the Corporation to buy its Jonview Canada Inc. shares at a price equal to their fair market value. The price paid may be settled, at the Corporation's option, in cash or by a share issue. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

b) The minority shareholder of the subsidiary Trafictours Canada Inc. could require that the Corporation purchase its Trafictours Canada Inc. shares at a price equal to a pre-determined formula, subject to adjustment according to the circumstances, payable in cash. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

## Note 18 Equity

### Authorized share capital

#### Class A Variable Voting Shares

An unlimited number of participating Class A Variable Voting Shares ["Class A Shares"] which may be owned or controlled only by non-Canadians as defined by the *Canada Transportation Act* ["CTA"], carrying one vote per Class A Share unless [i] the number of issued and outstanding Class A Shares exceeds 25% of the total number of all issued and outstanding voting shares (or any higher percentage that the Governor in Council may specify pursuant to the CTA); or [ii] the total number of votes cast by or on behalf of holders of Class A Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed, the vote attached to each Class A Share will decrease automatically, without further act or formality. Under the circumstance described in subparagraph [i] above, the Class A Shares as a class cannot carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation. Under the circumstance described in subparagraph [ii] above, the Class A Shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that can be exercised at the said meeting.

Each issued and outstanding Class A Share shall be automatically converted into one Class B Voting Share without any further action on the part of the Corporation or of the holder if [i] the Class A Share is or becomes owned or controlled by a Canadian as defined by the CTA; or [ii] the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

#### Class B Voting Shares

An unlimited number of Class B Voting Shares ["Class B Shares"], participating, which may be owned and controlled by Canadians as defined by the CTA only and shall confer the right to one vote per Class B Share at all meetings of shareholders of the Corporation. Each issued and outstanding Class B Share shall be converted into one Class A Share automatically without any further action on the part of the Corporation or the holder if the Class B Share is or becomes owned or controlled by a non-Canadian as defined by the CTA.

PREFERRED SHARES

An unlimited number of preferred shares, non-voting, issuable in series, each series bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

ISSUED AND OUTSTANDING SHARE CAPITAL

The changes affecting Class A Shares and Class B Shares were as follows:

| | Number of shares | $ |
|---|---|---|
| Balance as at October 31, 2014 | 38,741,527 | 224,679 |
| Issued from treasury | 145,310 | 973 |
| Repurchase and cancellation of shares | (1,296,090) | (7,518) |
| Balance as at October 31, 2015 | 37,590,747 | 218,134 |
| Issued from treasury | 187,359 | 1,219 |
| Repurchase and cancellation of shares | (978,831) | (5,680) |
| Exercise of options | 59,890 | 577 |
| Balance as at October 31, 2016 | 36,859,165 | 214,250 |

On April 10, 2015, the Corporation announced that it had received the required regulatory approvals to go forward with a normal course issuer bid for a 12-month period.

Pursuant to its normal course issuer bid, the Corporation was authorized to purchase for cancellation up to a maximum of 2,274,921 Class A Shares and Class B Shares, representing approximately 10% of the public float of Class A Shares and Class B Shares.

On March 4, 2016, the Corporation completed its normal course issuer bid for a 12-month period launched on April 10, 2015; as of that date, the Corporation had repurchased a total of 2,274,921 Class B Shares for a total cash consideration of $16,531. The Corporation repurchased 978,831 Class B Shares during the year ended October 31, 2016, for a cash consideration of $7,107.

As at October 31, 2016, the number of Class A Shares and Class B Shares stood at 2,476,020 and 34,383,145, respectively [1,410,985 and 36,179,762 as at October 31, 2015].

SUBSCRIPTION RIGHTS PLAN

The shareholders' subscription rights plan [the "rights plan"] entitles holders of Class A Shares and Class B Shares to acquire, under certain conditions, additional shares at a price equal to 50% of their market value at the time the rights are exercised. The rights plan is designed to give the Board of Directors time to consider alternatives, thus allowing shareholders to receive full and fair value for their shares. The rights plan will terminate on the day after the 2017 shareholders' annual general meeting ("AGM"), unless terminated prior to said AGM.

STOCK OPTION PLAN

At the AGM held on March 12, 2015, the shareholders approved the implementation of a new reserve of 850,000 shares issuable in addition to the balance remaining under the stock option plan. Under this plan, the Corporation may grant up to a maximum of 1,122,337 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. The option exercise period and the performance criteria are determined on each grant. The options granted between January 14, 2009 and October 31, 2015 are exercisable in three tranches of 33.33% as of mid-December of each year following the grant, provided the performance criteria determined on each grant are met. For options granted starting November 1, 2015, vesting will no longer depend on meeting performance criteria. The options granted before October 31, 2013 are exercisable over a ten-year period, whereas those granted after that date are exercisable over or a seven-year period, respectively. Provided the performance criteria set on grant date are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years.

The following tables summarize all outstanding options:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Number of options | Weighted average price | Number of options | Weighted average price |
| | | $ | | $ |
| Beginning of year | 2,741,856 | 11.81 | 2,654,817 | 12.39 |
| Granted | — | — | 236,447 | 8.73 |
| Exercised | (59,890) | 6.68 | — | — |
| Cancelled | (70,075) | 11.10 | (74,184) | 12.19 |
| Expired | — | — | (75,224) | 22.34 |
| End of year | 2,611,891 | 11.94 | 2,741,856 | 11.81 |
| Options exercisable, end of year | 2,400,323 | 12.08 | 1,807,423 | 12.89 |

| | Outstanding options | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of exercise price | Number of options outstanding as at October 31, 2016 | Weighted average remaining life | Weighted average price | Number of options exercisable as at October 31, 2016 | Weighted average price |
| $ | | | $ | | $ |
| 6.01 to 7.48 | 1,009,856 | 5.7 | 6.69 | 1,009,856 | 6.69 |
| 8.73 to 11.22 | 447,374 | 3.7 | 10.13 | 329,825 | 10.63 |
| 12.25 to 12.49 | 667,041 | 3.8 | 12.36 | 573,022 | 12.34 |
| 19.24 to 24.78 | 396,414 | 2.2 | 20.84 | 396,414 | 20.84 |
| 37.25 | 91,206 | 0.5 | 37.25 | 91,206 | 37.25 |
| | 2,611,891 | 4.2 | 11.94 | 2,400,323 | 12.08 |

COMPENSATION EXPENSE RELATED TO STOCK OPTION PLAN

During the year ended October 31, 2016, the Corporation granted nil stock options [236,447 in 2015] to certain key executives and employees. The average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant are as follows:

| | 2016 | 2015 |
|---|---|---|
| Risk-free interest rate | — | 1.33% |
| Expected life | — | 4 years |
| Expected volatility | — | 58.2% |
| Dividend yield | — | — |
| Weighted average fair value at date of grant | — | $ 3.52 |

During the year ended October 31, 2016, the Corporation recorded a compensation expense of $401 [$1,110 in 2015] for its stock option plan.

PERFORMANCE SHARE UNIT PLAN

Performance share units ["PSUs"] are awarded in connection with the performance share unit plan for senior executives. Under this plan, each eligible senior executive receives a portion of his or her compensation in the form of PSUs. PSUs consist of a number equal to a percentage of the participant's basic salary, divided by the fair market value of Class B Shares as at the award date. Once vested, PSUs give the participant the right to receive an equal number of shares or a cash payment, at the Corporation's discretion. PSUs awarded vest in three tranches of 16.67% in mid-December of each year for three years following the award, provided the performance criteria determined on each award are met. The remaining 50% of PSUs awarded vest in mid-December three years following their award, provided the plan member is still an employee of the Corporation.

As at October 31, 2016, the number of PSUs awarded amounted to 168,794. For the year ended October 31, 2016, the Corporation recognized a compensation expense of $520 [$551 in 2015] for its performance share unit plan.

SHARE PURCHASE PLAN

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. At the AGM held March 12, 2015, shareholders approved the implementation of a new reserve of 525,000 shares issuable in addition to the remaining balance under the plan. Under the plan, as at October 31, 2016, the Corporation was authorized to issue up to 309,677 Class B Shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the Class B Shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 187,359 Class B Shares [145,310 Class B Shares in 2015] for a total of $1,219 [$973 in 2015] under the share purchase plan.

STOCK OWNERSHIP INCENTIVE AND CAPITAL ACCUMULATION PLAN

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible officer a number of Class B Shares, the aggregate purchase price of which is equal to an amount of 30% or 60% of the maximum percentage of salary contributed, which may not exceed 5%. Shares so awarded by the Corporation will vest to the eligible employee, subject to the eligible officer's retaining, during the first six months of the vesting period, all the shares purchased under the Corporation's share purchase plan.

The shares awarded under this plan are bought in the market by the Corporation and deposited in the participants' accounts as and when they purchase shares under the share purchase plan.

During the year ended October 31, 2016, the Corporation accounted for a compensation expense of $189 [$166 in 2015] for its stock ownership incentive and capital accumulation plan.

PERMANENT STOCK OWNERSHIP INCENTIVE PLAN

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible senior executive a number of Class B Shares, the aggregate purchase price of which is equal to the maximum percentage of salary contributed, which may not exceed 10%. Shares so awarded by the Corporation will vest gradually to the eligible senior executive, subject to the senior executive's retaining, during the vesting period, all the shares purchased under the Corporation's share purchase plan. The shares awarded under this plan are bought in the market by the Corporation and deposited in the participants' account as and when they purchase shares under the share purchase plan.

During the year ended October 31, 2016, the Corporation accounted for a compensation expense of $242 [$231 in 2015] for its permanent stock ownership incentive plan.

DEFERRED SHARE UNIT PLAN

Deferred share units ["DSUs"] are awarded in connection with the independent director deferred share unit plan. Under this plan, each independent director receives a portion of his or her compensation in the form of DSUs. The value of a DSU is determined based on the average closing share price for the five trading days prior to the award of the DSUs. The DSUs are repurchased by the Corporation when a director ceases to be a plan participant. For the purpose of repurchasing DSUs, the value of a DSU is determined based on the average closing share price for the five trading days prior to the repurchase of the DSUs.

As at October 31, 2016, the number of DSUs awarded amounted to 190,611 [146,641 as at October 31, 2015]. For the year ended October 31, 2016, the Corporation recognized a compensation expense of $55 [$224 in 2015] for its deferred share unit plan.

### RESTRICTED SHARE UNIT PLAN

Restricted share units ["RSUs"] are awarded annually to eligible employees under the new restricted share unit plan. Under this plan, each eligible employee receives a portion of his or her compensation in the form of RSUs. The value of an RSU is determined based on the weighted average closing share price for the five trading days prior to the award of the RSUs. The rights related to RSUs are acquired over a period of three years. When acquired, the RSUs are immediately repurchased by the Corporation, subject to certain conditions and certain provisions relating to the Corporation's financial performance. For the purpose of repurchasing RSUs, the value of an RSU is determined based on the weighted average closing share price for the five trading days prior to the repurchase of the RSUs.

As at October 31, 2016, the number of RSUs awarded amounted to 1,098,377 [815,249 as at October 31, 2015]. During the year ended October 31, 2016, the Corporation recorded a compensation expense reversal of $977 [compensation expense of $1,428 in 2015] for its restricted share unit plan.

### EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share were computed as follows:

| [In thousands, except per share amounts] | 2016<br>$ | 2015<br>$ |
|---|---|---|
| NUMERATOR | | |
| Net income (loss) attributable to shareholders | (41,748) | 42,565 |
| Net income (loss) from discontinued operations | 49,772 | (2,355) |
| Net income (loss) from continuing operations attributable to shareholders | (91,520) | 44,920 |
| DENOMINATOR | | |
| Adjusted weighted average number of outstanding shares | 36,899 | 38,442 |
| Effect of dilutive securities | | |
| Stock options | — | 116 |
| Adjusted weighted average number of outstanding shares used in computing diluted earnings per share | 36,899 | 38,558 |
| Earnings (loss) per share | | |
| Basic | (1.13) | 1.11 |
| Diluted | (1.13) | 1.10 |
| Earnings (loss) per share from continuing operations | | |
| Basic | (2.48) | 1.17 |
| Diluted | (2.48) | 1.16 |

Given the loss recorded for the year ended October 31, 2016, all 2,611,891 outstanding stock options [1,672,110 in 2015] were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

## Note 19 ADDITIONAL DISCLOSURE ON EXPENSES

### SALARIES AND EMPLOYEE BENEFITS

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Salaries and other employee benefits | 343,321 | 336,017 |
| Long-term employee benefits *[note 23]* | 2,657 | 2,602 |
| Share-based payment expense | 921 | 1,661 |
| | 346,899 | 340,280 |

### DEPRECIATION AND AMORTIZATION

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Property, plant and equipment | 40,669 | 35,515 |
| Intangible assets subject to amortization | 9,366 | 9,959 |
| Other assets | 243 | 583 |
| Deferred lease inducements | (240) | (240) |
| | 50,038 | 45,817 |

## Note 20 SPECIAL ITEMS

Special items include the restructuring charge, lump-sum payments related to collective agreements and other significant unusual items. During the year ended October 31, 2016, lump-sum payments in the amount of $7,263 were recognized in connection with the renewal of the collective agreement with the cabin crews, in addition to the restructuring charge of $6,562, comprising mainly termination benefits, related to the closure of call centres and a tour operator in the Netherlands, of which an amount of $5,919 was unpaid as at October 31, 2016 and included under accounts payable and accrued liabilities.

## Note 21 INCOME TAXES

The major components of the income tax expense for the years ended October 31 are:

| Consolidated statements of income (loss) | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Current | | |
| Current income taxes | (16,555) | 13,951 |
| Adjustment to taxes payable for prior years | (633) | 90 |
| | (17,188) | 14,041 |
| Deferred | | |
| Relating to temporary differences | 6,345 | (1,628) |
| Income tax expense | (10,843) | 12,413 |

Income taxes on items in other comprehensive income (loss) are:

| Consolidated statements of comprehensive income (loss) | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Deferred | | |
| Change in fair value of derivatives designated as cash flow hedges | (4,589) | 1,506 |
| Change in defined benefit plans - Actuarial loss on the obligation | (870) | 101 |
| Income tax expense (recovery) on comprehensive income (loss) | (5,459) | 1,607 |

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows for the years ended October 31:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | % | $ | % | $ |
| Income taxes at the statutory rate | 26.9 | (26,194) | 26.9 | 16,605 |
| Increase (decrease) resulting from: | | | | |
| Effect of differences in Canadian and foreign tax rates | 3.4 | (3,347) | (5.6) | (3,450) |
| Non-deductible items | (19.3) | 18,809 | 1.6 | 1,018 |
| Derecognition of a future income tax asset | (0.9) | 824 | — | (2) |
| Adjustments for prior years | 0.8 | (787) | (2.9) | (1,785) |
| Effect of tax rate changes | 0.1 | (86) | — | 33 |
| Other | 0.1 | (62) | — | (6) |
| | 11.1 | (10,843) | 20.0 | 12,413 |

The applicable statutory income tax rate was 26.9% for the years ended October 31, 2016 and 2015. The Corporation’s applicable statutory income tax rate is the applicable combined Canadian (federal and Québec) tax rate.

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components of the deferred tax assets and liabilities were as follows:

| | Consolidated statements of financial position | | Consolidated statements of income (loss) | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | $ | $ |
| Deferred tax losses | 112 | 7,041 | (128) | (1,548) |
| Excess of tax value over net carrying value of: | | | | |
| Property, plant and equipment and software | (13,537) | (9,599) | (2,001) | (2,156) |
| Intangible assets, excluding software | 922 | (1,469) | 4,735 | (751) |
| Derivative financial instruments | 1,804 | 1,201 | (5,045) | 1,316 |
| Other financial assets and other assets | 953 | 1,901 | (948) | 1,713 |
| Provisions | 8,288 | 11,115 | (3,293) | 4,006 |
| Employee benefits | 10,868 | 10,686 | 68 | 38 |
| Other financial liabilities and other liabilities | 657 | 451 | 267 | (990) |
| Net deferred tax assets | 10,067 | 21,327 | (6,345) | 1,628 |

The changes in net deferred tax assets are as follows:

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Balance, beginning of year | 21,327 | 17,706 |
| Recognized in the consolidated statements of income (loss) as continuing operations | (6,345) | 1,628 |
| Recognized in the consolidated statements of income (loss) as discontinued operations | (1,246) | 2,775 |
| Recognized in other comprehensive income (loss) as continuing operations | 5,459 | (1,607) |
| Recognized in other comprehensive income (loss) as discontinued operations | (81) | 797 |
| Disposal of discontinued operations | (9,502) | — |
| Other | 455 | 28 |
| | 10,067 | 21,327 |

The deferred tax assets are detailed below:

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Deferred tax assets | 15,055 | 32,939 |
| Deferred tax liabilities | (4,988) | (11,612) |
| Net deferred tax assets | 10,067 | 21,327 |

As at October 31, 2016, non-capital losses carried forward and other tax deductions for which a valuation allowance was recorded, available to reduce future taxable income of certain subsidiaries in Mexico, totalled MXP 87,451 [$6,191] [MXP 85,585 [$6,840] as at October 31, 2015]. These losses and deductions expire in 2020 and thereafter.

The Corporation did not recognize any deferred tax liability on retained earnings of its foreign subsidiaries and its associate company as these earnings are considered to be indefinitely reinvested. However, if these earnings are distributed in the form of dividends or otherwise, the Corporation may be subject to corporate income tax or withholding tax in Canada and/or abroad. As of October 31, 2016, there are no taxable temporary differences for which no deferred income tax liability were recorded.

## Note 22 RELATED PARTY TRANSACTIONS AND BALANCES

The consolidated financial statements include those of the Corporation and those of its subsidiaries. The main subsidiaries and associates of the Corporation are listed below:

| | Country of incorporation | Interest (%) 2016 | 2015 |
|---|---|---|---|
| Air Transat A.T. inc. | Canada | 100.0 | 100.0 |
| Transat Tours Canada inc. | Canada | 100.0 | 100.0 |
| Transat Distribution Canada inc. | Canada | 100.0 | 100.0 |
| Jonview Canada Inc. | Canada | 80.1 | 80.1 |
| Travel Superstore inc. *[note 10]* | Canada | — | 64.6 |
| The Airline Seat Company Ltd. | United Kingdom | 100.0 | 100.0 |
| Air Consultants France S.A.S. | France | 100.0 | — |
| Transat France S.A.S. *[note 9]* | France | — | 99.7 |
| Tourgreece Tourist Enterprises S.A. *[note 9]* | Greece | — | 100.0 |
| Air Consultant Europe B.V. | Netherlands | 100.0 | 100.0 |
| Caribbean Investments B.V. | Netherlands | 35.0 | 35.0 |
| Caribbean Transportation Inc. | Barbados | 70.0 | 70.0 |
| CTI Logistics Inc. | Barbados | 70.0 | 70.0 |
| Sun Excursion Caribbean Inc. | Barbados | 70.0 | 70.0 |
| Servicios y Transportes Punta Cana S.R.L. | Dominican Republic | 70.0 | 70.0 |
| Turissimo Carribe Excusiones Dominican Republic C por A | Dominican Republic | 70.0 | 70.0 |
| Turissimo Jamaica Ltd. | Jamaica | 70.0 | — |
| Trafictours de Mexico S.A. de C.V. | Mexico | 70.0 | 70.0 |
| Promotura Turistica Regiona S.A. de C.V. | Mexico | 100.0 | 100.0 |

The Corporation enters into transactions in the normal course of business with its associate. These transactions are carried out at arm's length. Significant transactions are as follows:

| | 2016 $ | 2015 $ |
|---|---|---|
| Costs of providing tourism services | 32,250 | 17,914 |

Outstanding balances with our associate are as follows:

| | 2016 $ | 2015 $ |
|---|---|---|
| Trade and other payables | 869 | 256 |

COMPENSATION OF KEY SENIOR EXECUTIVES

The annual compensation and related compensation costs of directors and key senior executives, namely the President and Chief Executive Officer and the Senior Vice Presidents of the Corporation are as follows:

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Salaries and other employee benefits | 3,235 | 4,562 |
| Long-term employee benefits | 1,055 | 974 |
| Share-based payment expense | 605 | 1,022 |

## Note 23 EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives and defined contribution plans to certain employees.

DEFINED BENEFIT ARRANGEMENTS AND POST-EMPLOYMENT BENEFITS

The defined benefit pension plans offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a $46,450 letter of credit to the trustee *[see note 5]*. The Corporation uses an actuarial estimate to measure its obligations as at October 31 each year.

The following table provides a reconciliation of changes in the defined benefit obligation and in the other post-employment benefit obligation: The other benefits are related to termination benefits for the subsidiaries Transat France and Tourgreece which were disposed of on October 31, 2016 *[see note 9]*. The amount of the obligation related to other benefits included in the consolidated statement of financial position therefore amounted to nil as at October 31, 2016.

| | Retirement benefits | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | $ | $ | $ | $ |
| Present value of obligations, beginning of year | 35,327 | 33,912 | 3,938 | 1,960 | 39,265 | 35,872 |
| Current service cost | 1,212 | 1,204 | 296 | 625 | 1,508 | 1,829 |
| Financial costs | 1,445 | 1,398 | 85 | 76 | 1,530 | 1,474 |
| Benefits paid | (814) | (799) | — | — | (814) | (799) |
| Experience losses (gains) | 3,191 | (629) | — | — | 3,191 | (629) |
| Actuarial loss on obligation | 39 | 241 | 517 | 1,267 | 556 | 1,508 |
| Effect of exchange rate changes | — | — | 67 | 10 | 67 | 10 |
| Disposal of subsidiaries | — | — | (4,903) | — | (4,903) | — |
| Present value of obligations, end of year | 40,400 | 35,327 | — | 3,938 | 40,400 | 39,265 |

The following table provides the components of retirement benefit expense for the years ended October 31. The costs of other benefits are included under discontinued operations in the consolidated statements of income (loss):

| | Retirement benefits | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | $ | $ | $ | $ |
| Current service cost | 1,212 | 1,204 | 296 | 625 | 1,508 | 1,829 |
| Interest cost | 1,445 | 1,398 | 85 | 76 | 1,530 | 1,474 |
| Total cost of retirement benefits | 2,657 | 2,602 | 381 | 701 | 3,038 | 3,303 |

The following table indicates projected payments under defined benefit pension plan arrangements as at October 31, 2016:

| | $ |
|---|---|
| Under one year | 847 |
| One to five years | 9,500 |
| Between five and 10 years | 12,324 |
| Between 10 and 15 years | 11,590 |
| Between 15 and 20 years | 10,140 |
| | 44,401 |

The weighted average duration of the defined benefit obligation related to pension arrangements was 12.6 years as at October 31, 2016.

The significant actuarial assumptions used to determine the Corporation's retirement benefit obligation and expense were as follows:

| | 2016<br>% | 2015<br>% |
|---|---|---|
| **Retirement benefit obligation** | | |
| Discount rate | 3.25 | 4.00 |
| Rate of increase in eligible earnings | 2.75 | 2.75 |
| **Retirement benefit cost** | | |
| Discount rate | 4.00 | 4.00 |
| Rate of increase in eligible earnings | 2.75 | 2.75 |

A 0.25 percentage point increase in the actuarial assumptions below would have the following impacts, all other actuarial assumptions remaining the same:

| Increase (decrease) | Retirement benefit expense for the year ended October 31, 2016<br>$ | Retirement benefit obligations as at October 31, 2016<br>$ |
|---|---|---|
| Discount rate | (9) | (1,248) |
| Rate of increase in eligible earnings | 11 | 52 |

The funded status of the benefits and the amounts recorded in the statement of financial position under other liabilities were as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Plan assets at fair value | — | — |
| Accrued benefit obligation | 40,400 | 35,327 |
| **Retirement benefit deficit** | 40,400 | 35,327 |

Changes in the cumulative amount of net actuarial losses recognized in other comprehensive income (loss) and presented as a separate component of retained earnings were as follows:

| Gains (losses) | $ |
|---|---|
| October 31, 2014 | (7,831) |
| Actuarial losses | (879) |
| Income taxes | 342 |
| October 31, 2015 | (8,368) |
| Actuarial losses | (3,747) |
| Income taxes | 1,051 |
| Discontinued operations | 1,160 |
| October 31, 2016 | (9,904) |

DEFINED CONTRIBUTION PENSION PLANS

The Corporation offers defined contribution pension plans to certain employees with contributions based on a percentage of salary.

Contributions to defined contribution pension plans, which are recognized at cost, amounted to $10,534 for the year ended October 31, 2016 [$9,400 for the year ended October 31, 2015].

## Note 24 COMMITMENTS AND CONTINGENCIES

### OPERATING LEASES

The Corporation leases aircraft, buildings, automotive equipment, communications systems and office premises relating to travel sales. The minimum lease payments under non-cancellable operating leases are as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Under one year | 168,975 | 161,702 |
| One to five years | 415,317 | 425,023 |
| Over five years | 107,549 | 88,660 |
| | 691,841 | 675,385 |

The lease expense totalled $160,659 for the year ended October 31, 2016 [$123,683 for the year ended October 31, 2015].

### OTHER COMMITMENTS

The Corporation also has purchase obligations under various contracts entered into in the normal course of business. The decrease in purchase obligations is due to the disposal of the Transat France subsidiary. The purchase obligations are as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Under one year | 109,845 | 200,505 |
| One to five years | — | 84,373 |
| Over five years | — | — |
| | 109,845 | 284,878 |

### LITIGATION

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position.

### OTHER

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the fiscal treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities and notices of assessment in this regard were received during the year. No provisions are made in connection with this issue, which could result in expenses of approximately $16,200, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, this situation resulted in outflows of $15,100 during the year ended October 31, 2015. This amount is recognized as income taxes receivable as at October 31, 2016 and 2015.

## Note 25 GUARANTEES

The Corporation has entered into agreements in the normal course of business containing clauses meeting the definition of a guarantee. These agreements provide compensation and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and collateral security contracts.

These agreements may require the Corporation to compensate the counterparties for costs and losses incurred as a result of various events, including breaches of representations and warranties, loss of or damages to property, claims that may arise while providing services and environmental liabilities.

Notes 5, 7, 16, 23 and 24 to the financial statements provide information about some of these agreements. The following constitutes additional disclosure.

### OPERATING LEASES

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases expire at various dates through 2034. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance coverage in such circumstances.

### COLLATERAL SECURITY CONTRACTS

The Corporation has entered into collateral security contracts with certain suppliers. Under these contracts, the Corporation guarantees the payment of certain services rendered that it undertook to pay. These contracts typically cover a one-year period and are renewable.

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2016, these guarantees totalled $721. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2016, no amounts have been accrued with respect to the above-mentioned agreements.

### IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

The Corporation has a $35,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2016, $17,723 had been drawn down under the facility.

## Note 26 SEGMENTED DISCLOSURE

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. With respect to geographic areas, the Corporation's continuing operations are mainly in the Americas. Revenues and non-current assets outside the Americas are not material. Therefore, the consolidated statements of income (loss) and consolidated statements of financial position include all the required information.

[in thousands of Canadian dollars, except per share amounts]

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Consolidated statements of income (loss) | | | | | |
| Continuing operations | | | | | |
| Revenues | 2,889,646 | 2,897,950 | 2,996,106 | 2,969,642 | 3,051,775 |
| Operating expenses | 2,856,118 | 2,797,342 | 2,909,737 | 2,855,340 | 3,019,302 |
| Amortization | 50,038 | 45,817 | 43,581 | 36,423 | 38,324 |
| Special items | 13,825 | — | 6,387 | 5,740 | — |
| Operating income (loss) | (30,335) | 54,791 | 36,401 | 72,139 | (5,851) |
| Financing costs | 1,669 | 1,775 | 1,541 | 2,091 | 2,543 |
| Financing income | (6,996) | (7,576) | (7,872) | (7,233) | (6,597) |
| Change in fair value of derivative financial instruments used for aircraft fuel purchases | (6,901) | 1,391 | 21,978 | 732 | (966) |
| Foreign exchange gain on non current monetary items | (1,284) | (2,531) | (1,123) | (566) | (903) |
| Impairment of assets | 79,708 | — | 369 | — | — |
| Gain on investments in ABCP | — | — | — | — | (7,936) |
| Loss on disposal of a subsidiary and gain on repurchase of preferred shares of a subsidiary | 843 | — | — | — | (5,655) |
| Income (loss) before income tax expense | (97,374) | 61,732 | 21,508 | 77,115 | 13,663 |
| Income taxes (recovery) | (10,843) | 12,413 | 1,724 | 18,046 | 1,494 |
| Net income (loss) from continuing operations | (86,531) | 49,319 | 19,784 | 59,069 | 12,169 |
| Discontinued operations | | | | | |
| Net income (loss) from discontinued operations | 49,772 | (2,355) | 6,282 | 2,133 | (25,705) |
| Net income (loss) for the year | (36,759) | 46,964 | 26,066 | 61,202 | (13,536) |
| Non-controlling interest in subsidiaries' results | 4,989 | 4,399 | 3,191 | 3,247 | 3,133 |
| Net income (loss) for the year attributable to shareholders | (41,748) | 42,565 | 22,875 | 57,955 | (16,669) |
| Basic earnings (loss) per share | (1.13) | 1.11 | 0.59 | 1.51 | (0.44) |
| Diluted earnings (loss) per share | (1.13) | 1.10 | 0.59 | 1.51 | (0.44) |
| Cash flows related to: | | | | | |
| Operating activities | 43,561 | 108,992 | 90,009 | 102,179 | 15,703 |
| Investing activities | 5,093 | (53,854) | (52,683) | (21,092) | (7,266) |
| Financing activities | (9,823) | (12,672) | 191 | (1,817) | (4,361) |
| Effect of exchange rate changes on cash and cash equivalents | (12,132) | 3,402 | (2,262) | 1,710 | (3,888) |
| Net change in cash and cash equivalents | 26,699 | 45,868 | 35,255 | 80,980 | 188 |
| Cash and cash equivalents, end of year | 363,664 | 336,423 | 308,887 | 171,175 | 181,576 |
| Total assets | 1,277,420 | 1,513,764 | 1,375,030 | 1,290,073 | 1,165,301 |
| Long-term debt (including current portion) | — | — | — | — | — |
| Equity | 464,386 | 537,252 | 482,946 | 441,393 | 366,326 |
| Debt ratio(1) | 0.64 | 0.65 | 0.65 | 0.66 | 0.69 |
| Book value per share(2) | 12.60 | 14.29 | 12.47 | 11.47 | 9.57 |
| Shareholding statistics (in thousands) | | | | | |
| Outstanding shares, end of year | 36,859 | 37,591 | 38,742 | 38,468 | 38,296 |
| Weighted average number of shares outstanding: | | | | | |
| Undiluted | 36,899 | 38,442 | 38,644 | 38,390 | 38,142 |
| Diluted | 36,899 | 38,558 | 39,046 | 38,472 | 38,142 |

(1) Total liabilities divided by total assets.

(2) Total equity divided by the number of outstanding shares.

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contact in writing
the Vice-President,
Finance and Administration
and Chief Financial Officer.
*Ce rapport annuel est disponible en français.*

**Stock Exchange**
Toronto Stock Exchange (TSX)
TRZ

**Transfer Agent**
**and Registrar**
CST Trust Company
2001 Blvd. Robert-Bourassa,
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Toll-free: 1.800.387.0825
inquiries@canstockta.com
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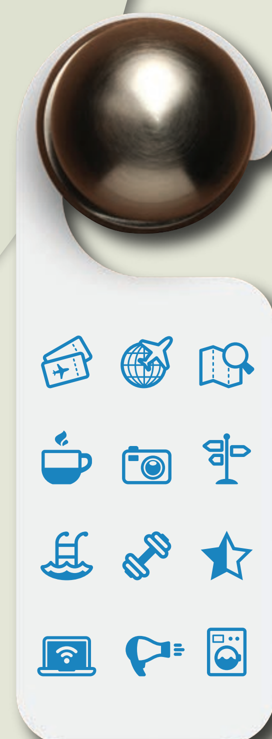
**Auditors**
Ernst & Young LLP
Montréal, Québec



*Annual General Meeting*
**of Shareholders**

Thursday, March 16, 2017,
10:00 a.m.
McGill – New Residence Hall
Ballroom - level C
3625 Avenue du Parc
Montreal QC H2X 3P8

Graphic Design: Claude Angers
Photographs of directors and executives: Jimmy Hamelin

# EXHIBIT

# 2

# TRANSAT A.T. INC.

## ANNUAL INFORMATION FORM

## FOR THE YEAR ENDED OCTOBER 31, 2016


DECEMBER 14, 2016

## TABLE OF CONTENTS

In this Annual Information Form ("**AIF**"), the terms "we", "our", "us", "Transat" and the "Corporation" refer to Transat A.T. Inc. together with one or more of its subsidiaries, or to Transat A.T. Inc. alone, as the context may require. All dollar amounts referred to in this AIF are expressed in Canadian dollars, except where otherwise indicated. The information contained in this AIF is reported as at October 31, 2016, being our financial year-end, unless otherwise indicated. The following is a list of our registered and unregistered trademarks and designs that are referred to and used as such in this AIF: our star design and our mosaic design featured on the cover page of this AIF, ACE, Air Transat, American Affair, Canadian Adventures, Canadian Affair, Club Voyages, Exitnow.ca, Jonview Canada, Marlin Travel/Voyages Marlin, Trafictours, Transat, Transat Holidays/Vacances Transat, Transat Holidays USA, Turissimo, Voyages en Liberté and Transat Travel/Voyages Transat. Any other trademarks, designs or corporate, trade or domain names used in this AIF are the property of their owners. As a result of the Transat France transaction, the purchaser has a right to use the Transat France trademark for a period of three (3) months starting as of October 31, 2016 and also has a right to use the Vacances Transat and ancillaries trademarks for a period of eighteen (18) months.

# 1. CORPORATE STRUCTURE

## 1.1 NAME AND INCORPORATION

Transat A.T. Inc. (hereafter "**Transat**") was incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (the "***Canada Business Corporations Act***") by Certificate of Incorporation dated February 13, 1987. Since its incorporation, Transat has amended its Articles by way of Certificates of Amendment to make the following material changes:

(i) Change its name to "Transat A.T. Inc.";

(ii) Establish the number of directors at a minimum of nine and a maximum of fifteen and allow the Board of Directors to appoint directors during a given year;

(iii) Provide for the creation of an unlimited number of Preferred Shares issuable in series, leading to the creation of 2,400,000 Series 1 Preferred Shares, of 250,000 Series 2 Preferred Shares and an unlimited number of Series 3 Preferred Shares;

(iv) Subdivide each common share on the basis of three common shares for each issued and outstanding common share;

(v) Impose additional restrictions on the issuance and transfer of our voting shares in order for us to retain our status as a "Canadian" corporation under the *Canada Transportation Act*, S.C. 1996, c. 10 (the "***Canada Transportation Act*** "); and

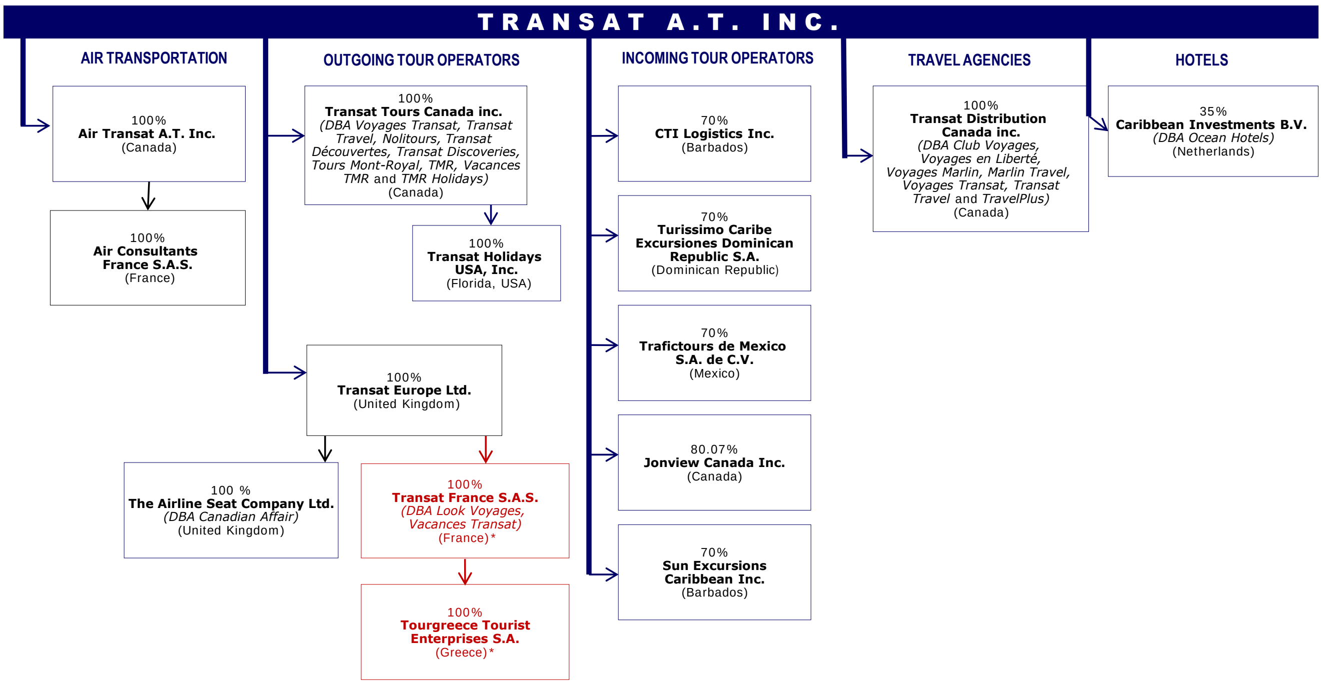
(vi) Create an unlimited number of Class A Variable Voting Shares (the "**Variable Voting Shares**") and an unlimited number of Class B Voting Shares (the "**Voting Shares**"); convert each issued and outstanding common share which is not owned and controlled by a Canadian under the *Canada Transportation Act* into one Variable Voting Share; convert each issued and outstanding common share owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Voting Share; cancel each issued and outstanding common share so converted; cancel the unissued common shares of Transat and substitute thereto, with the required adaptations, the Variable Voting Shares and the Voting Shares for the purpose of exercising all rights of subscription, purchase or conversion relating to the common shares so cancelled; and supersede prior restrictions on the issuance and transfer of our voting shares stated in (v) above.

Since November 16, 2015, the Variable Voting Shares and the Voting Shares trade on the TSX under a single ticker designated "TRZ", bearing CUSIP number 89351T401, which shares are designated for purposes of trading on the TSX and reporting in brokerage accounts under the single designation "Voting and Variable Voting Shares" of Transat.

Transat's head office is located at Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montreal, Québec, Canada H2X 4C2.

### 1.2 INTER-CORPORATE RELATIONSHIPS

The following chart sets out our corporate structure. We have omitted certain subsidiaries each of which represents not more than 10% of our consolidated assets and not more than 10% of our consolidated operating revenues and all of which, in the aggregate, represent not more than 20% of our consolidated assets and not more than 20% of our consolidated operating revenues.




* These entities were sold on October 31, 2016.

## 2. GENERAL DEVELOPMENT OF THE BUSINESS

### 2.1 THE HOLIDAY TRAVEL INDUSTRY

The holiday travel industry consists of tour operators, traditional and online travel agencies, destination service providers, hotel operators, and air carriers. Each of these subsectors includes companies with different operating models.

Generally, outgoing tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets, through travel agencies or via the Web. Incoming tour operators design travel packages or other travel products consisting of services they purchase in their local market for sale in foreign markets, generally through other tour operators or travel agencies. Destination service providers are based at destination and sell a range of optional services to travellers onsite for spontaneous consumption, such as excursions or sightseeing tours. These companies also provide outgoing tour operators with logistical support services, such as ground transfers between airports and hotels. Travel agencies, operating independently, in networks or online, are distributors serving as intermediaries between suppliers and consumers. Hotel operators sell accommodations, on an all-inclusive basis or not, either directly, through travel agencies or through tour operators. Air carriers sell seats through travel agencies or directly to tour operators that use them in building packages, or directly to consumers.

## 2.2 CORE BUSINESS, VISION AND STRATEGY

### *2.2.1 Core Business*

Transat is an integrated international tour operator. We operate solely in the holiday travel industry and market our services in the Americas and Europe. As a tour operator, Transat's core business consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services purchased in Canada and abroad and reselling them primarily in Canada, France[1], the U.K. and in ten other European countries, directly or through intermediaries, as part of a multi-channel distribution strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. Transat relies on its subsidiary Air Transat for a significant portion of its needs, but also deals with other air carriers as needed. Transat offers destination services to Canada, Mexico, the Dominican Republic and Jamaica. Transat holds an interest in a hotel business which owns, operates or manages properties in Mexico, Cuba and the Dominican Republic.

### *2.2.2 Vision*

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, friendly and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. We intend to expand our business to other countries where we see high growth potential for an integrated tour operator specializing in holiday travel.

### *2.2.3 Strategy*

To deliver on its vision, the Corporation has considerably improved the effectiveness of its airline operations and launched technological initiatives to improve its efficiency as a distributor. The strategy also includes entry into new source markets and the launch of new destinations, targeting new markets for its traditional destinations and increasing its buying power for these routes. Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains to improve its operating income and maintain or grow market share in all its markets. Given the growing strategic importance of sustainable development in the holiday and air travel industries, Transat has undertaken to adopt innovative policies on corporate responsibility and sustainable tourism.

For fiscal 2017, Transat has set the following objectives:

- Increase the competitiveness of our distribution, notably by reinforcing our product offering and network, continuing to increase our controlled sales and client intimacy and optimizing our revenue management.

1 In connection with the sale of Transat's outgoing tour operation activities in France, Transat has agreed, for a period of two years, not to compete with the business sold. For greater certainty, Transat is not precluded from continuing the business of Air Transat, carrying on a receptive tour operator business such as Jonview or carrying on a passive distribution business over the Internet.

- Continue to improve Air Transat's operational efficiency and plan for the optimization and renewal of our fleet.
- Increase our presence in hotels and acquire more hotel management competencies.
- Pursue our cost reduction and unit margin improvement efforts.
- Continue working on employee engagement.

### 2.3 REVIEW OF 2016 OBJECTIVES AND ACHIEVEMENTS

The main objectives and achievements for fiscal 2016 were as follows:

**Implement an integrated distribution and brand strategy, including an enhanced online shopping experience, higher controlled sales, deployment of the Transat brand and finalization of the required technological projects.**

Transat has taken a major step this year in the implementation of an integrated distribution and brand strategy by eliminating the Nolitours and Tours Mont-Royal brands and focusing all of our offering under the brands Transat and Air Transat. The conversion of Transat-owned travel agencies to the Transat Travel banner has also been finalized, with an additional 29 agencies converted this year, to reach a total of 49 agencies under the new banner.

The Corporation has deployed a 'best of breed' holiday website offering all of its products on all platforms (mobile, tablet, desktop). The online experience has been greatly enhanced, among other ways via introduction of a simplified, extremely fast shopping tool that filters results according to a wide variety of criteria and a product comparison tool, along with inspiring content rich in imagery and detailed descriptions.

We have also launched a new international airline ticket reservation site at airtransat.com, which features a simplified booking tool and a search tool featuring a high-performance "smart calendar" function. The site uses responsive design, is available in 18 languages and countries, and uses geolocation customization. Airtransat.com also offers travel packages, cruise packages, hotel accommodation, train tickets and vehicle rental.

Lastly, our new mobile app for iPhone and Android phones allows users to shop for all of our air and ground travel products, and even accompanies them throughout their trip, building their itinerary dynamically.

The direct sales made through the Web and call centre have increased from 14.5% to 16.5% of total sales, with a more modest increase in total controlled sales—sales of Transat products made within its own agency network combined with direct sales—from 35% to 36%.

**Increase capacity and improve the competitiveness of our sun destination offering, strengthen our presence and increase our capacity in the transatlantic market.**

Transat has increased its capacity on the sun market by 4.6%, to 1.043 million seats in the winter and that of the transatlantic market by 7.6% to 883,000 seats in the summer.

The Corporation has improved the regularity of flight times to its annual destinations, Paris and London. It has also added connecting flights (between Montréal and Toronto, from Québec to Montréal and from Vancouver and Calgary to Toronto), which allows more destinations to be offered from each of those cities.

**Reduce winter financial losses and maintain summer profitability, in particular by continuing our cost reduction and unit margin improvement program, with gains of $30 million expected in 2016.**

The cost and margin initiatives have delivered the target gain of $30 million in 2016.

However, the Zika epidemic, combined with the threat of a pilot strike and a weak Canadian dollar, have hindered our performance for the winter, which has prevented us from reducing our financial losses.

Summer profitability has been in the norm of Transat history, though reduced when compared to the record levels of the past few years, in a market where capacity has increased by 15% year on year.

**Enter a new market through acquisitions and optimize our hotel strategy, particularly through our interest in Ocean Hotels.**

We have been active in reviewing acquisition opportunities throughout the year and will continue to do so moving forward. Our hotel joint venture, Ocean Hotels, has acquired land in Jamaica and our plans to increase our number of rooms are well under way.

**Simplify the organizational structure and optimize the succession management plan.**

We have simplified our international network by selling our French and Greek subsidiaries, Transat France and Tourgreece, to TUI, while closing our office in Amsterdam and subcontracting our sales in the Netherlands, Belgium, Germany and Switzerland.

We have also simplified our Canadian operations and product offering by regrouping our call centres in Montréal and limiting our cruise products to a packaged offering.

We have streamlined our succession management plan and have continued developing our internal talent.

**Obtain *Travelife Partner* status.**

In May 2016, Transat became the first tour operator in North America to earn Travelife Partner status in recognition of its commitment to sustainable development. That exercise enabled us to map out a new action plan, broken down into seven areas. Implementing it should allow us to fulfil the final step in the certification process within two years.

## 2.4 KEY PERFORMANCE DRIVERS

The following key performance drivers are essential to the successful implementation of our strategy and the achievement of our objectives.

| | |
|---|---|
| ADJUSTED OPERATING INCOME | Obtain an adjusted operating income margin higher than 3% of revenues. |
| MARKET SHARE | Consolidate or increase market share in all regions in Canada and in Europe. |
| REVENUE GROWTH | Grow revenues by more than 3%, excluding acquisitions. |

## 2.5 ABILITY TO DELIVER ON OUR OBJECTIVES

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed in the past to the success of our strategies and achievement of our objectives.

Our financial resources are as follows:

| | |
|---|---|
| **Cash** | Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $363.7 million as at October 31, 2016. Our continued focus on expense reductions and operating income growth should maintain these balances at healthy levels. |
| **Credit facilities** | We can also draw on credit facilities totalling approximately $50.0 million. |

Our non-financial resources include:

| | |
|---|---|
| **Brand** | The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach. |
| **Structure** | Our vertically integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency. |
| **Employees** | Our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe the Corporation is managed by a seasoned leadership team. |
| **Supplier relationships** | We have exclusive access to certain hotels at sun destinations as well as over 25 years of privileged relationships with many hotels at these destinations and in Europe. |

Transat has the resources it needs to meet its 2017 objectives and continue building on its long-term strategies.

## 2.6 THE TRANSAT PLAN

In the context of its 2015-2017 strategic plan, Transat has developed an action plan focused on reducing direct and operating costs, and on increasing margins.

In particular, Transat implemented changes to simplify its organizational structures and has sold or closed certain non-strategic activities. Transat is also pursuing other projects already underway aimed at optimizing the management of airline assets and improving its product strategy. Further details regarding the plan can be found under "Review of 2016 Objectives and Achievements" above.

## 2.7 SIGNIFICANT FINANCING TRANSACTIONS

On November 14, 2014, the Corporation extended its $50.0 million revolving credit facility for a four year term ending in March 2019, with a one-year extension clause on each anniversary date and an accordion clause allowing us to increase credit up to $100.0 million, both subject to lenders' approval. On February 19, 2016, the Corporation with lenders' approval extended the revolving credit facility maturity date to March 2020. On October 17, 2016, the Corporation, in collaboration with lenders, amended certain financial covenants to better reflect the Corporation's financial profile. As at October 31, 2016, all the financial ratios and tests were met and the credit facility was undrawn.

The Corporation has an annually renewable revolving credit facility for issuing letters of credit which was increased to $75.0 million (from $50.0 million previously) on November 14, 2014, the terms of which provided that the Corporation shall be required to pledge cash totalling 100% of the amount of the letters of credit as collateral security (from 105% previously). As at October 31, 2015, an amount of $66.9 million had been used, including $46.5 million to secure obligations relating to the executive officer defined-benefit pension agreements.

For the purposes of issuing letters of credit for its British operations, the Corporation also has a banking line of credit secured by deposits of £10.7 million ($17.5 million), which is fully used at at October 31, 2016.

Also, the Corporation has a $35.0 million guarantee facility with Export Development Canada expiring on February 25, 2017, and renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2016, $17.7 million had been drawn down under these credit facilities for issuing letters of credit to certain suppliers.

For the purposes of issuing letters of credit for its French operations considered as discontinued activities, the French operations had facilities in the amount of €17.6 million ($25.7 million). As at October 31, 2016, amounts of €9.3 million ($13.6 million) and €2.7 million ($3.9 million) had been drawn down respectively not secured and secured by deposits and indirectly assumed by the purchaser at closing.

In August 2015 and November 2016, Transat signed an amendment to its agreement relating to credit card transactions processing with its primary provider in Canada. The agreement is valid until August 2019 and can be renewed for additional successive one year terms upon consent of both parties.

In March 2015 and October 2016, Transat signed an amendment to its agreement related to credit card transactions processing with its second provider in Canada.The agreement is valid until March 2018 and can be renewed for additional one year terms upon consent of both parties. Credit card transactions processed in Canada pursuant to this agreement are subject to the requirement of maintaining certain levels of unrestricted cash at each quarter-end, as well as financial ratios similar to those set out in its bank credit agreements. As at October 31, 2016, the Corporation was in compliance with all the financial ratios and tests provided under this agreement.

In May 2014, through its subsidiary in the United Kingdom, Transat signed an agreement with a credit card processing provider in the United Kingdom. The agreement is valid until May 2017, and can be renewed for additional successive one year terms upon consent of both parties. This credit card processing provider benefits from a letter of credit for a predetermined amount and a corporate guarantee by Transat limited to a predetermined amount.

In November 2014, Transat, through its airline subsidiary offering web sales throughout Europe and North America, also reached an agreement with a credit card processing provider in the Netherlands, which is valid until October 31, 2017 and can be terminated upon prior notice by each party.

In May 2013, Transat, through its airline subsidiary and for sales made throughout its European global distribution platform also reached an agreement with a credit card processing provider in the United Kingdom, which can be terminated upon prior notice by each party. As at October 31, 2016, the Corporation was in compliance with all the financial ratios and tests provided under this agreement.

## 2.8 THREE-YEAR HISTORY

You will find information concerning the business and other key events that have occurred in the three most recent financial years under the heading “Development of the Business” and “Description of our Business”. For more information, we refer you to the section “Core Business, Vision and Strategy” above and to the sections “Business Acquisition” and “Disposal of a Subsidiary” of the Management’s Discussion and Analysis of our 2016 Annual Report available for consultation on SEDAR at sedar.com.

## 3. DESCRIPTION OF OUR BUSINESS

The data contained in this section are estimates of our competitive positioning and market share and are based on our knowledge of the relevant industry segments. Being a vertically integrated business, we have determined that Transat conducts its activities in a single industry segment, namely the holiday travel segment, and operates in one geographic area, now that our tour operators in France and Greece have been sold. We recorded $2,889.6 million in revenues from our continuing operations for fiscal 2016, compared to $2,898.0 million for fiscal 2015.

### 3.1 TOUR OPERATORS

Transat acts as an outgoing tour operator through its subsidiary Transat Tours Canada and its brands Transat and Air Transat, as well as through its European subsidiaries, Air Consultants Europe B.V. and The Airline Seat Company Limited. Until October 31, 2016, Transat was also acting as outgoing tour operator in France through Transat France S.A.S. (via its Vacances Transat (France) and Look Voyages divisions) and in Greece through Tourgreece.

Transat Holidays USA, Inc. (“**Transat Holidays USA**”), Jonview Canada Inc., Trafictours de Mexico S.A. de C.V., Turissimo Caribe Excursiones Dominican Republic, C. por A. and Caribbean Transportation Inc. operate as incoming tour operators in Florida, Canada, Mexico, Barbados, Dominican Republic and Jamaica.

Each of these tour operators operates in its own market by developing and marketing its individual product lines, while benefiting from the considerable purchasing power and other advantages generated by our vertical integration strategy.

#### *3.1.1 Products of Transat Tours Canada*

Transat Tours Canada Inc. (“**Transat Tours Canada**” or “**TTC**”), which is the core business of our Canadian operations, now operates under two brand names, Transat and Air Transat. It integrates Air Transat’s commercial activities and commercializes and sells its travel products to sun destinations located in North America, Central America and South America, and to European destinations. It should be noted that the brand platform was simplified in the last two years and that the Nolitours and TMR Holidays brands are no longer used for the South program. We also removed the Transat Discoveries brand. Two principal types of products were developed to complement Transat Tours Canada’s revenues, namely, travel packages and seats to sun destinations during the winter season; and seats with complementary product and service offerings for travel to Europe, during the summer season. These products are available through travel agency networks across Canada and online.

Transat markets all sun destinations according to a package formula. With all-inclusive packages to 36 destinations in Florida, Mexico, the Caribbean, and Central and South America, Transat offers the widest array of South vacations, along with more than 500 hotels, 50 of which are offered on an exclusive basis. It also offers a range of home and condo rental alternatives, for example à la carte hotels and an increased selection of home and apartment rentals, as well as a variety of excursions.

Transat markets the Solo, Adults, Sun Savvy, Family, Distinction and Luxury collections, with each of them featuring a selection of hotels and advantages perfectly suited to every type of consumer. It also offers Duo packages combining two regions on one trip, and Haiti Experience.

In addition to its hotels, collections, packages, and à la carte vacations, Transat offers direct flights to 36 South destinations from 19 Canadian cities. Air Transat has 152 routes, 16 of which are new, including Santa Clara, Cuba, from Vancouver or Calgary; La Romana, Dominican Republic, Rio Hato, Panama, and Curaçao, from Toronto; Havana, Cuba, and Rio Hato, Panama, from Montreal; Cayo Coco, Cuba, from Halifax; and Orlando, Florida, USA, from St. John’s.

For European destinations during the summer season, Transat also offers short and longer stays (in hotels, studios, apartments, and bed and breakfast inns), car rentals (based either on the straight car rental formula or with a buy-back option) and train tickets. In 2016, Transat added a new destination, Zagreb, Croatia, to its European portfolio, also increasing frequency and capacity on many of its European flights. Air Transat thus remains the leisure airline with the most diversified offer on the market, offering direct flights to a total of 28 destinations. In addition, we launched new routes between Toronto and Nice, Montreal and Glasgow and Vancouver and Rome, and we expanded our connecting program. Per week, we offered four connecting flights from Montreal to Toronto, four from Toronto to Montreal, two from Quebec City to Montreal and two from Vancouver to Toronto. Transat has a winter program in Europe with direct flights to Paris and London, as well as an offer in Malaga (Costa del Sol), Spain, plus Lisbon and Faro, Portugal.

In addition to sun and European destinations, Transat offers the finest cruise itineraries from the world's leading cruise lines to the Caribbean and to Europe. Since 2016, cruises have been offered exclusively in package form, comprising round-trip flights with Air Transat, transfers and the cruise—a new single-window formula. This year, Transat has partnered with 13 ocean and river cruise lines to offer more than 60 itineraries in the South and Europe, including four exclusive Caribbean sailings from La Romana, Pointe-à-Pitre, Santo Domingo and Havana.

In 2016, Transat refocused its guided-tour product offerings around destinations served by Air Transat, so as to market them as package trips. It markets tours in Cuba, Costa Rica, Nicaragua and, beginning in 2017, Panama. In Europe, it offers a wide array of guided tours along with adapted-format vacations such as combined tours and self-guided tours for FIT (independent travel) customers. TTC is also the exclusive supplier of Trafalgar's tours with French-speaking guides in Canada.

In September 2016, Transat launched its new retail experience at transat.com, developing a suite of tools to provide optimum assistance with customers' vacation planning. Simplified browsing, a sophisticated search engine, a variety of new functionalities such as a vacation-package comparison tool and the Refine tool, as well as enriched content make it easier for travellers to choose from among the company's packages to some 60 destinations in the Caribbean, Central America, Mexico, Florida, and Europe.

We served approximately 1,400,000 travellers through Transat and Air Transat in fiscal 2016, compared to 1,510,000 in fiscal 2015.

### *3.1.2 Products of The Airline Seat Company Limited and Air Consultant Europe B.V.*

The Airline Seat Company Limited, which sells under the Canadian Affair and Air Transat brands, has been wholly owned by Transat since August 1, 2006.

Canadian Affair is the UK's largest tour operator to Canada and its business is focused around Air Transat's flight schedule and offers tailor-made holidays to Canada. Canadian Affair, as a direct sell tour operator is focusing its business on tour operating, selling complete holidays to Canada packaged with an Air Transat flight. Working closely with its suppliers and incoming receptive tour operator Jonview Canada, its product offering continues to develop to bring more packaged tours into its product range allowing customers to select their holiday to Canada with ease.

Canadian Affair's growth is being directly targeted through Air Transat B2C flight sales via AirTransat.com, powered by the new airline reservation system offering the entire Air Transat flight network to UK & Irish consumers. Consumers today use airline websites as a primary source for finding the most competitive fares and seeking to ensure good customer care when booking directly at the source. The Air Transat UK & Ireland, Spain, Portugal, Italy and Greece B2C call centre is run and managed in the UK. The UK call centre was migrated to the Transat telephony system in September 2015, allowing calls to be answered by agents in either Montreal or London based upon the time of day. Air Transat UK & Ireland sales teams are responsible for driving business via the multi-channel growing B2B partnerships aimed at developing the UK & Ireland business. Marketing for Air Transat UK & Ireland is undertaken locally ensuring messages are relevant, timely and on point with the local market, at all times working closely with Head Office to ensure brand consistency. The Air Transat UK sales mix has delivered 65% direct B2C (Air Transat 40% & Canadian Affair 25%) and 35% B2B. With strong partnerships within the travel industry (group tour operators, Independent agents, online travel agencies (OTAs) and chains), the strategic plan is to maintain a healthy mix of business via B2C and B2B channels.

The American Affair tour operator brand was launched in November 2015 with a separate website, brochure and product range. Initial sales have been low due to low brand awareness and a high level of competition for the USA tour operating market in the UK.

The airline's websites airtransat.co.uk and airtransat.ie have been promoted with greater prominence in the UK and Ireland over the past year and as a result, sales through these channels are now equal with flight-only sales on canadianaffair.com. UK and Irish consumers are very accustomed at checking airline websites as they believe this is where they will find the most competitive prices. Online sales continue to grow in the UK each year, accounting for 70% of total UK flight sales.

In 2015, Canadian Affair was awarded Best Tour Operator to Canada at the 2015 British Travel Awards.

At the end of the 2016 calendar year, Transat will transfer Air Consultants Europe (ACE)'s operations to a general sales agent (GSA) who will now commercialize Air Transat's products in the Netherlands, Belgium, Switzerland and Germany. ACE's office and operations in Amsterdam will therefore close, effective December 31, 2016.

### *3.1.3 Products of Jonview Canada Inc.*

Transat also holds 80.1% of the incoming tour operator Jonview Canada Inc. (**"Jonview Canada"**) in Canada, together with the other shareholder, the Fonds de Solidarité FTQ. The latter, which is also a shareholder of the Corporation, has required that the Corporation purchase the shares it holds in Jonview Canada at a price equal to their fair market value. The price will be paid in cash. The fair market value of the shares will correspond to the book value of the non-controlling interest. As at October 31, 2016, the Fonds de Solidarité FTQ and Transat have agreed on the buyback of the Fonds de Solidarité FTQ interest in Jonview in a transaction that should be completed prior to calendar year-end.

Jonview Canada, which develops packages and resells individual travel products across Canada under the brand names Jonview Canada and Canadian Adventures, is the leading incoming tour operator in Canada, with offices in Montreal and Toronto. Through its representatives, Jonview Canada also has sales offices in France and the UK.

Jonview Canada offers a full range of Canadian travel products and services to tour operators in Europe, particularly in France, the UK, Germany, Italy, Spain, Switzerland, the Netherlands and Belgium and also caters to clientele in Latin America, Asia Pacific and India. Its range of products includes guided bus tours, group travel packages, programs for individual travellers with a predetermined itinerary and accommodations reserved for each leg of the trip, city and activity packages, ski vacations, hotel accommodations, local transfers and soft adventure tourism. Jonview Canada also offers products, such as snowmobile tours and multi-activity winter programs, as well as its Explorer Collection and the "Jonview Canada Ultimate To Do List" program, which offer a range of unique and luxury hotels, lodges, resorts and experiences across Canada, designed to increase the aspirations of international travellers.

Jonview Canada brought 343,000 travellers to Canada in fiscal 2016, compared to 290,000 in fiscal 2015.

### 3.1.4 Products of Trafictours Canada Inc.

In 2007, Transat consolidated its incoming tour operator activities in Mexico, Dominican Republic and Barbados through an agreement with Gesmex Corporation pursuant to which Transat owns 70% of the shares of Trafictours Canada, ensuring a better quality of service and providing more efficient operational and financial controls. The minority shareholder of the Trafictours Canada subsidiary could require Transat to purchase the Trafictours Canada shares it holds at a price equal to a predetermined formula, which can be adjusted according to the circumstances, and payable in cash.

### 3.1.5 Transferred activities

#### 3.1.5.1 Products of Transat France

On October 31, 2016, Transat announced the sale to the multinational tourism company TUI AG of its interest in Transat France, which was offering products under the Vacances Transat and Look Voyages brands. According to Transat, this transaction will have no impact on Transat Tours Canada's transatlantic program or on Air Transat's operations and growth, including their presence in France. Transat maintains its growth objectives as a leisure carrier between Europe and Canada. The transaction is in alignment with the Corporation's 2015-2017 strategic plan, which emphasizes profitable growth in the Americas, through the development of its tour operating, distribution and hotel businesses.

Globally, Vacance Transat provided travel to more than 115,000 travellers in 2015 (102,000 travellers excluding Air Transat flight-only sales, transferred to Canada in April 2015), compared to 173,000 in 2014 (105,000 travellers excluding Air Transat flight-only sales) and Look Voyages served approximately 265,000 travellers in fiscal 2015, compared to 278,000 in fiscal 2014.

Following the transaction, Transat will continue to operate a sales entity in France, namely ACF (Air Consultants France), whose objective is to sell Air Transat seats through the Global Distribution System (GDS) and to make arrangements with other distributors, such as tour operators, travel agencies and online travel agencies (OTA). Under the purchase agreement entered into by TUI AG and Transat, Transat has agreed to not act as a tour operator for a period of two years.

#### 3.1.5.2 Products of Tourgreece

On October 31, 2016, Transat announced the sale of its interest in Tourgreece which was offering a range of holiday packages, such as stays at hotels from all categories in Athens and in the Greek islands, excursions and cruises in Greece and the Greek Islands, as well as transportation from the airport to the hotel. According to Transat, this transaction will have no impact on Transat Tours Canada's transatlantic program or on Air Transat's operations and growth, including their presence in Greece. Transat maintains its growth objectives as a leisure carrier between Europe and Canada. The transaction is in alignment with the Corporation's 2015-2017 strategic plan, which emphasizes profitable growth in the Americas, through the development of its tour operating, distribution and hotel businesses.

## 3.2 AIR TRANSPORTATION

### 3.2.1 Transat's fleet strategy

Transat's fleet strategy is driven by the need to continually reduce operating costs in a competitive industry and adapt to seasonal tourism market needs, while offering a superior yet affordable customer experience. Currently, Transat counts on a mixed fleet of Air Transat wide-body and narrow-body aircraft. The wide-body fleet consists of Airbus 310 and 330 aircraft, while the narrow-body fleet consists of Boeing 737-800s.

In fiscal 2016, our airline Air Transat offered flights out of its principal bases in Montreal, Toronto and Vancouver, as well as some flights out of smaller Canadian cities. Air Transat holds licenses issued by the Canadian Transportation Agency to operate scheduled flights between Canada and the following countries: the European Union (representing its 28 member states), Switzerland, Turkey, the United States, Cuba, Jamaica, the Bahamas, Mexico, Panama, Costa Rica, Barbados, Nicaragua, Colombia, Antigua and Barbuda, St. Lucia, El Salvador, the Netherlands Antilles, the French West Indies, the Dominican Republic and Haiti.

During the 2016 winter season, we served about 33 destinations in 16 countries, flying primarily to the South or to other sun destinations, including Florida. The introduction of narrow-body aircraft to Air Transat's core fleet, combined with the addition of seasonal narrow-body aircraft during the winter, has allowed Transat to modulate its offer according to the demand from each Canadian airport served by Air Transat and to increase its offering for the South program. In winter 2016, Transat added Willemstad, Curaçao to its portfolio of sun destinations and continued expanding the latter by adding new routes.

In the spring of 2016, Air Transat took delivery of two additional Airbus 330-200s, growing its fleet of A330s from 12 to 14 aircraft. During the same period, Air Transat also grew its fleet of Boeing 737-800s from 4 aircraft that were delivered during the summer of 2014, to 7 aircraft. Furthermore, Air Transat recently extended from November 30, 2016 until March 2018 the one Airbus 310 that is leased under an operating lease. As at October 31, 2016, the core fleet operated by Air Transat is composed of 30 aircraft, namely 23 long-haul wide-body aircraft, including 9 Airbus 310-300s and 14 Airbus 330s (including 10 Airbus 330-200s and 4 Airbus 330-300s), as well as 7 Boeing B737-800s. 8 Airbus 310-300s are owned by Air Transat and all other aircraft are leased under operating leases with aircraft lessors.

The addition of narrow-body aircraft to the Air Transat fleet is part of the Transat plan, announced in April 2013, to insource its activities for its sun destinations from Canada by means of B737 narrow-body aircraft and to deploy a so-called "flexible fleet" that enables it to adjust the number of narrow- and wide-body jets at its disposal according to seasonal tourism market needs. In short, Transat has greater need for narrow-body aircraft in winter, when Canadian leisure travellers favour sun destinations, and greater need for wide-body jets in summer, when the transatlantic market is busiest. Narrow-body aircraft thus serve sun destinations such as Mexico, the Caribbean and Florida, while wide-body aircraft are primarily deployed to Europe. Insourcing of narrow-body aircraft contributed $24 million to Transat's cost reduction initiatives for 2016.

During the same period, Air Transat was also able to negotiate with one of its aircraft lessors the renewal, with improved terms, of the leases on 6 Airbus A330 aircraft through 2020 and 2021. These renewals enabled Air Transat to achieve its cost reduction objectives.

Furthermore, still within the context of its flexible fleet deployment strategy, Transat secured stable, yet flexible agreements with several European airlines for the seasonal leasing of Boeing 737s, thus supplementing Air Transat's own core fleet of B737-800s during the winter season. Transat entered into a five-year agreement with Transavia France, the Air France/KLM Group's French leisure airline, which agreement began in the winter of 2015 with the leasing of 4 B737-800 aircraft, provides for the seasonal lease of an additional aircraft each year, up to a maximum of eight such aircraft for the winter of 2019. In addition, in November 2014, Air Transat executed for the winter of 2015 seasonal leasing agreements for 2 B737-700 aircraft with the French airline ASL Airlines France (formerly known as Europe Airpost) and 2 B737-800 aircraft with the Czech airline Travel Service. The seasonal leasing agreements with ASL Airlines France were renewed for the winters of 2016 and 2017 and as of September 2016, were further renewed for two additional winters until the end of the winter of 2019 with the parties also agreeing to the leasing by Air Transat of a third B737-700 aircraft starting in the winter of 2017. In July 2015, Air Transat also signed a four-year agreement with Travel Service, providing for the lease of 4 B737-800 aircraft supplied by Travel Service for each of the winters of 2016, 2017, 2018 and 2019, which can be operated by Air Transat ("dry lease") or operated by Travel Service on Air Transat's account ("wet lease"), at the option of Air Transat. This agreement also provides for the leasing of an A330-200 aircraft by Air Transat to Travel Service for each of the winters of 2017, 2018 and 2019. Air

Transat continues its business relationship with XL Airways France, by leasing one of its A330-300 aircraft to that company, which Air Transat will operate on XL Airways France's behalf during the winters of 2016 and 2017 on a "wet lease" basis. Air Transat reached a similar agreement with Air Caraïbes, for the winters of 2016 and 2017.

In the summer, we shift most of our capacity to Europe, while maintaining some flights to sun destinations. In fiscal 2016, Air Transat offered direct flights between Canada and some 28 European destinations in 13 countries. Zagreb, Crotia is the latest addition to the list of European cities served by Air Transat, following the addition of Prague in the summer of 2014 and Budapest in the summer of 2015.

In the summer of 2016, Air Transat continued increasing the number of seats and the frequency of its flights to many European destinations, including Paris, London and Mediterranean cities. In addition to its offering of direct flights, Air Transat enhanced its connecting flight program to make even more destinations accessible from various Canadian cities. Transat also keeps offering so-called open-jaw options, which allow customers to land in one European city and take off from another. Going forward, Air Transat will continue expanding its transatlantic program by enhancing its flight program notably through increasing frequencies on direct flights, inaugurating new routes and adding connecting flights, with a view to offer travellers even more choices and flexibility.

A key element of Transat's now fully implemented "flexible fleet" strategy is the dual qualification of its pilots, a number of which are qualified to operate either A310/B737 or A330/B737 aircraft. This initiative was gradually deployed by Air Transat in the course of 2014 with the introduction into its fleet of its first B737-800 aircraft and has become an integral part of its seasonal operations. Thus, dual-qualified pilots switch from operating either an A310 or A330 aircraft during the summer months to operating a seasonal B737 aircraft during the winter months, and then switch back to operate a wide-body aircraft during the following summer. This model, which is unique to Air Transat, complies with regulatory requirements for training, while responding to commercial needs. It benefits Transat in creating permanent jobs at Air Transat and improving competitiveness by allowing Air Transat to achieve a significant reduction in costs per seat/hour.

We are also continuing our efforts to optimize capacity through more efficient flight scheduling and increased ancillary revenues. We served approximately 4,300,000 passengers on Air Transat in fiscal 2016 compared to 4,180,000 passengers in fiscal 2015.

### *3.2.2 Maintenance, Inspections, Safety and Other Measures*

Air Transat remains committed to continuous improvement of processes involving all aspects of its airline operations, the result of which is to improve the quality of service while optimizing resources with safety as the top priority. Over the last years, we have implemented a series of measures based on principles of safety and prevention that we completely support. These measures include, amongst others, a Safety Management System, which is a comprehensive program involving training, reporting of safety-related information from all areas of the Corporation as well as extensive auditing and data analysis. Air Transat's General Manager was appointed Chief Safety Officer ("**CSO**") responsible for the Air Transat Safety Management System, while the Senior Director, Safety, Quality and Security is responsible for the administration and day-to-day supervision of the Safety Management System on behalf of the CSO.

Air Transat was the first airline in the world to renew its IOSA certification (IATA Operational Safety Audit) under the new Enhanced IOSA methodology. Air Transat first obtained its initial certification under IATA's IOSA program on February 20, 2008. In 2011, IATA added new elements to the program and introduced Enhanced IOSA, which involves ongoing internal assessment processes, to provide enhanced value and continuity of the audit process. At the request of IATA, Air Transat participated in the development of the new program, which became mandatory for IATA member companies in 2015. The IOSA certification obtained under the Enhanced IOSA methodology, which Air Transat obtained in 2013 and successfully renewed in 2015, is the greatest recognition to date of the quality of our internal processes and is reflective of our commitment to ensure the safety of our operations.

On the customer experience front, Transat remains committed to its program to redesign and refurbish its A330 cabin interiors aimed at providing an enhanced travel experience for its customers. As at October 31, 2016, all Airbus 330 aircraft have been retrofitted with new seats, lavatories, mood-lighting and in-seat in-flight entertainment systems, including the two A330-200s that joined Air Transat's fleet in the spring. Except for these two newly-inducted A330-200s, which are configured at 332 seats, the Air Transat A330-200s benefit from a 345-seat configuration. Three of Air Transat's four A330-300s were converted to a denser configuration of 375 seats. These aircraft are deployed on the high-frequency routes Air Transat operates between Montreal and Paris and between Toronto and Gatwick and resulted in the improvement of profit margins on these routes. The two newly-inducted A330-200s are operating transatlantic flights principally out of Western Canada. As for the nine A310s operated by Air Transat, they are configured at 249 seats and are equipped with mood-lighting throughout the entire cabin, and refurbished seat covers and lavatories in Economy class. All wide-body aircraft in Air Transat's fleet include 12 seats in Club class. As for the B737-800 aircraft that are part of Air Transat's core fleet, they are configured at 189 seats and also equipped with new seats.

We perform regular maintenance work and inspections on all aircraft of our fleet. Our aircraft maintenance procedures meet and in some instances exceed Transport Canada's requirements. We also carry an inventory of spare parts for our Airbus A330 and A310 and our Boeing B737 aircraft.

#### *3.2.3 Fuel Supply*

Fuel costs represent a major component of our airline's operating expenses. The increase and constant fluctuations in the cost of fuel are a major concern for Transat given our industry's small margin. Our policy in this regard provides for the conclusion of derivatives to cover a portion of our fuel requirements. As at October 31, 2016, derivative instruments for the purchase of fuel covered 48% of the estimated fuel requirements for fiscal 2017, compared to 36% for fiscal 2016 and 42% for fiscal 2015.

### 3.3 TRAVEL AGENCIES AND DISTRIBUTION

In the Canadian market, we distribute our products in part through our own network of wholly-owned, franchised or affiliated retailers. We are the largest retail distributor of holiday travel products in Canada, with 464 outlets, of which 59 are wholly owned, 225 are franchised and 181 are affiliated and do business under the Club Voyages, Marlin Travel/Voyages Marlin, Voyages en Liberté, Transat Travel/Voyages Transat, TravelPlus and MTP Lite banners or affiliation programs.

In June 2013, we launched a new travel agency concept under the Transat Travel banner. To date, we have converted 49 of our wholly-owned agencies and we will proceed with the conversion of 4 more of our other wholly-owned agencies under this banner during 2017. The Corporation also intends to operate the Transat Travel banner as a franchise in the near future.

In April 2016, Transat Distribution Canada Inc. divested itself of its interests in Travel Superstore Inc. for a total redemption price of $300,000. Further, the remaining shareholders of Travel Superstore Inc. have agreed to reimburse Transat, over a four-year period, an outstanding loan in the amount of $1,000,000.

We operate our travel agency networks in Canada as one business unit by taking advantage of a common administrative system for all of our corporate owned agencies across the country, and by combining our purchasing power.

### 3.4 HOTEL OPERATIONS

Ocean currently holds and manages three hotels with a total of 1,600 rooms (2 in Cancun and 1 in Punta Cana). It also manages four hotels in Cuba, with a total of 1,600 rooms (in Varadero, Havana and Cayo Santa Maria) and owns land in Punta Cana and Jamaica for future expansion. Over the next two years, it is anticipated that Ocean will manage a hotel in Cancun (in December 2016), in addition to proceeding with the construction of a hotel on land owned in Punta Cana. Overall, it is projected that 2,700 rooms will be held and managed, for a total of 4,900 rooms by the end of 2017. Expansion projects in Jamaica are also being considered with land acquisition for the potential construction of a 425 room hotel as a first phase.

Prior to calendar year-end, Transat shall further its hotel offering in Mexico by purchasing from a third party a 50% interest in Hotel Rancho Banderas, located in Punta de Mita. Transat, through its wholly-owned subsidiary, shall be a co-shareholder with a subsidiary of Gesmex Inc., a partner in TrafficTours Inc. The hotel currently consists of 48 rooms and will be expanded to approximately 286 rooms by 2018. In the context of this transaction, Transat and Gesmex, and their respective subsidiaries shall enter into a shareholders' agreement. The aforementioned agreement shall contain a call option in the event either party undergoes a change of control within the first 18 months following the execution of this agreement. The purchase price for each party's participation shall be equivalent to Transat's total cash consideration paid for this project.

### 3.5 OUR EMPLOYEES

As at October 31, 2016, Transat and its subsidiaries had a total of 5,000 active employees and the average number of employees for fiscal 2016 was approximately 5,700.

For a detailed description of our share-based compensation plans and other long-term incentive plans, we refer you to our Management Proxy Circular relating to the annual and special meeting of shareholders held on March 10, 2016, which is available for consultation on SEDAR at sedar.com. As our policy is to promote good relations with our employees, we have adopted a policy to prevent harassment in the workplace as well as a policy regarding the protection of personal information and the right to privacy.

Some of our employees belong to employee associations with which we have negotiated certain working conditions. The following chart sets out the associations to which our employees belong and the status of their respective collective agreements as at the date of this AIF. During fiscal 2016, we ratified new collective agreements with the flight crew members, flight attendants and the call centre employees. Negotiations are in progress for renewal of the collective agreements for the maintenance employees, crew scheduling employees and the flight dispatchers.

| Employees | Transat's Subsidiary | Association | Status of Collective Agreement |
|---|---|---|---|
| Flight crew members (pilots) | Air Transat | Airline Pilots Association (ALPA) | Collective agreement in effect from May 1, 2015 to April 30, 2020 |
| Flight attendants | Air Transat | Canadian Union of Public Employees (CUPE) | Collective agreement in effect from November 1, 2015 to October 31, 2020 |
| Flight Dispatchers | Air Transat | Canadian Airline Dispatcher's Association (CALDA) | Collective agreement in effect from November 1, 2011 to October 31, 2015 |

| Employees | Transat's Subsidiary | Association | Status of Collective Agreement |
|---|---|---|---|
| Crew scheduling and passenger service | Air Transat | International Association of Machinists and Aerospace Workers (IAMAW) | Collective agreement in effect from August 1, 2012 to July 31, 2015 |
| Maintenance, stores and technical support | Air Transat | International Association of Machinists and Aerospace Workers (IAMAW), Lodge 140 | Collective agreement in effect from May 1, 2011 to April 30, 2016 |
| Call centre | Air Transat | Teamsters, Local 1999 | Collective agreement ratified and in effect from October 31, 2015 to April 27, 2021 |

## 3.6 COMPETITION

We face competition on many fronts, doing business worldwide as either tour operators, travel agencies (traditional or online) or air carriers.

Competition is fierce in all markets (Sun, transatlantic, medium and long-haul) and results not only from traditional tour operators and air carriers specializing in leisure/holiday travel, but also from network airlines that have transformed their cost-base and created new leisure/low-cost airline subsidiaries, from online travel agencies (OTAs) and from hotel operators who are selling directly to consumers. Other players, including sharing-economy sites and specialized mobile apps, are also emerging on the packaged-travel and air-only markets. The two basic trends in tourism, strong growth of online direct sales and disintermediation of transactions, now place the customer at the centre of the purchasing process thereby allowing the customer to deal directly with suppliers (hotel operators, carriers, incoming tour operators), travel agents and OTAs, even through social media. This means that competition is more extensive than before and a strong presence in the different distribution channels is becoming a key factor.

### *3.6.1 Tour Operators*

Tour operators specialized in outgoing services, purchase the various components of a trip and sell them to customers through various distribution channels, either as a travel package or separately. The large outgoing tour operators purchase blocks of seats or complete flights mainly from air carriers specializing in charter services and undertake to pay for all the seats so purchased whether they sell them or not, thereby obtaining a better price. Such tour operators also negotiate with hotel operators for the rental of blocks of rooms and make arrangements in order to offer travel packages at lower prices than if customers were to make their own reservations.

Certain tour operators round out the range of services offered to travel agencies with the FIT formula (Foreign Independent Tour), namely the sale of seats along with lodging and car rentals. OTAs are particularly active in the FIT business segment, thus becoming both an additional distribution channel and a competitor for tour operators. The FIT market is growing at a rapid pace and the tour operators will put greater emphasis on that market segment.

#### *3.6.1.1 On the Canadian Market*

The Canadian market for sun destinations is a package-driven market, whereas Europe destinations is a market of aircraft seats, car rentals and hotel rooms booked on a nightly basis. Canadian outgoing tour operators finalize agreements with suppliers six to eight months prior to the beginning of each season. The summer season runs from May 1 to October 31 and packages are prepared in the preceding fall. The winter season runs from November 1 to April 30 and packages are prepared in the preceding spring. As part of these preparations, tour operators undertake negotiations with air carriers, hotel and cruise ship operators, and car rental agencies. When such negotiations are completed, brochures and websites illustrating the various destinations and describing the various packages and services offered are either prepared and distributed to travel agencies before the beginning of each season (with Sales presentations to travel agents in the main cities of the markets covered) or sold directly to consumers via direct online booking.

Through its Transat and Air Transat brands, Transat Tours Canada is a major Canadian tour operator, but competes with other tour operators for sun destinations. The Corporation and its three major competitors, Air Canada, WestJet and Sunwing have comparable market shares.

Geographical diversification involves departure points and destinations, the purpose being to offer products that best meet customers' expectations in each new market, preferably exclusively. We continue to devote major efforts to the expansion of our range of products, accounting for market trends, with the objective of offering a product line that differentiates us from the competition.

#### *3.6.1.2 On the UK Travel Market*

As a result of the sale by Transat of Transat France, Transat will no longer be active in France as a tour operator for a period of two (2) years as of October 31, 2016 with the exception specifically of activities relating to Jonview and Air Transat. The UK travel market has been dominated for many years by competition based on price and the market is quite mature in its use of direct online booking. Customers will decide their holiday destination by clearly focusing on the price of their flight, regularly using flight comparison websites, regardless of the short-haul or medium-haul destination that interests them, since access to airline services from the United Kingdom is not a restrictive factor. This is now also the case for long-haul destinations, which are served by an ever-growing number of carriers and price competitivity has been increasing in the last few years.

Canadian Affair as a tour operator is well established in the UK, and as the UK's largest tour operator to Canada, sells flights and holidays to Canada on a direct consumer basis via their two call centres and their website canadianaffair.com.

Mainstream tour operator competitors all have a dedicated Canadian focus and brochures targeting the sale of packaged holidays and tours to Canada and many have flight allocations on our flights. Travel agent competition focuses less on sales to Canada with the majority of their sales being to traditional sun destinations in Europe.

Airline competition has increased significantly in the past year, adding almost 200,000 seats to the UK-Canada market in 2016. Certain competitors have been very aggressive with their pricing strategies and their discounted sales offensive has been more frequent than before.

### ***3.6.2 Travel Agencies and Distribution***

Travel agencies are an intermediary between the tour operator and the customer. Travel agents meet with, advise and sell products to the customer. In general, tour operators and other suppliers remunerate travel agencies by way of a commission. Travel agencies sell travel packages and plane tickets offered by tour operators, plane tickets sold directly by airline carriers and other travel products and services such as cruises. Travel agencies operate independently, as part of large corporate groups, as franchisees or within associations or affiliations.

As a result of technological advances, online travel agencies now offer a large range of travel products by way of transactional websites on the Internet. In both the Americas and Europe, online travel sales are principally made up of airline tickets, with only a limited proportion of packages that include air travel and hotel.

According to industry sources, we estimate that there are approximately 5,000 travel agencies in Canada and approximately 5,000 in the UK. We believe that competition between travel agencies is principally based on price and the level of quality of the service. As is the case with tour operators, low profit margins cause travel agencies to seek higher volumes and larger market shares. One of our priorities with regard to integration is to extend our distribution network in our two principal geographic markets.

Retail chains represent one third of all travel agents in Canada. The major chains are Transat Distribution Canada operating under the Transat Travel/Voyages Transat, Club Voyages, Voyages en Liberté, Marlin Travel/Voyages Marlin, TravelPlus and MTP Lite banners or affiliated programs (which make up our network of travel agencies), Carlson Wagonlit Travel, CAA, Flight Center, Maritime Travel, Uniglobe and Sears Canada Inc. operating as Sears Travel.

Retail chains, operating under a common banner, provide a range of services to their members, in the form of centralized negotiated commission levels with major tour operators, as well as training, marketing and information services support. Consortiums of travel agents constitute the second third of Canadian travel agents. They offer centralized negotiated commissions with tour operators. Finally, the last third is made up of independent travel agents. Vertical integration between travel agent networks and tour operators has been taking place in Canada, as is the case in Europe.

Air Consultants France (ACF) is a travel agency that sells Air Transat's airline tickets in France while continuing to act as a distribution channel for others.

With a view to enhancing our profitability and flexibility, we have decided to transfer the operations of Air Consultants Europe (ACE), our Netherlands office, to Aviareps, a general sales agent (GSA). As of January 1, 2017, Aviareps will commercialize Air Transat's products in the Netherlands, Belgium, Switzerland and Germany. Unfortunately, this decision will result in the closing of our Amsterdam office at the end of this year.

### *3.6.3 Air Carriers*

Competition between air carriers is based largely on price, as well as on schedules (convenience), choice of routes (availability of direct flights) and service (comfort, classes, family-friendliness). Regarding holiday travel, the ability of operators to bundle land portions (car rental cars, guided tours, accommodations) along with the flight can also influence consumer decisions and buying patterns. Prices depend in part on the laws of supply and demand, thus if the capacity offered in the marketplace by all operators exceeds the demand, it will exert downward pressure on prices. Prices also vary significantly in accordance with seasonal variations in market conditions.

The air transportation industry is composed of four major segments: (i) network or full-service carriers which primarily operate scheduled flights at major hubs and rely mostly on the business travel segment and which, in certain cases, undertake aggressive leisure/holiday travel market share growth strategies through the establishment of low-cost subsidiaries; (ii) low-cost carriers operating short to medium-haul segments on a high-frequency, no frills basis and serving the price-sensitive business and holiday markets and most recently long-haul segments; (iii) leisure carriers, such as our own airline Air Transat, serving almost exclusively the holiday travel market through a combination of scheduled and charter air services; and (iv) regional airlines serving local short-haul markets and providing feed traffic to network carriers at major hubs.

Network carriers market and distribute their services to the public through in-house reservations departments, global distribution systems and the Internet. Low-cost carriers sell the vast majority of their seats on the Internet. Leisure carriers charter most of their capacity to tour operators and wholesalers who, in turn, consolidate flight services into packages and sell to the public primarily via the travel agency distribution network. The tour operators negotiate bulk hotel room rates and make other arrangements to render the price of a vacation package sold to the customer more attractive than if the same consumer had attempted to make his own reservations.

Network carriers expand their destination offerings through marketing tools such as code sharing and may be part of several large global carrier alliances, which have been formed over the last decade in this regard. Leisure and low-cost carriers generally do not interline or connect, but instead offer principally direct point-to-point services for the origin-destination traffic segment.

We believe that network carriers, low-cost carriers and leisure carriers increasingly compete in the holiday and the so-called "visiting friends and relatives" travel markets. This is particularly true following certain policy changes enabling air carriers specializing in charter services to operate scheduled flights between certain destinations, as is the case with Air Transat, which is licensed to offer scheduled services between Canada and the countries listed in Section 3.2.1 of this AIF. Another trend that should be noted is the emergence of flexible or seasonal fleet strategies among leisure travel air carriers that leverage the counter-seasonal realities of the North American and European travel.

Transat's competitors include Air Canada / Rouge, KLM, Air France, Westjet, British Airways. Air Canada / Rouge deploying the most capacity.

## 3.7 INTELLECTUAL PROPERTY

We believe that our intellectual property is very important to our success. The following is a list of our principal registered and unregistered trademarks and designs that are used in association with travel-related services rendered by our business units : the star design and the mosaic design featured on the cover of this AIF, Air Transat, ACE, Canadian Adventures, Canadian Affair, Club Voyages, Exitnow.ca, Jonview Canada, Marlin Travel/Voyages Marlin, Trafictours, Transat, Transat Holidays/Vacances Transat, Transat Holidays USA, Turissimo, Voyages en Liberté and Transat Travel/Voyages Transat, as well as other trademarks, trade names, designs and domain names associated to the aforementioned trademarks.

Transat has taken a major step this year in the implementation of an integrated distribution and brand strategy by eliminating the Nolitours and Tours Mont-Royal brands and focusing all of its offering under the brands Transat and Air Transat.

Some of these trademarks, such as Air Transat, Transat, Transat Holidays/Vacances Transat, Transat Holidays USA, Club Voyages, Transat Travel/Voyages Transat, TravelPlus and Marlin Travel/Voyages Marlin, share the star design and the mosaic design featured on the cover of this AIF as their common platform. The creation of a unique, strong and visible corporate identity across our main business units facilitates the recognition of our various companies and divisions for both our customers and employees. It also maximizes customer awareness on both the B2C and B2B markets, while fully leveraging the contribution of all of our business units and creating value.

As a result of the Transat France transaction, the purchaser has the right to use the Transat France trademark for a period of three (3) months starting October 31, 2016 and also has the right to use the Vacances Transat and ancillaries trademarks for a period of eighteen (18) months.

We also take great care not to infringe on the intellectual property and trademarks belonging to others.

## 3.8 TRENDS

In recent years, the activities of the Canadian holiday travel sector have been consolidating, forcing businesses to react to two underlying trends in the tourism industry: the growth of direct online sales and the disintermediation of transactions, resulting in the customer being at the centre of the process and allowing him to deal directly with suppliers. As a result, Transat has reinforced its digital strategy over the last two years. The sector has also experienced the effect of market globalization. Although a number of smaller tour operators remain, four major tour operators continue to try and dominate the Canadian leisure travel industry. Over the last years, the Canadian market scheduled carriers diverted a portion of their unused capacity to the leisure market which added further margin pressure on leisure operators.

## 3.9 THE REGULATORY ENVIRONMENT IN WHICH WE OPERATE

As a vertically integrated company, we are involved on all levels of operation specific to holiday travel. Hence, we conduct business in a highly regulated environment at all levels, from tour operators and travel agencies to air carriers. All of our companies and divisions hold all licences, certificates and permits necessary for their operations and are in compliance with the requirements of applicable legislation. You will find below a description of the laws and regultions to which we are subject.

### *3.9.1 Tour Operators and Travel Agencies*

#### *3.9.1.1 Canada*

In Québec, Ontario and British Columbia, where our operations are centered, tour operators and travel agencies (collectively referred to in this subsection as "**Travel Agents**") are governed by specific legislation providing protection to the travel customer. The *Office de la protection du consommateur*, the Travel Industry Council of Ontario and Consumer Protection B.C. are the authorities designated in Québec, Ontario and British Columbia, respectively, to carry out the control and inspection mechanisms provided for in the legislation and to ensure compliance therewith. In all three provinces, Travel Agents must hold licenses to carry on their business and must deposit into a trust account monies received from customers for travel services purchased. The law restricts the use of these funds. All three provinces have established compensation funds in favour of consumers to protect them against fraud and bankruptcies of Travel Agents and end suppliers, such as airlines or cruise lines.

Key aspects addressed by applicable legislation in all three provinces include compensation funds and advertised price for travel services.

##### *3.9.1.1.1 Compensation Funds*

Québec is the only province where the Compensation Fund is made up of customers' contributions. On April 1, 2012, the rate of contribution to the Compensation Fund for Customers of Travel Agents ("Compensation Fund") was reduced from 0.35% to 0.20% of the total cost of the travel services purchased. On April 1, 2014, the rate of contribution to the Compensation Fund was reduced from 0.20% to 0.10% of the total cost of travel services purchased. Customers are able to claim directly from the Compensation Fund in the event of an end supplier failure that is not attributable to the Travel Agent. The total compensation per event may not exceed 20% of the surplus accumulated in the Fund as at March 31 of the previous year nor be less than $5.0 million.

In Ontario, contrary to Québec, Travel Agents are responsible for financing travellers' financial protection through the Ontario Travel Industry Compensation Fund. As in Québec, Travel Agents registered in Ontario may draw directly on the compensation fund with a view to be reimbursed for disbursements made to customers in the event of end supplier failures. The maximum amount that may be reimbursed out of the compensation fund to a customer or Travel Agent for a failure to provide travel services is $5,000 for each person whose travel services were paid for by the customer. The maximum amount that may be reimbursed for a failure to provide travel services with respect to all claims arising out of an event or a major event is capped at $5.0 million.

In British Columbia, as in Ontario, the compensation fund is made up of Travel Agent contributions. The maximum amount that may be paid from the Travel Assurance Fund to a claimant in respect of a claim is $5,000 for each person covered by the claim, subject to a $2.0 million cap for all claims relating to a single event. It remains to be seen how this cap will work out with the contribution holiday, under the legislation applicable to licensees when the book value of the Travel Assurance Fund is at least $1.0 million and the Travel Agent has paid the required contributions for successive semi-annual periods totalling three years.

*3.9.1.1.2 Advertised Price for Travel Services*

When it comes to advertising, provincial legislation in Québec promotes full disclosure to enable the customer to make informed decisions, namely to ensure that pricing information is not misleading and that the total price is provided at the actual time of purchase to avoid so-called “sticker-shock”. However, Travel Agents may exclude from the total cost of the services advertised the Québec sales tax, Canada’s goods and services tax and the dollar amount payable as a contribution to the Compensation Fund. The amendments brought to the *Travel Agent Act* and its Regulation that came into effect on June 30, 2010 provide that a Travel Agent who wishes to unilaterally change the price of the travel services must insert a clause to that effect in the contract. The clause shall state that (i) the price may only be increased following the imposition of a fuel surcharge by the carrier or an increase in the exchange rate, insofar as the exchange rate has increased by more than 5% between the date of the purchase and 45 days prior to departure; (ii) no price increase may occur within 30 days prior to the date of departure; and (iii) if such price increase is equal to or greater than 7% of the price of the travel services, excluding the Québec sales tax or Canada’s goods and services tax, the customer may choose between a full and immediate refund or the provision of similar services.

Ontario’s legislation requires that any representation that refers to the price of travel services shall show in a clear, comprehensible and prominent manner the total amount to be paid for travel services, either including all fees, levies, service charges and surcharges or excluding them and, in the latter case, to provide either an itemized list of the cost for each fee, levy, service charge and surcharge, or the total cost the customer will be required to pay for fees, levies, service charges or surcharges. The practice for Transat’s Travel Agents in Ontario is to advertise the price of travel services by providing a base price excluding all fees, levies, service charges and surcharges along with the total cost of the latter items featured next to the base price or to advertise one all-inclusive price. As in Québec, it is not necessary for representations relating to the price of travel services to indicate retail sales tax or federal goods and services tax.

While Ontario’s legislation also allows for price increases, it only allows them if the contract between the Travel Agent and the customer permits them, if the customer has not paid the price of the travel services in full, and if the cumulative price increase is more than 7% of the total price of the travel services, excluding any increase resulting from an increase in retail sales tax or federal goods and services tax. Otherwise, the Travel Agent must offer the customer the choice between a full and immediate refund of the amount paid and comparable alternate travel services acceptable to the customer. Advertising rules in British Columbia applicable to Travel Agents are similar to Ontario but they are dealt with in general consumer protection laws.

Although air carriers are governed by federal legislation, the amendments brought to the *Consumer Protection Act* in Québec, which came into effect on June 30, 2010, prevent air carriers from charging a higher price than what is advertised.

To date, no other provinces have adopted similar provisions.

Further to a public consultation by the Canadian Transportation Agency on Air Services Price Advertising, proposed amendments to the Air Transportation Regulations adopted pursuant to the Canada Transportation Act were pre-published in Part I of the Canada Gazette on July 3, 2012 and came into effect on December 14, 2012. The Air Transport Regulations require that the price of air services represented in any advertisement be the total price, inclusive of all taxes, fees and surcharges. The advertisement must also include a description of the air services offered and the customer must have access to the breakdown of the components of the price paid (taxes, fees and charges paid to a third party) and the fees for any optional services available. It is to be noted that the new provisions do not apply to air cargo services, sale of air services to businesses or the sale of package travel services where air services are sold with other features such as accommodations, tours, cruises or car rentals.

*3.9.1.1.3 Laws Applicable to Franchising Activities*

Ontario, Manitoba, Alberta, Prince Edward Island and New Brunswick have adopted laws governing the formalities for entering into franchise contracts. On October 5, 2015, the Government of British Columbia tabled its Bill 38, entitled the *Franchises Act*, which is similar to the legislation in this matter adopted in the other Canadian provinces. In the course of its activities, Transat enters into franchise contracts with franchisees doing business in these provinces under the Marlin Travel, Travel Plus and Goliger's brands.

As at the date of this AIF, our companies and divisions doing business as Travel Agents hold all licenses necessary for their operations and are in compliance, in all material respects, with the requirements of applicable laws and regulations, including those related to franchises.

*3.9.1.2 United Kingdom*

The UK travel industry has three main regulatory bodies: ATOL, ABTA and IATA (defined hereinafter). ATOL is a government-backed protection scheme for flights and air holidays, and is managed by the Civil Aviation Authority (CAA). Most firms who sell air travel in the UK such as Canadian Affair are required by law to hold a licence called an ATOL. ATOL protects consumers from losing money or being stranded abroad if and when a tour operator goes out of business. All licensed firms are required to take part in a financial guarantee scheme managed by the CAA which protects customers should a firm fail. Following this measure, Canadian Affair issued a letter of credit of £11.0 million to the CAA. The holders of an ATOL licence must deliver their certificate to every customer booking a trip covered by their ATOL licence. ATOL protection is included in the price of a holiday booked with an ATOL holder. From 2016, Air Transat UK departing passengers, like those of other scheduled airlines will not be ATOL protected. However, Canadian Affair customers who book a qualifying flight plus holiday arrangement will continue to be ATOL protected.

ABTA, the Association of British Travel Agents, is an organisation which represents UK travel agents and tour operators responsible for the sale of individual vacation travel packages (not covered by the ATOL protection). It is ABTA's role to ensure that customers benefit from consistently high standards of trading practice in the travel industry. ABTA members operate under a Code of Conduct and provide consumer advice on all aspects of holidays from financial security to complaint handling.

### *3.9.2 Air Carriers*

*3.9.2.1 International Regulatory Framework*

Numerous commercial aspects of international air transport are regulated by international conventions, principally the *Convention on International Civil Aviation* signed in Chicago on December 7, 1944 (the "**Chicago Convention**"), by the domestic legislation of countries in which air transport is conducted, and by a network of bilateral and multilateral air transport agreements and treaties.

The Chicago Convention provides the basis for regulation of international air carrier operations. Scheduled air services are governed by the bilateral air transport agreements in effect between the countries of origin, destination and, in certain cases, transit of the flights in question. Certain principles pertaining to the operation of international charter flights were established between each of the signatory states (including Canada), namely that the intended transportation comply with, and be duly approved pursuant to, the national regulations of the countries between which it is being conducted.

The Chicago Convention also established the International Civil Aviation Organization (the "**ICAO**"), a specialized agency of the United Nations whose purpose is to foster the planning and development of international air transport. Under the auspices of the ICAO, rules establishing minimum operational standards are normally agreed upon on a multilateral basis. One of the treaties with considerable consequence for Transat is the landmark air transport agreement concluded between Canada and the European Union in November 2008. It formally entered into force on December 16, 2009. The agreement sets the rules for air transport services between Canada and the 28 member states of the European Union, and will liberalize market access in this respect on a progressive, phased-in basis. During the first phase, Canadian airlines are able to operate from any point in Canada to any point in the 28 member-state EU zone without restrictions, with EU licensed air carriers enjoying reciprocal rights from any point in the EU (regardless of nationality) to any point in Canada. Subsequent liberalization phases will be contingent on the relaxation of foreign airline ownership and control rules by Canada and will involve the easing of access to third-country markets.

On November 5, 2003, the *Montreal Convention of 1999 on Compensation for Accident Victims* (the "**Montreal Convention**") came into effect. This multilateral agreement updates the rules on passenger, baggage and cargo liability applicable to international air transport and originally established by the Warsaw Convention in 1929 and amended over the years (together the "**Warsaw System**"). The Montreal Convention provides for the review of liability limits, thus ensuring that the amounts remain relevant with the passage of time. The first such review was duly undertaken by the ICAO during the course of 2009. In addition to establishing new principles of liability, the Montreal Convention modernizes many of the ticketing and air waybill requirements. The Montreal Convention has been ratified by Canada and applies to all flights between Canada and other ratifying states. For flights from Canada to non-ratifying or non-signatory states, the Warsaw System continues to govern.

As an airline operating flights from airports within the European Union, Air Transat is subject to the provisions of European Community Regulation 261/2004. This directive establishes a legal framework for the compensation and care of passengers by airlines in the event of overbooking/denied boarding, flight cancellations and long delays. While the Regulation stipulates payable compensation in the event of the first two cases, it only expressly provides for a duty of care by the airline in the context of a long flight delay (meals, snacks, hotel accommodations, as applicable). In November 2009, the European Court of Justice issued a ruling that extended financial compensation obligations to long delays as well. This jurisprudential trend has been maintained and EU national enforcement bodies henceforth consider passengers on flights delayed by more than three hours as being eligible for compensation per the rates set out for overbooking/cancellation except in certain narrowly defined cases of extraordinary circumstances. The European Commission has recently proposed amendments to revise Regulation 261 that would address these developments. However, the process is currently stalled at the EU Council level.

#### *3.9.2.2 <u>Canadian Legislation</u>*

The *Aeronautics Act*, R.S.C. 1985, c. A-2 and the *Canada Transportation Act* are two of the principal legislative instruments that regulate the operation of a commercial airline in Canada. Such operation is subject to the issuance of the required licenses and operating certificate attesting that the air carrier complies with Canadian standards, as well as to the maintenance of the required liability insurance. In the case of charter flights, permits are required for each proposed flight or series of flights. Licenses and charter permits are issued by the Canadian Transportation Agency (the "**Agency**"), and the operating certificate is issued by Transport Canada. This certificate attests that the air carrier is properly organized and equipped to conduct its business in compliance with the *Canadian Aviation Regulations*, SOR/1996-433. Such a certificate was issued to Air Transat on November 13, 1987, and was subsequently modified to reflect our changing operating conditions.

Air Transat is required to obtain a permit from the Agency in respect of each international charter flight or series of charter flights. This authorization is conditional upon various details being provided to the Agency with respect to the flight, the eligibility and financial responsibility of the charterer, and the terms and conditions of the charter contract. Moreover, the issuance of any authorization relating to an international charter flight or a series of international charter flights is subject to the provision by Air Transat of satisfactory evidence that any advance payments by the charterer to Air Transat, for an international charter flight or a series of international charter flights, are protected by way of a guarantee or an irrevocable letter of credit. This guarantee or irrevocable letter of credit provides security in an amount equal to the payments received by Air Transat from charterers in advance for all segments of unperformed flights pursuant to a charter contract. The Agency also determines the conditions regulating the relationship between air carriers and the charterer. Under current Canadian regulations, an air carrier operating under a charter permit does not have the right to sell seats on international air services directly to the public, but must charter its capacity to one or more competent charterers. A very small portion of Air Transat's flight operations are conducted pursuant to such charter regulations, with the considerable majority governed by scheduled licensing authorities per the following paragraph.

The conditions mentioned previously do not apply to Canadian domestic operations in that the legislation no longer makes any distinction between scheduled and charter flight services. Furthermore, Air Transat is licensed by the Canadian Transportation Agency to offer scheduled services to the United States, Cuba, the European Union (representing its 28 member states), Mexico, Jamaica, the Bahamas, Barbados, Turkey, Panama, Costa Rica, Nicaragua, El Salvador, Colombia, Antigua and Barbuda, St. Lucia, Netherlands Antilles, the Dominican Republic and Haiti. These operations are subject to the rules established under the bilateral air transport agreements concluded by Canada with these respective countries and supranational authorities.

On November 3, 2016, the Federal Minister of Transport, the Honorable Marc Garneau, announced the government's intention to amend the *Canada Transportation* Act in order to increase international ownership limits from 25 to 49% of voting interests for Canadian air carriers. There is no published timetable for the proposed legislative amendments at this time. Additionally, the Minister approved interim exemptions from the current 25% foreign ownership limit for two companies, Canada Jetlines and Enerjet and will consider similar requests from other Canadian airlines on an equitable and non-discriminatory basis. Under the Government's proposed legislative amendments, operators providing specialty air services would be the only persons who would remain subject to the current 25% limit.

On January 30, 2015, Bill C-51, *An Act to enact the Security of Canada Information Sharing Act and the Secure Air Travel Act, to amend the Criminal Code, the Canadian Security Intelligence Service Act and the Immigration and Refugee Protection Act and to make related and consequential amendments to other Acts* (the "**Antiterrorist Act**") was presented for first reading in the House of Commons. The Antiterrorist Act seeks to provide a new legislative framework for identifying and responding to persons suspected of threatening transportation security or of traveling by air for the purpose of committing a terrorism offence. The Antiterrorist Act would authorize 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. The Minister of Transport would also have the power to seize an aircraft for the purpose of inspecting it and take measures concerning the movement of the aircraft. The management cannot predict whether or when the Antiterrorist Act might be adopted.

Air Transat, like Transat Tours Canada, is subject to the Canadian and foreign personal information protection legislation concerning the collection, use, disclosure and protection of passenger and employee data. In Canada, the federal legislation regarding the protection of personal information in the private sector, the *Personal Information Protection and Electronic Documents Act* (Canada) ("PIPEDA"), governs the collection, use and disclosure of personal information in the course of commercial activities of a federally regulated undertaking. Moreover, the PIPEDA governs the processing of personal information of employees working for federally regulated employers. Subject to certain exceptions, the PIPEDA also applies to the collection and disclosure of personal information from province to province or between Canada and another country, and within provinces in the absence of substantially similar legislation governing the protection of personal information applicable to the private sector. The PIPEDA requires the tacit or express informed consent of the persons whose personal information is collected and used. The personal information may then be used only for the purposes for which it was initially collected or for other purposes provided or permitted by the PIPEDA. Air Transat's privacy policies respect or exceed the requirements of the Act.

As at the date of this AIF, Air Transat holds all necessary licenses, certificates and permits and is in compliance, in all material respects, with the requirements of applicable Canadian legislation. Furthermore, all of our aircraft meet the ICAO chapter 3 noise requirements implemented by Transport Canada.

On July 1, 2014, *An Act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act* came into force. Also called the "Canadian Anti-Spam Act" or "CASA", the Act particularly regulates the conditions under which commercial electronic messages may be sent. All of the Corporation's Canadian subsidiaries implemented mechanisms ensuring their compliance with the requirements of the CASA before July 1, 2014.

*3.9.2.3 Foreign Legislation*

In respect of each jurisdiction other than Canada in which Air Transat operates, we must comply with applicable laws and, when necessary, obtain the required licenses, permits and authorizations. We are of the opinion that Air Transat holds all licenses, permits and authorizations necessary for its operations and is in compliance, in all material respects, with the requirements of applicable foreign legislation.

*3.9.2.4 IATA*

IATA, the International Air Transport Association, is the prime vehicle for inter-airline cooperation in promoting safe, reliable, secure and economical air services - for the benefit of the world's consumers. IATA membership is open to both scheduled and non-scheduled airlines. Only airlines operating air services are eligible for IATA membership. However, travel agencies can be registered as IATA approved agents. Air Transat is a member of IATA.

### *3.9.3 Environment*

We have put the necessary processes in place and we are in compliance in all material respects with the provisions of applicable environmental laws and regulations that apply to our buildings and to our operations. This is true for all regulatory levels; borough, municipal, provincial, federal and international. The Risk Management and Corporate Governance Committee of the Board of Directors annually carries out a risk assessment and reviews corporate policies and procedures with respect to the environment.

On June 3, 2014, Air Transat became the first airline in North America to obtain Phase 1 certification under the IEnvA (IATA Environmental Assessment), the seal of excellence in environmental best practices awarded by the IATA (International Air Transportation Association). This program is based on compliance with strict environmental standards and the Corporation's commitment to continuous improvement of its environmental management. The criteria underlying IEnvA certification are based on a combination of standards coming from recognized environmental management systems, such as ISO 14001, the IATA Operational Safety Audit (IOSA) and the IATA Safety Audit for Ground Operations (ISAGO). The assessments are conducted by independent accredited environmental certification organizations, which have proven environmental management system audit competencies.

Since January 2012, all air carriers serving the European Union, including Air Transat, are subject to EU regulations concerning the application of the EU's Emissions Trading Scheme (ETS) to aviation. However, as a result of formal objections by numerous countries around the world concerning the extra-territorial application and resulting alleged state sovereignty violations of the ETS, the EU suspended application of its ETS to EU-third country air services in November 2012 pending the outcome of deliberations at the ICAO during its General Meeting in the autumn of 2013 on the question of a multilateral plan for reducing the effects of aviation GHGs on climate change. A resolution to this end was indeed adopted by the ICAO General Assembly. The European Union subsequently amended its ETS

Regulation to limit its scope only to intra-European flights. This is referred to as the "stop the clock" provision. At ICAO's subsequent 39th Triennial General Meeting that took place in the autumn of 2016, a new global market-based mechanism was agreed to that would create a voluntary carbon-offsetting system for international aviation emissions as of 2021. This system will become mandatory for all countries except for the world's least developed states by 2027. Canada is one of the numerous countries that will take part in the voluntary phase. Consequently, when an Air Transat flight will be operated from Canada to another non-exempted country that has agreed to take part in the voluntary transition phase, the carbon emissions from that flight will need to be offset through one or more authorized programs. At this time it is uncertain as to whether the EU will maintain the current intra-European scope, revert to the full scope, or exclude aviation from the EU ETS. Until a formal decision is made, Air Transat will continue to comply with all legal requirements set out by the EU regarding greenhouse gas emissions reporting, monitoring, and verification. In addition, other jurisdictions, notably Canada and Canadian provinces, are considering putting a price on carbon emissions. This may include aviation and Air Transat is actively participating in government consultations through our industry trade group, NACC (National Airlines Council of Canada).

Transat's Board of Directors formally adopted a sustainable tourism policy in 2008 and Transat developed and implemented an environmental policy in 2010. This policy provides a framework and sets out the principles guiding our action in this area.

### *3.9.4 Corporate Social Responsibility*

We endeavour to maintain healthy and mutually beneficial relationships with all communities, so that they benefit to the maximum from the favourable effects of our activities and of tourism in general, and we endeavour to minimize the adverse effects. In this regard, we have in place a comprehensive corporate responsibility program with a report available at resp.transat.com, which provides an account of the organization's commitment to taking responsible actions and describes the main accomplishments.

After ten years of sustainability efforts, Transat became the first North American tour operator to be awarded Travelife Partner status in 2016, reaching an important milestone on the way to securing this world-renowned certification in the tourism industry.

Transat places great importance to skills upgrading and promoting of a work environment based on respect. Over the years, we have implemented a variety of programs and tools to improve employee orientation and integration, training as well as all aspects of employee recognition. Diversity is a key value for Transat with half of our senior executives being women. We promote hiring of candidates from minority groups and also encourage direct or indirect employment of local personnel for positions at destination.

Skills upgrading and professional development are the core of our strategy. We have developed a flexible training offering, adaptable to employees' needs. Going forward, our skills upgrading strategy will revolve around six profiles defined according to the various types of jobs at Transat. The development opportunities in relation to these skills are varied and benefit both employees and managers. We are now offering more hands-on, grab-and-go type training to help our employees and our managers develop the competencies they require to be more efficient in their day-to-day work and perform as expected. Not only will we continue to offer professional development training for our managers, we will also offer development training to our associates and professionals, ensuring that they are prepared to step into a new role and contribute to the best of their abilities whenever they have the opportunity. In 2016, 370 of our associates and professionals have participated in our trainings as well as 131 managers and directors.

To strengthen this culture focused on upgrading competencies and encourage personnel to excel, we have developed a structured method for evaluating employee potential, with input from a specialized firm. Transat's Code of Ethics was revised in 2010 and 2015, and now includes commitments related to our vision of corporate responsibility. This document, approved by the Board of Directors, constitutes both an expression of our corporate culture and an instrument for managing change. Every employee is required to read it and commit to complying with it.

Our corporate responsibility program and all sub-programs are managed by the Corporate Responsibility Committee (CRC), made up of senior executives from all sectors of the Corporation. The CRC meets two to four times a year.

## 3.10 RISK FACTORS

We are subject to a number of risks and other factors that could affect demand for our product offering, some of which are related or inherent to the travel industry in general. Please see the "Risks and Uncertainties" section of our Management's Discussion and Analysis for the year ended October 31, 2016 available for consultation on SEDAR at sedar.com.

### *3.10.1 Risk Management and Insurance*

#### *3.10.1.1 Risk Management and Insurance for Tour Operators and Travel Agencies*

We hold and maintain in full force insurance policies for amounts conforming to industry standards. Our liability insurance for our tour operator and travel agency activities covers the liability for bodily harm or property damage suffered by travellers or third parties. Furthermore, in collaboration with an insurer, we established a voluntary professional liability insurance (errors and omissions) plan for our franchisees.

Pursuant to its mandate, the Risk Management and Corporate Governance Committee reviews on a continuous basis a number of emergency measures and measures related to the Corporation's operations. Risk management is shared among the Corporation's executive officers and directors to eliminate compartmentalized risk management.

#### *3.10.1.2 Risk Management and Aviation Insurance*

We hold and maintain in full force insurance policies for amounts in accordance with industry standards and in compliance with applicable statutory requirements and the covenants of our aircraft lease agreements. Our liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. The limit for any single event is US$1.25 billion with the exception of War Risk Bodily Injury/Property Damage to Third Parties excluding passengers where the limit is US$250 million for any single event and in the aggregate.

In this latter regard, additional insurance is carried and maintained for War Risk Bodily Injury/Property Damage to Third Parties excluding passengers covering the excess of US$250 million up to the limit of US$1 billion for any single event and in the aggregate.

Through our Audit Committee and our Risk Management and Corporate Governance Committee, our Board of Directors identifies and evaluates at least once annually the principal risk factors related to our business and approves strategies and systems proposed to manage such risks, including those specifically related to the aviation industry.

# 4. DIVIDENDS AND NORMAL COURSE ISSUER BID

## 4.1 DIVIDENDS

Transat has not declared or paid dividends to holders of the Variable Voting Shares and of the Voting Shares for any of the three most recently completed financial years in order to keep cash on hand to contend with business challenges arising from the prevailing economy. No decision has been taken with respect to future dividends, and no assurance can be given that any dividends will be paid in the future.

### 4.2 NORMAL COURSE ISSUER BID

On April 10, 2015, the Corporation announced that it had received the required regulatory approvals to go forward with a normal course issuer bid for a 12-month period. The normal course issuer bid was designed to allow the proper utilization, depending on the circumstances and in a wise manner, of a portion of the Corporation's surplus cash.

The purchases under the Corporation's normal course issuer bid were made by our external agent on the open market through the facilities of the TSX in accordance with its policy on normal course issuer bids. During the year ended October 31, 2016, the Corporation repurchased a total of 978,831 Class B Variable Voting Shares, for a total cash consideration of $7.1 million.

## 5. MANAGEMENT'S DISCUSSION AND ANALYSIS

We refer you to our Management's Discussion and Analysis for the year ended October 31, 2016 available for consultation on SEDAR at sedar.com.

## 6. OUR SHARE CAPITAL STRUCTURE

### 6.1 CONSTRAINTS ON SHARE OWNERSHIP

Pursuant to the *Canada Transportation Act*, Air Transat must at all times be in a position to establish that it is "Canadian" within the meaning of such act (hereinafter, a "**Qualified Canadian**") in order to hold the licenses necessary to operate an air service. Because Air Transat is wholly owned by Transat, we must be a Qualified Canadian in order for Air Transat to be a Qualified Canadian. Currently, we must ensure that no more than 25%[2] of voting interests attaching to our shares are owned or controlled by persons who are not Qualified Canadians.

In this respect, our Articles provide for Variable Voting Shares and Voting Shares. The Variable Voting Shares can only be owned or controlled by persons who are not Qualified Canadians and carry one vote per share unless (i) the number of issued and outstanding Variable Voting Shares exceeds 25% of all the issued and outstanding voting shares (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*), 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 greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes that may be cast at such meeting. If either of the above-noted 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% of the aggregate votes attached to all issued and outstanding voting shares of the Corporation; 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% of the votes that may be cast at such meeting. The Voting Shares can only be owned and controlled by Qualified Canadians and always carry one vote per share. All the other rights, privileges, conditions and restrictions are the same for the two classes of shares.

The holders of Variable Voting Shares and Voting Shares will vote together at any meeting and no separate meeting shall be held for any such class of shares. Only votes attached to voting shares represented by shareholders present in person or represented by proxy at a meeting and legally entitled to vote thereat can be exercised or cast at such meeting.

Pursuant to its powers under Transat By-law No. 1999-1 and the regulations under the *Canada Business Corporations Act*, and in accordance with the provisions of our Articles and the *Canada Transportation Act*, Transat's Board of Directors has implemented a series of administrative measures to ensure that the Voting Shares are owned

2 We refer you to section 3.9.2.2 for more information.

and controlled by Qualified Canadians and the Variable Voting Shares are owned or controlled by persons who are not Qualified Canadians at all times (the "**Ownership Restrictions**"). The measures are notably reflected in the forms of declaration of ownership and control. Shareholders who wish to vote at a meeting either by: (i) completing and delivering a form of proxy or a voting instruction form, or (ii) by attending and voting at such meeting, will be required to complete a declaration of ownership and control in order to enable Transat to comply with the Ownership Restrictions. If a shareholder does not duly complete such declaration or if it is determined by Transat or its transfer agent, CST Trust Company ("**CST**"), that a shareholder indicated (inadvertently or otherwise) that he or she owns or controls the wrong class of shares, the automatic conversion provided for in our Articles shall be triggered. Where a statement made in a declaration of ownership appears inconsistent with the information held by Transat (inadvertently or otherwise), we may take any action that we deem appropriate with a view to ensuring compliance with the Ownership Restrictions. Further, if a declaration is not duly completed, executed and delivered to Transat through its transfer agent, CST, the vote attached to such declarant's voting shares will not be tabulated.

### 6.2 INFORMATION AND REPORTING

Transat or its transfer agent will provide the shareholders, in accordance with the applicable securities legislation, with Transat's financial statements (including the annual and quarterly financial statements) and other reports required by the applicable laws, including the prescribed forms required by the shareholders to file their tax returns in accordance with the *Income Tax Act* and the equivalent provincial legislation.

Before each shareholders meeting, Transat's Board of Directors will provide the shareholders (with the Notice of Meeting) with a form of proxy and all the information that must be provided to them, under the applicable legislation and the TSX rules.

Transat's directors and officers are required to file insider reports and comply with the insider trading provisions of the Canadian securities legislation regarding trading by these persons in Transat's securities.

### 6.3 SHAREHOLDER RIGHTS PLAN OF TRANSAT

Transat's Shareholder Subscription Rights Plan dates back to February 3, 1999 and was ratified by the shareholders on March 24, 1999. This plan was renewed by the Board of Directors and ratified by the shareholders every 3 years. The last renewal and ratification occurred in 2014 (the "**2014 Rights Plan**"). The 2014 Rights Plan came into force after the annual and special meeting of the shareholders held on March 13, 2014 and will expire at the close of business the day after the annual meeting of shareholders to be held in 2017, unless earlier terminated in accordance with its terms.

The 2014 Rights Plan is designed to provide Transat's shareholders and the Board of Directors additional time to assess an unsolicited takeover bid for the Corporation and, where appropriate, to give the Board of Directors additional time to pursue alternatives for maximizing shareholder value. It also encourages fair treatment of all shareholders by providing them with an equal opportunity to participate in a takeover bid. The 2014 Rights Plan creates one right in respect of each Variable Voting Share and each Voting Share of Transat outstanding as at March 13, 2014, or subsequently issued. Presently, until the separation time, which typically occurs at the time of an unsolicited takeover bid whereby an Acquiring Person (as defined in the rights plan) acquires or attempts to acquire 20% or more of Transat's outstanding Class A Variable Voting Shares and Class B Voting Shares, calculated on a combined basis, the rights are not separable from the shares, are not exercisable and no separate rights certificates are issued.

Under the 2014 Rights Plan, each right, other than those held by an Acquiring Person and certain of its related parties, entitles the holder in certain circumstances following the acquisition by an Acquiring Person of 20% or more of the outstanding Class A Variable Voting Shares and Class B Voting Shares of Transat calculated on a combined basis (otherwise than through the "Permitted Bid" requirements of the rights plan) to purchase from Transat $200 worth of Variable Voting Shares or Voting Shares for $100 (i.e. at a 50% discount). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Variable Voting Shares.

The 2014 Rights Plan gives effect to a decision issued by Canadian securities regulatory authorities (pursuant to an application of Transat) that effectively treats Transat's Class A Variable Voting Shares and Class B Voting Shares as a single class for the purposes of applicable takeover bid requirements and early warning reporting requirements under Canadian securities laws. A copy of the decision is available under Transat's profile at sedar.com.

Therefore, subject to certain exceptions identified in the 2014 Rights Plan, the 2014 Rights Plan would be triggered in the event of an offer to acquire 20% or more of the outstanding Class A Variable Voting Shares and Class B Voting Shares of Transat calculated on a combined basis, instead of 20% or more of the outstanding Class A Variable Voting Shares or Class B Voting Shares calculated on a per class basis as it was the case under the previous plans.

The 2014 Right Plan is scheduled to expire at the close of the annual and special meeting of the shareholders to be held on March 16, 2017. On December 14, 2016, the Board of Directors approved the updating and restatement of the 2014 Right Plan for another three-year period, with certain changes required to reflect the new rules governing take-over bids entered into in 2016, extending the minimum duration of a bid to at least 105 days, which are described hereafter (the "**2017 Rights Plan**"). The 2017 Rights Plan will come into force only after the annual and special meeting of the shareholders to be held on March 16, 2017, provided that the 2017 Rights Plan ratification resolution is approved by a majority of the votes cast by the shareholders, in person or by proxy, at the meeting. Once ratified on March 16, 2017, the 2017 Rights Plan will expire at the close of business the day after the annual meeting of shareholders to be held in 2021, unless earlier terminated in accordance with its terms.

## 6.4 GENERAL DESCRIPTION OF OUR SHARE CAPITAL

As at the date of this AIF, Transat's share capital is composed of Voting Shares and Variable Voting Shares introduced in our latest Articles of Amendment filed on March 4, 2005 and effective as at that date (the **"Articles of Amendment")**, as well as Preferred Shares. As at October 31, 2016, there were 1,410,985 issued and outstanding Variable Voting Shares and 36,239,624 issued and outstanding Voting Shares. Below is a summary describing the rights, privileges, restrictions and conditions attached to Transat's Variable Voting Shares, Voting Shares and Preferred Shares.

### *6.4.1 Class A Variable Voting Shares*

#### *6.4.1.1 Exercise of Voting Rights*

The holders of Variable Voting Shares are entitled to receive notice of, to attend and vote at all meetings of our shareholders, except those at which the holders of a specific class are entitled to vote separately as a class under the *Canada Business Corporations Act*.

Variable Voting Shares carry one vote per share held, except where (i) the number of outstanding Variable Voting Shares exceeds 25% of the total number of all issued and outstanding Variable Voting Shares and Voting Shares (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*), or (ii) the total number of votes cast by or on behalf of the holders of Variable Voting Shares at any meeting exceeds 25% (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed at any time, the vote attached to each Variable Voting Share will decrease automatically without further act or formality. Under the circumstances described in paragraph (i) above, the Variable Voting Shares as a class cannot carry more than 25% (or any greater percentage that the Governor in

Council may specify pursuant to the *Canada Transportation Act*) of the total voting rights attached to the aggregate number of issued and outstanding Variable Voting Shares and Voting Shares of Transat. Under the circumstances described in paragraph (ii) above, the Variable Voting Shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes that may be cast at such meeting.

*6.4.1.2 Dividends*

Subject to the rights, privileges, restrictions and conditions attached to any other class of Transat shares ranking prior to the Variable Voting Shares, the holders of Variable Voting Shares are entitled to receive any dividends that are declared by Transat's directors at the times and for the amounts that our Board of Directors may, from time to time, determine. The Variable Voting Shares and the Voting Shares shall rank equally as to dividends on a share for share basis. All dividends shall be declared in equal or equivalent amounts per share on all Variable Voting Shares and Voting Shares then outstanding, without preference or distinction.

*6.4.1.3 Subdivision or Consolidation*

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

*6.4.1.4 Rights in the Case of Liquidation, Winding-Up or Dissolution*

Subject to the rights, privileges, restrictions and conditions attached to the other classes of Transat shares ranking prior to the Variable Voting Shares, in the case of liquidation, dissolution or winding-up of Transat, the holders of Variable Voting Shares and Voting Shares shall be entitled to receive Transat's remaining property and shall be entitled to share equally, share for share, in all distributions of such assets.

*6.4.1.5 Conversion*

Each issued and outstanding Variable Voting Share shall be automatically converted into one Voting Share, without any further intervention on the part of Transat or the holder, if (i) the Variable Voting Share is or becomes owned and controlled by a Qualified Canadian, or if (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 is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, to be made to all or substantially all the holders of Voting Shares in a given province of Canada to which these requirements apply, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share at any time while the offer is in effect 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 pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning voting rights for Variable Voting Shares notwithstanding their conversion. Our transfer agent shall deposit the resulting Voting Shares on behalf of the holder.

Should the Voting Shares issued upon conversion and tendered in response to the offer be withdrawn by shareholders or not taken up by the offeror, or should the offer be abandoned or withdrawn, the Voting Shares resulting from the conversion shall be automatically reconverted, without further intervention on the part of Transat or on the part of the holder, into Variable Voting Shares. Variable Voting Shares may not be converted into Voting

Shares, and vice-versa, other than in accordance with the conversion procedure set out in our Articles of Amendment dated March 4, 2005.

#### *6.4.1.6 Constraints on Share Ownership*

Variable Voting Shares may only be owned or controlled by persons who are not Qualified Canadians.

### 6.5 CLASS B VOTING SHARES

#### *6.5.1.1 Exercise of Voting Rights*

The holders of Voting Shares shall be entitled to receive notice of, and to attend and vote at all meetings of our shareholders, except those at which holders of a specific class are entitled to vote separately as a class under the *Canada Business Corporations Act*. Each Voting Share shall confer the right to one vote at all meetings of our shareholders.

#### *6.5.1.2 Dividends*

Subject to the rights, privileges, restrictions and conditions attached to any class of Transat shares ranking prior to the Voting Shares, holders of Voting Shares are entitled to receive any dividends declared by our directors at the times and for the amounts that the Board of Directors may determine from time to time. The Voting Shares and the Variable Voting Shares shall rank equally as to dividends on a share-for-share basis. All dividends declared shall be declared in equal or equivalent amounts per share on all Voting Shares and Variable Voting Shares then outstanding, without preference or distinction.

#### *6.5.1.3 Subdivision or Consolidation*

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

#### *6.5.1.4 Rights in the Case of Liquidation, Winding-Up or Dissolution*

Subject to the rights, privileges, restrictions and conditions attached to any class of shares ranking prior to the Voting Shares, in the case of liquidation, dissolution or winding-up of Transat, the holders of Voting Shares and Variable Voting Shares shall be entitled to receive Transat's remaining property and shall be entitled to share equally, share for share, in all distributions of such assets.

#### *6.5.1.5 Conversion*

Each issued and outstanding Voting Share shall automatically be converted into one Variable Voting Share, without any further intervention on the part of Transat or the holder, if such Voting Share is or becomes owned or controlled 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 is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed, to be made to all or substantially all the holders of Variable Voting Shares, each Voting Share shall become convertible at the option of the holder into one Variable Voting Share at any time while the offer is in effect 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 pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning the voting rights for Voting Shares notwithstanding their conversion. Our transfer agent shall deposit the resulting Variable Voting Shares on behalf of the holder.

Should the Variable Voting Shares issued upon conversion and tendered in response to the offer be withdrawn by shareholders or not taken up by the offeror, or should the offer be abandoned or withdrawn, the Variable Voting Shares resulting from the conversion shall be automatically reconverted, without further intervention on the part of Transat or on the part of the holder, to Voting Shares.

The Voting Shares may not be converted into Variable Voting Shares, or vice-versa, other than in accordance with the conversion procedure set out in the Articles of Amendment.

*6.5.1.6 Constraints on Share Ownership*

The Voting Shares may only be owned or controlled by persons who are Qualified Canadians.

### 6.6 PREFERRED SHARES

The Preferred Shares, if issued, will rank prior to the Variable Voting Shares and the Voting Shares with respect to the payment of dividends and the distribution of assets. In the event of the dissolution or liquidation of the Corporation or the distribution of its capital, no amount shall be paid and no asset shall be distributed to the holders of shares of any other class of the Corporation until the holders of the Preferred Shares receive an amount equal to the value of the consideration received by the Corporation upon the issuance of such shares and, in the case of Preferred Shares of a series entitled to cumulative dividends, of all dividends then accrued and unpaid, and, for Preferred Shares of a series entitled to non-cumulative dividends, of all dividends declared thereon and unpaid, if any, plus any other amount, if any, determined by the directors in respect of each series prior to the issue of any Preferred Shares of such series. The holders of the Preferred Shares of a particular series shall be entitled to the payment of this entire amount from the assets of the Corporation in preference and prior to the holders of any other class of shares of the capital of the Corporation.

The Preferred Shares of each series will rank equally with the Preferred Shares of other series in terms of payment of dividends and distribution of assets upon liquidation or dissolution of the Corporation.

## 7. MARKET FOR SECURITIES

On November 16, 2015, the Transat Variable Voting Shares and Voting Shares were listed on the TSX under a single symbol, “TRZ”. Previously, the shares were listed respectively under two symbols, “TRZ.A” and “TRZ.B”.

The following table set out the reported high and low prices and trading volume of the Variable Voting Shares and Voting Shares listed as “TRZ” for each month of the fiscal year ended October 31, 2016.

| TRANSAT A.T. INC. “TRZ” | | | |
|---|---|---|---|
| **Month** | **High** | **Low** | **Volume** |
| October 2016 | $6.52 | $6.05 | 361,729 |
| September 2016 | $7.10 | $6.17 | 955,200 |
| August 2016 | $6.78 | $6.27 | 495,957 |
| July 2016 | $7.29 | $6.45 | 747,258 |
| June 2016 | $8.12 | $6.49 | 1,168,099 |
| May 2016 | $8.70 | $7.90 | 852,831 |

| TRANSAT A.T. INC. "TRZ" | | | |
|---|---|---|---|
| April 2016 | $8.59 | $7.64 | 1,304,096 |
| March 2016 | $8.50 | $6.37 | 1,994,672 |
| February 2016 | $8.50 | $6.86 | 1,922,639 |
| January 2016 | $7.64 | $7.05 | 1,455,966 |
| December 2015 | $7.69 | $5.79 | 2,116,335 |
| November 2015 | $7.90 | $6.30 | 985,608 |

On October 31, 2016, the closing price on the TSX of a Variable Voting Share and Voting Share was $6.12.

## 8. OUR DIRECTORS AND OFFICERS

### 8.1 OUR DIRECTORS

The following table states, as at the date of this AIF, the name, province and country of residence, year of election as director and present principal occupation of each director of Transat, as well as the number of voting shares of Transat owned by each director or over which he or she exercises control or direction. Each of our directors shall hold office until Transat's next annual meeting or until his or her replacement is elected.

| Name of Director, Province and Country of Residence | Principal Occupation | Director Since | Voting Shares Owned or Controlled or Directed(1) | Deferred Share Units (DSUs)(1) |
|---|---|---|---|---|
| **Jean-Marc Eustache**<br>*Québec, Canada* | Chairman of the Board, President and Chief Executive Officer | February 1987 | 401,766 | 10,331 |
| **Raymond Bachand**<br>*Québec, Canada* | Strategic Advisor, Norton Rose Fulbright | March 2014 | 0 | 21,379 |
| **Louis-Marie Beaulieu**<br>*Québec, Canada* | Chairman of the Board and Chief Executive Officer of Groupe Desgagnés Inc. | March 2013 | 10,000 | 15,736 |
| **Lucie Chabot**<br>*Québec, Canada* | Vice-President and Chief Financial Officer of SAIL Outdoors Inc. | October 2015 | 0 | 2,062 |
| **Lina De Cesare**<br>*Québec, Canada* | Corporate Director | May 1989 | 75,576 | 12,957 |
| **Jean Pierre Delisle**<br>*Québec, Canada* | Corporate Director and Executor of Estates | September 2007 | 33,000 | 14,525 |
| **W. Brian Edwards**<br>*Québec, Canada* | Corporate Director | June 2010 | 18,790 | 32,416 |
| **Susan Kudzman**<br>*Québec, Canada* | Executive Vice-President, Corporate Affairs, and Chief Risk Officer, Laurentian Bank of Canada | March 2014 | 0 | 23,045 |

| Name of Director, Province and Country of Residence | Principal Occupation | Director Since | Voting Shares Owned or Controlled or Directed(1) | Deferred Share Units (DSUs)(1) |
|---|---|---|---|---|
| **Jean-Yves Leblanc** *Québec, Canada* | Lead Director and Corporate Director | December 2008 | 13,000 | 20,541 |
| **Jacques Simoneau** *Québec, Canada* | President, Chief Executive Officer and Director of Gestion Univalor, L.P. | November 2000 | 18,280 | 15,139 |
| **Philippe Sureau** *Québec, Canada* | Corporate Director | February 1987 | 323,209 | 19,029 |

(1) The number of shares or differed share units indicated is given as at October 31, 2016 and is based on the declarations of our directors. Under the guidelines adopted by Transat, each director who is not an employee must hold a number of shares or deferred share units of Transat equivalent to at least three times the annual retainer to which he or she is entitled after having served three years as a director. Please refer to our 2017 Management Proxy Circular for additional detail.

Each of the directors of the Corporation has had the principal occupation indicated opposite his or her name during the past five years, except as indicated below:

- Mr. Raymond Bachand was elected to the Québec National Assembly for Outremont on December 12, 2005 and reelected 3 times in 2007, 2008 and 2012. He was Minister of Economic Development, Innovation and Export Trade from February 2006 to June 2009, Minister of Tourism from April 2007 to December 2008, Minister responsible for the Montreal region from April 2007 to September 2012, Minister of Finance from April 2009 to September 2012 and Minister of Revenue from August 2010 to September 2012. He retired from political life on September 13, 2013. Since January 20, 2014, he acts as strategic advisor for the law firm Norton Rose Fulbright;

- Mrs. Lina De Cesare was Advisor to the President of Transat from November 2009 to October 2014, and President, Tour Operators of Transat and President of Cameleon Hotel Management Corporation from December 2004 to November 2009;

- Ms. Susan Kudzman held the position of Executive Vice-President and Chief Risk Officer at Caisse de dépôt et placement du Québec from 2005 to 2010 and was an actuary and partner at Mercer Canada from 2011 to 2014, where she was in charge of the risk management practice. She was Senior Vice-President, Human Resources, of Laurentian Bank of Canada from March 2014 to September 2015 and is now Executive Vice-President, Chief Risk Officer and Corporate Affairs at the Laurentian Bank of Canada since October 2015;

- Mr. Jacques Simoneau was Executive Vice-President, Investment, Business Development Bank of Canada from April 2006 to December 2010. He is actually President & CEO and Director of Gestion Univalor, L.P.; and

- Mr. Philippe Sureau was Advisor to the President of Transat from November 2009 to October 2014, and President, Distribution of Transat and President of Transat Distribution Canada from December 2004 to November 2009.

Transat's Board of Directors has created four committees, to which it has delegated specific mandates and necessary powers to assist it in effectively fulfilling its duties. The table below indicates the committees of the Board of Directors, with their respective membership as at October 31, 2016:

| | |
|---|---|
| **EXECUTIVE COMMITTEE** | **Jean-Marc Eustache – Chair**<br>W. Brian Edwards<br>Jean-Yves Leblanc<br>Jacques Simoneau |
| **AUDIT COMMITTEE** | **Jean-Yves Leblanc – Chair**<br>Raymond Bachand<br>Lucie Chabot<br>Jacques Simoneau |
| **HUMAN RESOURCES AND COMPENSATION COMMITTEE** | **W. Brian Edwards – Chair**<br>Louis-Marie Beaulieu<br>Susan Kudzman<br>Jean-Yves Leblanc |
| **RISK MANAGEMENT AND CORPORATE GOVERNANCE COMMITTEE** | **Jacques Simoneau – Chair**<br>W. Brian Edwards<br>Susan Kudzman |

As at December 14, 2016, Mr. Jean-Yves Leblanc is the Lead Director of Transat. For more information, we refer you to Section 14 of this AIF. His responsibilities include chairing and coordinating the meetings of the Audit Committee.

### 8.2 OUR EXECUTIVE OFFICERS

The following table sets forth the names, province and country of residence of Transat's executive officers, their first year of service and current position held with Transat, as well as the number of voting shares of Transat owned or over which he or she exercises control or direction.

As at October 31, 2016, the executive officers and directors of the Corporation as a group own a total of 1,301,327 Voting Shares, which represent 3.53% of the total number of Voting Shares and Variable Voting Shares issued and outstanding as at that date.

| Name, Province and Country of Residence | First Year of Service with Transat | Position Held with Transat and Certain Subsidiaries | Voting Shares Owned or Controlled or Directed[(1)] |
|---|---|---|---|
| **Jean-Marc Eustache**<br>*Québec, Canada* | 1987 | Chairman of the Board, President and Chief Executive Officer of Transat | 401,766 |
| **Joseph Adamo**<br>*Québec, Canada* | 2011 | President and General Manager of Transat Distribution Canada Inc. | 17,520 |
| **Michel Bellefeuille**<br>*Québec, Canada* | 2002 | Vice-President and Chief Information Officer | 40,009 |
| **Bernard Bussières**<br>*Québec, Canada* | 2001 | Vice-President, General Counsel and Corporate Secretary | 75,173 |

| Name, Province and Country of Residence | First Year of Service with Transat | Position Held with Transat and Certain Subsidiaries | Voting Shares Owned or Controlled or Directed[(1)] |
|---|---|---|---|
| **André De Montigny** *Québec, Canada* | 2000 | President, Transat International and Vice-President, Corporate Development of Transat | 67,449 |
| **Daniel Godbout** *Québec, Canada* | 1999 | Senior Vice-President, Transport and Yield Management of Transat | 109,790 |
| **Annick Guérard** *Québec, Canada* | 2002 | President and General Manager of Transat Tours Canada Inc. | 31,051 |
| **Christophe Hennebelle** *Québec, Canada* | 2009 | Vice-President, Human Resources and Corporate Affairs | 9,384 |
| **Jean-François Lemay** *Québec, Canada* | 2011 | President and General Manager of Air Transat A.T. Inc. | 34,976 |
| **Denis Pétrin** *Québec, Canada* | 1990 | Vice-President, Finance and Administration and Chief Financial Officer | 55,510 |

(1) The number of shares indicated is given as at October 31, 2016 and is based on the declarations of our executive officers. It should be noted that the number of shares mentioned does not include shares purchased during the year by the executive officers under the Transat Share Purchase Plan for the Benefit of All Employees or Executives or awarded at the beginning of the year under the Transat Permanent Stock Ownership Incentive Plan for Top Managers.

With the exception of Messrs. Jean-Marc Eustache, Michel Bellefeuille, Bernard Bussières, André De Montigny, Daniel Godbout and Denis Pétrin, who over the past five years have had the principal occupation indicated opposite their name, the other executive officers of Transat held the following positions:

- Mr. Joseph Adamo was the General Manager, Marketing and E-Commerce of Transat Tours Canada from August to November 2011, was the Vice-President, Marketing and E-Commerce of Transat Tours Canada from November 2011 to October 2014 and was also the General Manager of Transat Distribution Canada since June 2013. Since October 20, 2016, he is the President and General Manager of Transat Distribution Canada;

- In 2002, Mrs. Annick Guérard was appointed Senior Director of the Customer Services Department of Air Transat which she held for a period of four years. In 2006, she was appointed Brand Manager Director at Transat Tours Canada and thereafter Acting Vice-President, Marketing. From November 2007 to August 2010, she held the position of Vice-President and General Manager of Jonview Canada in Toronto. In August 2010, she was Vice-President, Marketing and E-Commerce at Transat Tours Canada, was the Vice-President, South Products from November 2011 to December 2012 of Transat Tours Canada and, thenafter, she was the General Manager of Transat Tours Canada from December 2012 to October 2016. Since October 20, 2016, she is the President and General Manager of Transat Tours Canada;

- From March to October 2009, Mr. Christophe Hennebelle held the position of Director, Human Resources of Look Voyages, from November 2009 to July 2014, the position of Director, Human Resources of Transat France and, from August 2014 to June 2016 the position of Vice-President, Human Resources and Talent Management of Transat. Since June 23, 2016, he is the Vice-President, Human Resources and Corporate Affairs of Transat; and

- Mr. Jean-François Lemay held the position of General Manager of Air Transat from April 2013 to October 2016 and also held the position of Vice-President, Human Resources and Talent Management of Transat from October 2011 to August 2014. From October 2003 to October 2011, he was a partner at Dunton Rainville practicing in administrative and employment law. Since October 20, 2016, he is the President and General Manager of Air Transat.

### 8.3 CEASE TRADE ORDERS OR BANKRUPTCIES

To Transat's knowledge, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation is, as at the date of the AIF, or was, within 10 years before the date of the AIF, a director or executive officer of any company that:

(i) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was issued while that person was acting in that capacity and was in effect for a period of more than 30 consecutive days;

(ii) was subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was issued after that person ceased to act in that capacity, was in effect for a period of more than 30 consecutive days and resulted from an event that occurred while that person was acting in that capacity; or

(iii) became 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 its assets while that person was acting in that capacity or within a year of that person ceasing to act in that capacity.

### 8.4 PENALTIES OR SANCTIONS

To the best of the knowledge of the Corporation, no director or executive officer of Transat has been subject to: (a) 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 (b) 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.

### 8.5 PERSONAL BANKRUPTCIES

To the best Transat's knowledge, no director or executive officer has declared bankruptcy, 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.

## 9. LEGAL PROCEEDINGS

In the ordinary course of business, Transat is a defendant in a number of legal proceedings, suits, and claims common to companies operating in the travel industry and engaged in the wholesale, retail or airline business. We believe that the ultimate outcome of these matters will not have a material effect upon the financial position, operating results or cash flows of the Corporation and any of its affiliates.

### 9.1 OTHER

From time to time, the Corporation is audited by the tax authorities, who raise questions regarding the treatment of certain transactions for tax purposes. Some of these questions could result in substantial costs, which will remain uncertain until one or more events occur or do not occur. Even though the outcome is difficult to predict with certainty, the tax claims or risks that will probably have an adverse outcome are accounted for by the Corporation according to the best possible estimate of the amount of the loss. The tax deductibility of the losses the Corporation reported during past years resulting from investments in asset-backed commercial paper was challenged by the tax authorities and notices of assessment were received to this effect during the fiscal year. This situation, which could result in an expense of approximately $16.2 million, is not provisioned, because the Corporation intends to defend itself vigorously and firmly believes it has sufficient facts and arguments to conclude that the final decision will probably be in its favour. However, this situation resulted in a disbursement of $15.1 million during the year ended October 31, 2016. This amount is accounted for as income tax receivable as at October 31, 2016.

## 10. TRANSFER AGENT AND REGISTRAR

As at the date of this AIF, the transfer agent and registrar for Transat's shares is CST Trust Company, 2001 Robert-Bourassa Blvd., Suite 1600, Montreal, Québec H3A 2A6. Their registrar offices are located in Toronto, Montreal, Calgary and Vancouver.

## 11. INTERESTS OF EXPERTS

Ernst & Young LLP is the public accounting firm that prepared the auditors' report to shareholders with respect to the Corporation's consolidated financial statements for the years ended October 31, 2016 and 2015 included in the Corporation's 2016 Annual Report. Ernst & Young LLP has confirmed to the Corporation that it is independent within the meaning of the Rules of Professional Conduct of the *Ordre des comptables professionnels agréés du Québec*.

## 12. MATERIAL CONTRACTS

### 12.1 MATERIAL CONTRACTS

Other than the agreements entered into in the normal course of business, no other material agreements were entered into in fiscal 2016.

## 13. FORWARD-LOOKING INFORMATION

Certain statements in this AIF, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's and its subsidiaries' current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

Forward-looking information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including perceptions of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances.

By its nature, forward-looking information is subject to inherent risks and uncertainties, that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of material factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest rates and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes (including adoption of International Financial Reporting Standards), business competition, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect the Corporation's and its subsidiaries' forward-looking statements. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

Other than as specifically required by law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties facing the Corporation's business is provided in its disclosure materials, including this AIF and its most recent Management's Discussion and Analysis of Operating Results, filed with the securities regulatory authorities in Canada, available on the SEDAR website at sedar.com.

## 14. APPOINTMENT OF SINGLE LEAD DIRECTOR AND AUDIT COMMITTEE DISCLOSURE

### 14.1 APPOINTMENT OF SINGLE LEAD DIRECTOR

In 2012, Transat's Board of Directors adopted a policy amending its Board governance structure to provide for the appointment of a single Lead Director who was elected among the independent directors at the annual and special meeting of shareholders held on March 10, 2016. The previous governance structure provided for the appointment of three Lead Directors.

The Lead Director, designated each year, is responsible, among other things, to set the agenda of the Board meetings in conjunction with the Chairman and President and Chief Executive Officer. This Lead Director, if and when appropriate, has the power to call, set the agenda for and chair meetings of the independent directors and chair in-camera sessions of the Board without management so as to give the directors an opportunity to fully and frankly discuss issues and provide feedback and direction to management. Jean-Yves Leblanc was appointed Lead Director on March 15, 2012, and was re-elected on March 14, 2013, March 13, 2014, March 12, 2015 and March 10, 2016.

## 14.2 AUDIT COMMITTEE'S CHARTER

The latest version of Transat's Audit Committee's Charter was approved at the meeting of such committee held on September 8, 2015. The Board of Directors adopted and ratified the Audit Committee's Charter on September 9, 2015. A copy of the Charter of the Audit Committee is attached as Schedule I to this AIF.

## 14.3 COMPOSITION OF OUR AUDIT COMMITTEE

Our Audit Committee is currently composed of unrelated, independent and financially literate directors, namely Messrs. Jean-Yves Leblanc (Lead Director and Chairman), Raymond Bachand, Lucie Chabot and Jacques Simoneau.

### *14.3.1 Financial Literacy*

***Jean-Yves Leblanc.*** Mr. Leblanc holds a Bachelor of Mechanical Engineering degree from Université Laval, a Master of Industrial Engineering from the University of Toronto and a Master of Business Administration (MBA) from the University of Western Ontario. He was President and Chief Operating Officer of Bombardier Transportation from 1986 to 2000 and served as Chairman of its Board from 2001 to 2004. From 1982 to 1985, he worked as a member of management for Marine Industries where he served as Vice-President, Hydro-Electric Division, and Executive Vice-President and Chief Operating Officer respectively. Prior to that, from 1973 to 1981, he was Vice-President, then President, of Sométal Atlantic Ltée. Mr. Leblanc serves as a director of various corporations including Groupe Kéolis S.A.S. (France), Pomerleau Inc., Premier Tech Ltd. and Emballage St-Jean Ltée. He is Chairman of the Audit Committee of Groupe Kéolis S.A.S. and of the Audit Committee of Premier Tech Ltd. and serves on the Audit Committee of Pomerleau Inc. This experience allowed Mr. Leblanc to acquire the necessary competencies to assess Transat's accounting practices and internal controls in the preparation of its financial statements.

***Raymond Bachand.*** Mr. Bachand received his law degree from the Université de Montréal in 1969 and became a member of the Québec Bar the following year. He obtained a Masters of Business Administration (MBA) degree from Harvard University in 1972, followed by a Doctorate of Business Administration (DBA) degree in 1981. He taught at the École des hautes études commerciales de Montréal between 1972 and 1977, held the position of Chief of Staff to the Québec Minister of Labour and Manpower between 1977 and 1979, and served as Special Secretary in the Office of the Premier of Québec between 1979 and 1981. In the business world, he was Vice-President of Métro-Richelieu between 1981 and 1989 and Culinar between 1990 and 1993. He joined the Fonds de solidarité des travailleurs du Québec (FTQ) as a director from 1983 to 2001, a member of the Executive Committee from 1987 to 2001 and Chairman of the Audit Committee from 1988 to 1994, when he was appointed First Vice-President and Chief Investment Officer, and then President and Chief Executive Officer from 1997 to 2001. He was also Chief Executive Officer of Secor Conseil from 2002 to 2005. Finally, he was a member of the Board of Directors of the newspaper Le Devoir between 2002 and 2005, a member of the Board of Directors and the Audit Committee of the Canadian Public Accountability Board (CPAB) from 2003 to 2005 and of the Board of Trade of Metropolitan Montréel between 2004 and 2005. He received the MBA of the Year Award in 1997 and the Prix Dimensions in 2000.

Mr. Bachand was elected to the Québec National Assembly for Outremont on December 12, 2005 and reelected three times in 2007, 2008 and 2012. He was Minister of Economic Development, Innovation and Export Trade from February 2006 to June 2009, Minister of Tourism from April 2007 to December 2008, Minister responsible for the Montreal region from April 2007 to September 2012, Minister of Finance from April 2009 to September 2012 and Minister of Revenue from August 2010 to September 2012. He retired from political life on September 13, 2013.

Mr. Bachand joined the firm Norton Rose Fulbright as a strategic advisor in January 2014. He has also been President of the Institut du Québec, a partnership between the Conference Board of Canada and HEC Montréal, since February 2014, Chairman of the Board of Tourisme Montréal since June 2014 and a member of the Board of Directors and the Risk Management Committee of National Bank of Canada since October 29, 2014.

***Lucie Chabot.*** Lucie Chabot is Vice-President and Chief Financial Officer of SAIL Outdoors Inc., a major Canadian retailer of sporting goods and outdoor equipment, and as such is responsible for the firm's accounting and financial services, human resources and information technology.

She previously served as President of Distribution Vinearius Inc., a wine accessories distributor she founded. She also worked at Intertrade Systems Inc. from 2004 to 2007 as General Manager after having served as Vice-President, Finance and Human Resources. For ten years, she was a co-shareholder of Strator Consulting Group Inc., a consulting firm in the retail, distribution and services field, whose main client was Caisse de dépôt et placement du Québec. In this capacity, she was involved in several financing and investment transactions. From 1986 to 1994, she worked as Director and Vice-President, Finance, of the Canadian leader in sporting goods and sportswear retailing, Sports Experts Inc. She began her career at Clarkson Gordon (EY) as an auditor in 1981 and joined Provigo's internal audit group in 1984. Ms. Chabot is a graduate of Université Laval and a member of the Ordre des comptables professionnels agréés du Québec. She was named to the National Honour Roll of the Canadian Institute of Chartered Accountants, ranking 11th in Canada in 1982.

These experiences allowed Mrs. Chabot to acquire the necessary competencies to assess Transat's accounting practices and internal controls in the preparation of its financial statements.

***Jacques Simoneau.*** Dr. Simoneau has a Bachelor of Science degree and a Master of Applied Science degree from Laval University and a Ph.D. from Queen's University. He has completed the Directors Education Program at McGill University and is certified ICD.D by the Institute of Corporate Directors. He also participated in several intensive executive training courses in finance, accounting, marketing and leadership. From 1982 to 1989, he taught at Royal Military College and then joined Alcan where he held research and management positions. In 1994, he was appointed as Director, Business Development at Advanced Scientific Computing. In 1995, Dr. Simoneau focused his career in investments. In 1995, he was appointed as President and CEO and Director of *Société Innovatech du sud du Québec*, a venture-capital fund. In 1999, he joined the Fonds de solidarité FTQ as Group Vice-President for Technology Investment, and was then promoted to Senior Vice President, Industry and Services in 2000. In 2004, he became President and CEO of Hydro-Québec CapiTech, the corporate venture capital subsidiary of Hydro-Québec. In 2006, Dr. Simoneau joined the Business Development Bank of Canada (BDC) as Executive Vice-President, Investment, where he was responsible of the venture capital and the subordinate financing portfolios until 2010. He also served on BDC's Senior Management Committee, Asset and Liability Committee and Pension Fund Investment Committee. Dr. Simoneau is currently President & CEO and director of Gestion Univalor, L.P., director and member of the Audit Committee of Azimut Exploration Inc. (TSXV:AZM), and director and member of the Governance, Nomination and Compensation Committee of Génome Canada.

During his career, Dr. Simoneau was actively involved in analysing, evaluating, structuring and negotiating investments for private and publicly traded corporations. In doing so, he examined and evaluated financial statements, business and strategic plans, and questioned management thereon. He served on the Board of Directors of 6 public companies and 15 private companies and on more than 10 committees and boards of various organizations. This experience allowed Dr. Simoneau to acquire the necessary competencies to assess Transat's accounting practices and internal controls in the preparation of its financial statements.

### 14.4 COMPLAINT PROCEDURES FOR ACCOUNTING AND AUDITING MATTERS

In response to National Instrument 52-110 – *Audit Committees,* and as part of our efforts to maintain a high standard of good corporate governance, we developed a whistleblower policy and reporting procedures that allow Transat employees to report, in a confidential manner, any concerns they may have regarding questionable accounting, internal accounting controls or auditing matters. Complaints may be addressed separately to the attention of the Vice-President, General Counsel and Corporate Secretary of Transat or to the Senior Director, Internal Audit and Risk Management. At each Audit Committee meeting, members receive a report indicating whether any complaints have been filed regarding accounting or auditing matters. Moreover, as part of Transat's Code of Ethics, we also strengthened the whistleblower policy by providing a new email address, "Ethic@transat.com", through which only three persons will receive notification of this reporting: the Vice-President, Human Resources, the Vice-President, Legal Affairs and the Senior Director, Internal Audit and Risk Management. The Code of Ethics must be reviewed annually by all employees, who are required to sign the related attestation.

### 14.5 POLICY RESPECTING THE PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES

Transat's Audit Committee has a Policy Respecting the Pre-Approval of Audit and Non-Audit Services. Transat's Risk Management and Corporate Governance Committee also approved this policy on November 16, 2004 and its Board of Directors adopted and ratified the said policy on the same date. This policy prohibits the Corporation from engaging the external auditors to provide certain non-audit services to the Corporation and its subsidiaries, including bookkeeping, or other services related to the accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audit outsourcing services, investment banking services, management or human resources functions, legal services and expert services unrelated to the audit. The policy allows the Corporation to engage the external auditors to provide non-audit services, other than the prohibited services, only if the services have specifically been pre-approved by the Audit Committee.

### 14.6 EXTERNAL AUDITOR SERVICE FEES

Ernst and Young LLP have been Transat's auditors since its incorporation. They have confirmed their independence with Transat's Audit Committee.

For the fiscal years ended October 31, 2016 and October 31, 2015, Ernst & Young LLP billed the following fees for audit, audit-related, tax and all other services provided to the Corporation:

| | 2016 | 2015 |
|---|---|---|
| Audit Fees(1) | $1,076,000 | $1,155,000 |
| Audit-Related Fees(2) | $85,000 | $99,000 |
| Tax Fees(3) | $435,000 | $303,000 |
| All Other Fees(4) | – | – |
| **TOTAL** | $1,596,000 | $1,557,000 |

(1) Audit fees include fees for professional services rendered for professional the audit of the Corporation's financial statements or other services that are normally provided by the Corporation's external auditors in connection with statutory or regulatory filings or engagements. These fees also include fees for services rendered in connection with the interpretation of accounting and financial reporting standards.

(2) Audit-related fees include fees for assurance and related services that are performed by the Corporation's external auditors. These services include accounting consultations in connection with acquisitions, special audits and due diligence.

(3) Tax fees include fees for assistance with tax planning (restructuring and discontinued operations), tax opinions as well as the preparation and review of income and other tax returns.

(4) This category of fees would normally include professional services rendered by the Corporation's external auditors, which are not reported under the captions "audit fees", "audit-related fees" and "tax fees". No such services were rendered to the Corporation for the fiscal years ended October 31, 2016 and October 31, 2015.

## 15. ADDITIONAL INFORMATION

Additional financial information may be found in our comparative financial statements and Management's Discussion and Analysis for the year ended October 31, 2016, both of which are contained in the 2016 Annual Report. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Transat securities and securities authorized for issuance under equity compensation plans, will be contained in our Management Proxy Circular for the annual and special meeting of shareholders to be held on March 16, 2017.

Copies of these documents and additional information relating to Transat may be found on the SEDAR website at sedar.com and may also be obtained upon request from the Corporate Secretary of the Corporation at the following address: Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montreal, Québec, Canada H2X 4C2.

**SCHEDULE I –**
**CHARTER OF THE AUDIT COMMITTEE**
**OF TRANSAT A.T. INC.**
(the "Corporation")

***Audit Committee***

Constitution

The Board of Directors established an audit committee (the "**Audit Committee**") composed solely of independent directors, that is, who have no direct or indirect material relationship with the Corporation[1] and whose members and Chair are appointed by the Board of Directors. The Audit Committee is composed of no less than three (3) members.

The Audit Committee helps the Board of Directors discharge the oversight responsibilities it owes to shareholders, employees, and all interested parties. Such oversight responsibilities pertain to the financial statements of the Corporation, internal control systems, identification of risks (in collaboration with the Risk Management and Corporate Governance Committee), the statutory audit of the annual financial statements and compliance with the laws, regulations and codes as established by management and the Board.

Role of the stakeholders

Management is responsible for ensuring the integrity of the financial information and the efficiency of the Corporation's internal controls. The external auditors are responsible for auditing and certifying the fair presentation of the Corporation's financial statements and, in carrying out this mission, for evaluating the internal control procedures to determine the nature, scope and chronology of the audit procedures used. The Audit Committee is responsible for supervising the participants in the preparation procedure of the financial information and reporting thereon to the Board of Directors of the Corporation.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation are invited to and heard at the meetings of the Audit Committee. From time to time, the President and Chief Executive Officer or the Vice-President, Finance and Administration and Chief Financial Officer or any other officer of the Corporation shall appear before the Audit Committee when required to do so. Moreover, the Audit Committee meets on a quarterly and annual basis with the Corporation's external and internal auditors, at the committee's option (but no less than once a year), without the presence of management. Each meeting of the Audit Committee provides for an in camera session to be held, as needed, without the presence of the President and

[1] A material relationship means a relationship that could, in the opinion of the Board of Directors, be reasonably expected to interfere with the exercise of independent judgment of a member of the committee. The following individuals are considered to have a material relationship with the Corporation: (a) an individual who is, or has been, an employee or executive officer of the Corporation in the past three (3) years, or whose immediate family member is, or has been, an executive officer of the Corporation in the past three (3) years; (b) an individual who is, or has been, or whose immediate family member is, or has been, a member of an affiliated entity or a partner of, or employed by, a current or former internal or external auditor of the Corporation, unless a period of three (3) years has elapsed since the end of such individual's relationship with the internal or external auditor, or of the auditing relationship; (c) an individual who is, or has been, or whose immediate family member is or has been, an executive officer of an entity if any of the current executive officers of the Corporation serves on the compensation committee of such entity, unless a period of three (3) years has elapsed since the end of the service or employment; (d) an individual who has a relationship with the Corporation pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensation fee from the Corporation or any subsidiary of the Corporation, other than remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors; (e) an individual who receives, or whose immediate family member who is employed as an executive officer of the Corporation receives, more than seventy-five thousand dollars ($75,000.00) per year in direct compensation from the Corporation, other than as remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors, unless a period of three (3) years has elapsed since he or she ceased to receive more than seventy-five thousand dollars ($75,000.00) a year in such compensation; (f) an individual who is a member of an affiliated entity of the Corporation or of any of its subsidiaries. The foregoing is a summary of the rule. For more details, see subsection 1.4 of Regulation 52-110 respecting Audit Committees.

Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer or of any other officer.

The Audit Committee shall ensure, with the assistance of management and the external auditors, that the financial statements fairly present the Corporation's financial position in accordance with International Financial Reporting Standards ("**IFRS**") (including their evaluation of the quality of the accounting principles and policies adopted, the consistency of the accounting estimates and the clarity of the financial information disclosed). Furthermore, the Audit Committee shall enquire of the external auditors about the results of the annual audit and any other matters, which must be disclosed to it pursuant to Canadian generally accepted auditing standards ("**GAAS**").

The auditors are appointed each year by the shareholders at the annual meeting based on the recommendation of the Board of Directors, following the Audit Committee's opinion. Only shareholders may remove the auditors from office.

When the auditors resign or are about to be removed or replaced, they should deliver to the Corporation, with a copy to the Audit Committee, a written declaration indicating the grounds for their resignation or their objection to the removal or replacement[2].

The directors shall promptly fill any vacancy in the position of external auditor.

<u>Powers</u>

The Audit Committee has all the powers and duties conferred on it by the laws governing the Corporation. Within the performance of its duties, the Audit Committee has the right to examine the books, registers, and accounts of the Corporation and its subsidiaries and to discuss them, as well as any other matter regarding the financial situation of the Corporation and its subsidiaries, with the officers and auditors of the Corporation and its subsidiaries.

The Audit Committee has the power to communicate directly with the internal auditors, as the case may be, and the external auditors.

<u>Financial Literacy</u>

All members of the Audit Committee are financially literate[3].

<u>Mandate</u>

The duties of the Audit Committee's are as follows:

I. Recommend to the Board of Directors the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or certification services;

II. Recommend to the Board of Directors the compensation of the external auditors;

III. Review, with the Corporation's external auditors, the approach and the scope of their audit plan and report to the Board of Directors on any material reservations the Audit Committee may have, or which the external auditors may have expressed regarding their work;

---

2 Under the rules stated in National Instrument 51-102 -- *Continuous Disclosure Obligations*.

3 An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements.

IV. Resolve disagreements between management and the external auditors regarding financial information;

V. Review and recommend acceptance to the Board of Directors of the audited annual financial statements, as well as all other financial statements and reports that may require review by the Audit Committee under the applicable laws or in respect of which the Board of Directors requests a review and any financial information pertaining thereto; including the press release, message to shareholders and management's discussion and analysis for annual report purposes, prior to publication;

VI. Obtain the annual certificate signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer pursuant to the National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings;

VII. Review and recommend acceptance to the Board of Directors of the unaudited quarterly financial statements and any related financial information, including the press release, message to shareholders and management's discussion and analysis for quarterly report purposes;

VIII. Obtain the certification of the interim (quarterly) documents signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer pursuant to the National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings;

IX. Receive and examine the reports of the external auditors following their year-end audit and their interim review, as the case may be, and ensure follow-up on the letter they subsequently address to management containing the latter's comments. Also ensure, with the assistance of management and the external auditors, that these financial statements fairly present the financial position of the Corporation according to IFRS. Furthermore, the Audit Committee evaluates the work of the external auditors as to quality, and not just acceptability, of the accounting principles and policies adopted by the Corporation, the consistency of the accounting estimates and the clarity of the financial information disclosed in the financial statements. The Audit Committee ensures that the procedures performed by the external auditors for the audit and the interim review, as the case may be, as well as the nature of the items communicated to the Audit Committee, are in accordance with GAAS;

X. Supervise the internal auditor and monitor the scope of the plan and review the work of the internal audit functions. The internal auditor has the responsibility, among others, to assess the internal controls put in place by management to:

- determine whether they are effective and efficient; and
- identify and disclose any weaknesses noted to the Audit Committee and the parties concerned;

XI. Oversee follow-up of the policy respecting the external communication of financial information and ensure that the quality, scope and communication process are in keeping with the said policy;

XII. Draft and ensure follow-up of a policy on complaint procedures for accounting and auditing matters for the Corporation and its subsidiaries and ensure compliance therewith;

XIII. Establish procedures for the confidential submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

XIV. Evaluate annually the competence and independence and quality of the work of the external auditors in the performance of their duties and recommend to the Board of Directors, if it is deemed appropriate, to call a shareholders' meeting in order to consider the removal of the external auditors;

XV. Obtain annual confirmation of the independence of the Corporation's external auditors, including the filing of any written confirmation required by the standards and by-laws;

XVI. Receive and review the quarterly report of the Vice-President, Finance and Chief Financial Officer and study, if applicable, the contingent liabilities of the Corporation and its subsidiaries, the acquisition and disposition of assets, the risk factors that could influence the financial results or financial structure of the Corporation, the redemption of shares and derivatives, and review the level of provisions recorded in the Corporation's accounts and assess their reasonableness;

XVII. Identify and evaluate, in collaboration with the Risk Management and Corporate Governance Committee, the principal financial risk factors pertaining to the Corporation's business and approve the strategies and measures proposed to manage such risks, including, in particular, those related to the derivatives relating to fuel, foreign currency and interest and any other factor considered relevant. Furthermore, the Audit Committee shall be kept informed by management, either on request or periodically, regarding the management of the Corporation's other material risks;

XVIII. Review the status of capital expenditures;

XIX. Review the status of current and potential litigation and insurance coverage;

XX. Retain independent counsel and external advisors or consultants, whose compensation it sets, to assist it in its duties, when necessary;

XXI. Examine, with management and the external auditor, the new financial or regulatory requirements that could affect the Corporation's financial reporting;

XXII. Ensure that management of the Corporation maintains effective internal control and risk management systems, see to the efficient operation of the internal control system and periodically receive from management and, as the case may be, from the internal auditor, confirmation as to:

- the efficiency of operations;
- the reliability of the financial information disclosed;
- compliance with laws and regulations;

XXIII. Review the loans, financings, granting of security, guarantees and other material financial commitments and ensure that the Corporation and its subsidiaries are in compliance with their obligations;

XXIV. Maintain structures and procedures in place to meet separately with the President and Chief Executive Officer, the Vice-President, Finance and Administration and Chief Financial Officer, and the internal auditor and the external auditors;

XXV. Review and approve the hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;

XXVI. Approve the audit services, which may be provided by the external auditors within the framework of their independence and the restrictions imposed on non-audit services. "Audit services" means the professional services rendered by the external auditors for the audit and review of the issuer's financial statements or services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements.

The external auditors may perform all other non-audit services, including taxation services, provided that the services offered are pre-approved by the Audit Committee[4].

Moreover, the Audit Committee shall oversee the audit engagement, as needed, and approve, where applicable, any change in the conditions and fees resulting from a change in the scope of the audit, the corporate structure, or any other element.

The non-audit services that are prohibited include, on the date hereof:

– bookkeeping or other services related to the accounting records or the financial statements;

– valuation services, opinions on the fairness of the price offered or reports on contributions in kind;

– internal audit outsourcing services;

– management functions;

– human resources services;

– expert services prohibited by regulatory authorities;

– design and implementation of a financial information system;

– legal services;

– actuarial services; and

– brokerage, investment counsel and investment agreement services;

XXVII. Review, with the Corporation's external auditors, the findings resulting from their audit, if any, and report to the Board of Directors on the following points:

– the effectiveness of the registers and the accounting, internal control and information systems of the Corporation and the extent to which such registers are appropriately kept and such systems are uniformly applied;

– in collaboration with the Human Resources and Compensation Committee, the competence and efficiency of personnel assigned to finance, accounting and internal control of the activities of the Corporation; and

– examine any other issue or perform any other work that the Board of Directors may deem appropriate to entrust to the Audit Committee from time to time.

[4] For this purpose, the Audit Committee has adopted a Policy Respecting the Pre-Approval of Audit Services and Non-Audit Services.

Annual Work Program

The Audit Committee has elaborated and adopted its annual work program, which appears in the Corporation's Corporate Governance Manual.

Additional Comments

The Audit Committee approves the disclosure policy and reviews it periodically. When a follow-up is required of the Audit Committee, the latter coordinates the appropriate solution and supervises disclosure to ensure the consistency of any information that is disseminated regarding the Corporation.

# EXHIBIT
# 3

PUBLIC

ISSUE / ÉDITION NO: 10

JUNE-OCTOBER / JUIN-OCTOBRE 2017

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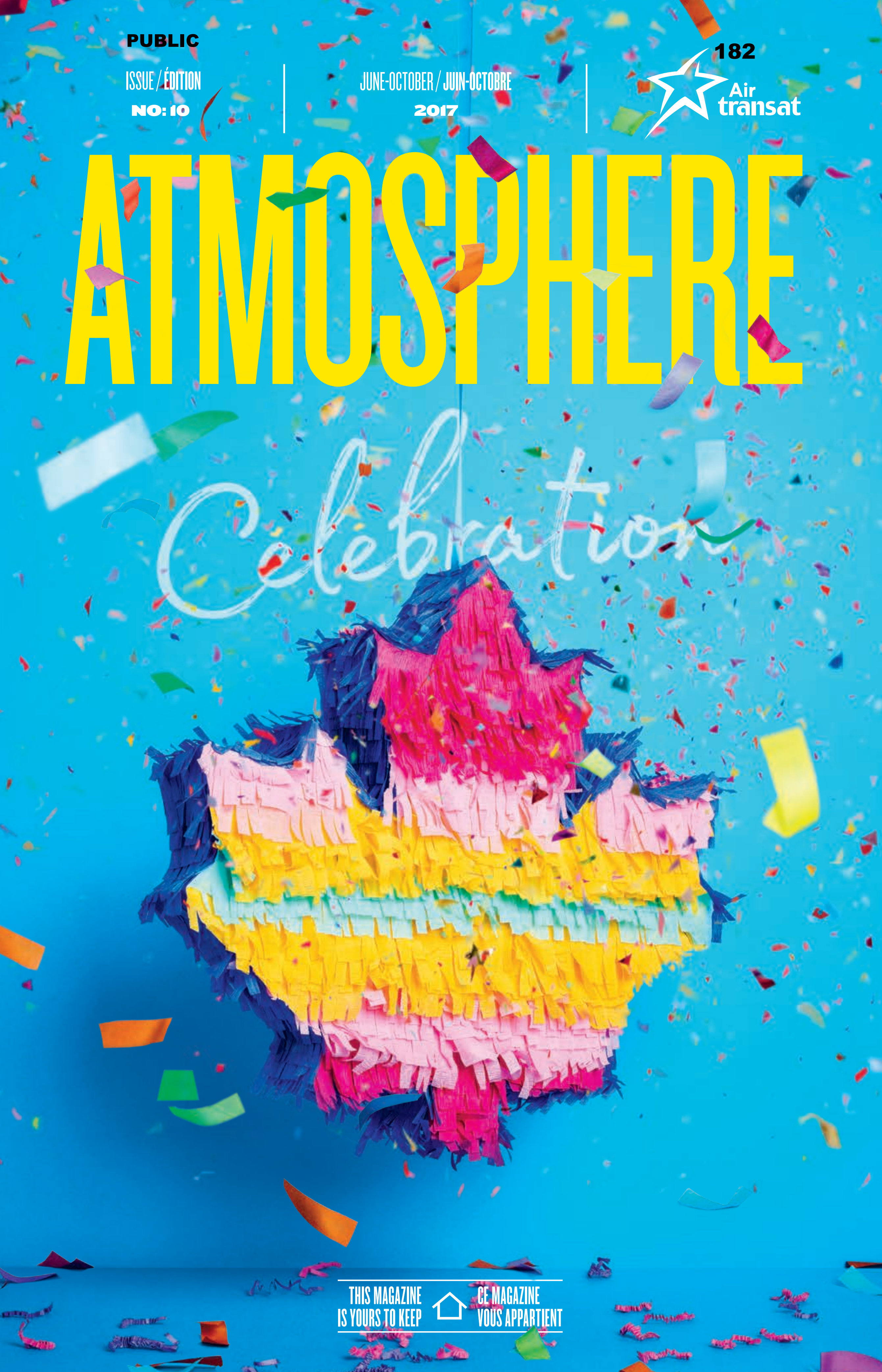
Air transat

# ATMOSPHERE




THIS MAGAZINE IS YOURS TO KEEP

CE MAGAZINE VOUS APPARTIENT

## DISCOVER SAMANA YEAR-ROUND

Experience happiness at **Bahia Principe Hotels & Resorts** in Samana, a destination offered year-round with Air Transat.

Slide into family fun at Grand Bahia Principe El Portillo. Plunge into laid-back island life at Grand Bahia Principe Cayacoa.

Lounge in luxury at Luxury Bahia Principe Samana Don Pablo Collection. Or escape to an adults-only island hideaway at Luxury Bahia Principe Cayo Levantado Don Pablo Collection.

## DÉCOUVREZ SAMANA TOUTE L'ANNÉE

Vivez le bonheur au **Bahia Principe Hotels & Resorts**, à Samana, une destination offerte toute l'année par Air Transat.

Passez de bons moments en famille au Grand Bahia Principe El Portillo. Adoptez le rythme décontracté des insulaires au Grand Bahia Principe Cayacoa.

Prélassez-vous dans le luxe au Luxury Bahia Principe Samana Don Pablo Collection. Ou évadez-vous sur une île isolée réservée aux adultes au Luxury Bahia Principe Cayo Levantado Don Pablo Collection.

Air transat

BAHIA PRINCIPE
HOTELS & RESORTS
*Experience Happiness*

**JEAN-FRANÇOIS LEMAY**

General Manager, Air Transat
Directeur général, Air Transat

# Celebration

Hello, and welcome aboard!

Break out the bubbly and champagne glasses: Air Transat blows out 30 candles this year! And we're thrilled to celebrate our birthday with you. And since 2017 is full of festivities, our *Atmosphere* magazine has amped up the excitement in this special celebration-themed issue!

Air Transat may have turned 30, but our beloved Canada is celebrating the big 1-5-0! Find out how celebrities will be honouring their country, and discover festivities from coast to coast. The year 2017 also marks the anniversary of many iconic series, from *Star Wars* to *Harry Potter* to *Pirates of the Caribbean*. Read our exciting travel stories inspired by the settings of these mythical worlds.

We often highlight major milestones. So it only seems fitting to celebrate first anniversaries! Last year saw the birth of North America's first professional Rugby League team: the Toronto Wolfpack. Air Transat is proud to be the team's official airline. Meet them in this issue! Another first worth celebrating: the inauguration of our flight to Tel Aviv, the trendy metropolis of Israel. We reveal the best-kept secrets of this city known for its electrifying nightlife and creative cuisine.

Speaking of delicious delights, we also sing the praises of culinary art in Lyon, the gastronomic capital of France. This will surely whet your appetite for our new inflight gourmet meals, concocted by renowned Quebec chef Daniel Vézina.

These are all great reasons to celebrate, but the best one of all is the start of your vacation… but we might be biased. So bon voyage, and cheers!

# Célébration

Bonjour et bienvenue à bord !

Sortons les flûtes et sabrons le champagne : Air Transat souffle ses 30 bougies cette année ! C'est avec plaisir que nous fêtons notre anniversaire avec vous. Et puisque 2017 abonde en événements festifs, notre magazine *Atmosphere* vous propose un spécial « célébration » débordant d'enthousiasme !

Si Air Transat fête ses 30 ans, le Canada, lui, célèbre son grandiose 150e anniversaire. Découvrez comment les célébrités d'ici rendent hommage à leur pays ainsi que les festivités qui auront lieu d'un océan à l'autre. L'année 2017 marque aussi l'anniversaire de nombreuses séries culte, de *Star Wars* à *Harry Potter* en passant par les *Pirates des Caraïbes*. Lisez nos captivants récits de voyage inspirés des décors de ces mondes mythiques.

Nous soulignons souvent les grands jalons. Et si nous fêtions aussi les premiers anniversaires ? L'an dernier est né le premier club professionnel de rugby à XIII en Amérique du Nord : le Wolfpack de Toronto. Air Transat est fière d'être le transporteur officiel de l'équipe. Rencontrez-la dans ce numéro ! Autre primeur à célébrer : l'inauguration de notre vol vers Tel-Aviv, la métropole branchée d'Israël. Nous vous dévoilons les secrets bien gardés de cette ville prisée pour sa vie nocturne animée et sa cuisine créative.

Parlant de plaisirs de la table, nous faisons également l'éloge de l'art culinaire de Lyon, capitale gastronomique de la France. Voilà qui vous ouvrira l'appétit pour profiter de notre toute nouvelle sélection de repas gourmands à bord, concoctés par le grand chef québécois Daniel Vézina.

Toutes les raisons sont bonnes pour célébrer, mais la meilleure selon nous sera toujours les vacances. Alors bon voyage et… tchin-tchin !

# Credits
# Crédits

**Editor-in-Chief / Rédactrice en chef :**
Jennifer Mahon

**Senior Editor / Rédactrice principale :**
Line Abrahamian

**Artistic Director / Directeur artistique :**
Loïc Vanasse

**Graphic Designer / Designer graphique :**
Allison Flam

**Copy Editors, Translators / Réviseurs, traducteurs :**
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Sandra Gosselin
Nicole Labrecque
Tanya Solari

**Marketing Manager / Chef marketing :**
Elisabeth Lamarche

**Studio Supervisor / Superviseure du studio :**
Claire Valiquette

**Cover / Couverture :**
Benoît Brühmüller

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airtransat.com

**ENVIRONMENT**
**ENVIRONNEMENT**

Air Transat is committed to reducing its environmental impact (one of the pillars of sustainable tourism) through green procurement initiatives.

Air Transat s'engage à réduire son impact sur l'environnement, un des piliers du tourisme durable, en appliquant un programme d'achats écologiques.

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# At a Glance
# En un coup d'œil



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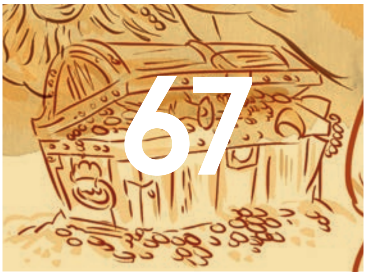


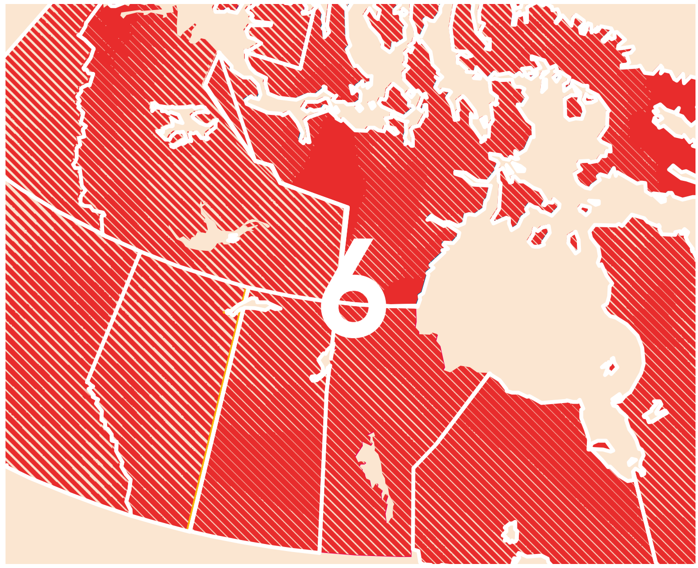





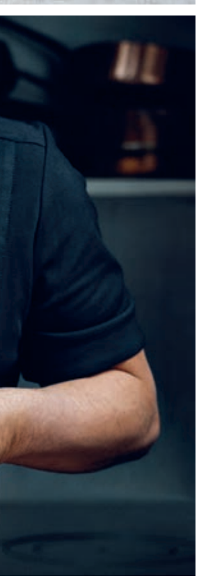


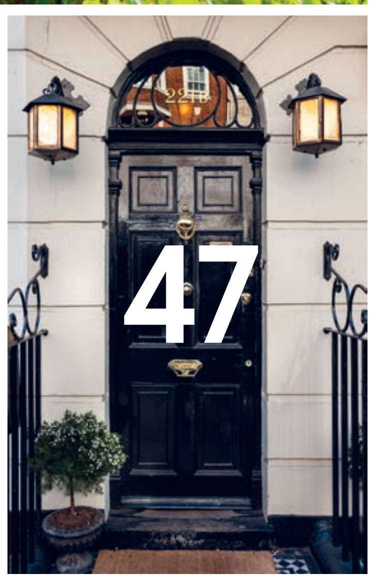



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Our Destinations
**Nos destinations**


DISCOVER
DELICIOUS
DÉLICIEUSE
DÉCOUVERTE
SMOOTH DARK CHOCOLATE OUTSIDE.
EXOTIC FRUIT FLAVOURS INSIDE.
BROOKSIDE
DARK CHOCOLATE · CHOCOLAT NOIR
Goji & raspberry flavours
Arômes de gojis et de framboises
DU CHOCOLAT NOIR ONCTUEUX À L'EXTÉRIEUR.
DES SAVEURS DE FRUITS EXOTIQUES À L'INTÉRIEUR.

# Contributors
# Collaborateurs


## Dominic Jones

Dominic Jones is a diehard *Star Wars* and *Harry Potter* fan from Toronto. He's the head writer and podcast host for the popular *Star Wars* fansite StarWarsUnderworld.com. He travels the world attending *Star Wars* events and visiting filming locations whenever he can. You can follow his adventures on Instagram: @DominicJ25.

Dominic Jones est un *fan* inconditionnel des univers de *Star Wars* et de *Harry Potter* résidant à Toronto. Il est rédacteur principal et animateur de balados pour le site StarWarsUnderworld.com. Dès qu'il en a l'occasion, il voyage de par le monde pour participer à des événements *Star Wars* et visiter des sites de tournage de la série. Vous pouvez suivre ses aventures sur Instagram : @DominicJ25.


## Jim Byers

Jim Byers is a freelance writer from Toronto with a lifelong passion for travel. He worked at the *Toronto Star* for 30-plus years and covered politics, travel and sports, including six Olympic Games. He loves just about every corner of Canada, but it doesn't take much convincing to get him on a flight to Europe, Hawaii or the Caribbean. Keep up with his adventures on JimByersTravel.com.

Jim Byers est un rédacteur indépendant installé à Toronto qui se passionne pour les voyages depuis toujours. Il a travaillé au *Toronto Star* pendant plus de 30 ans, couvrant la politique, les voyages et les sports, dont les Jeux olympiques. Il adore chaque recoin du Canada, mais il en faut peu pour le convaincre de s'envoler vers l'Europe, Hawaï ou les Caraïbes. Lisez ses aventures sur JimByersTravel.com.


## Carol Perehudoff

Toronto-based Carol Perehudoff is an avid globetrotter and a luxury travel blogger at WanderingCarol.com. Voted a Top 10 luxury travel blogger in the *USA Today* 10Best Readers' Choice Awards, she's written for a number of national and international publications and is happiest when on the road. Follow her on Twitter and Instagram: @WanderingCarol.

Établie à Toronto, Carol Perehudoff est une globe-trotteuse passionnée et la blogueuse derrière WanderingCarol.com. Figurant parmi les dix meilleurs blogueurs spécialisés en voyages de luxe selon le palmarès 10Best Readers' Choice Awards du *USA Today*, elle a écrit pour de nombreuses publications nationales et internationales, et elle trouve son bonheur sur la route. Suivez-la sur Twitter et sur Instagram : @WanderingCarol.


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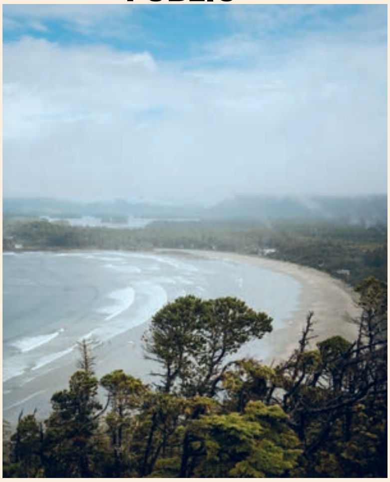
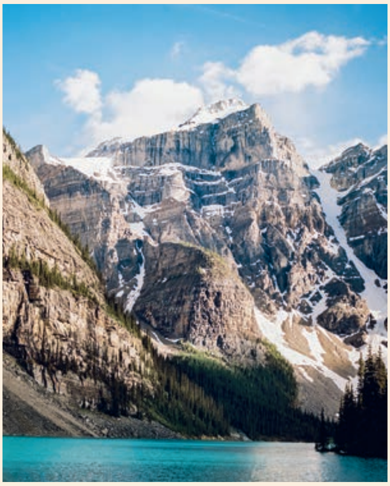
# HAPPY BIRTHDAY BONNE FÊTE CANADA!

By / Par : Marie-Julie Gagnon

It's Canada's year! From *Lonely Planet* to *The New York Times* to *Le Monde*, the whole world has been talking about the maple leaf country, which is celebrating its 150th anniversary of Confederation. But how well do you really know the land of Céline Dion, Justin Bieber and Ryan Gosling? Here are some must-see attractions, fun facts and not-to-be-missed events that will make you love Canada even more, from coast to coast!

C'est l'année du Canada ! De *Lonely Planet* à *The New York Times* en passant par *Le Monde,* tous les grands médias de la planète ont fait mention du pays à la feuille d'érable, qui célèbre le 150e anniversaire de la Confédération. Mais connaissez-vous vraiment la terre d'origine de Céline Dion, Justin Bieber et Ryan Gosling ? Quelques incontournables, faits inusités et autres activités à ne pas manquer pour vous faire aimer encore plus le pays, d'un océan à l'autre !





## 1

### British Columbia
### Colombie-Britannique

The jewel of Canada's west coast, Tofino is a favourite among surfers. This year, the Queen of the Peak competition, exclusively for women, will take place from September 29 to October 1.

**Joyau de la côte ouest du Canada, Tofino est l'un des endroits de prédilection des surfeurs. La compétition Queen of the Peak s'adresse exclusivement aux femmes. Cette année, l'événement aura lieu du 29 septembre au 1er octobre.**

## 2

### Alberta

Did you know that entry into Canada's national parks is free throughout 2017? Banff National Park was the very first in the Parks Canada network and, according to *National Geographic*, Banff is *the* destination to discover in 2017!

**Saviez-vous que l'accès aux parcs nationaux est gratuit en 2017 ? Celui de Banff est le tout premier du réseau de Parcs Canada, et selon *National Geographic*, c'est LA destination à découvrir en 2017 !**

## 3

### Saskatchewan

Moose Jaw's tunnels are home to many legends… Rumour has it that Al Capone used to operate here. Visit them year-round.

**Sous la ville de Moose Jaw, des tunnels abritent une multitude de légendes. Il paraît qu'un certain Al Capone y faisait de la contrebande… On peut les visiter toute l'année.**

## 4

### Manitoba

Nestled in the heart of Winnipeg, Union Station was designed in a beaux arts style by Warren and Wetmore, the same architectural firm behind Grand Central Terminal in New York. It's a historic building worth visiting!

**En plein cœur de Winnipeg, la gare Union a été conçue dans le style beaux-arts par la firme d'architectes Warren and Wetmore, la même qui a créé Grand Central Terminal, à New York. Un édifice historique qui vaut le détour !**

## 5

### Ontario

Among some of its festivities for Canada's birthday, Ottawa will host the giant mechanical creatures from La Machine, a French street theatre company, from July 27 to 30. How will you react when faced with a huge spider or a giant dragon in the capital's streets?

**Parmi les différentes festivités, Ottawa accueillera les créatures mécaniques géantes de La Machine, compagnie française de théatre de rue, du 27 au 30 juillet. Comment réagiriez-vous en apercevant une énorme araignée ou un dragon géant dans les rues de la capitale nationale ?**

## 6

### Quebec
### Québec

From August 9 to 13, the New France Festival will plunge visitors into 17th- and 18th-century North America with a variety of historical re-enactments, shows and activities, some of which will focus on gastronomy.

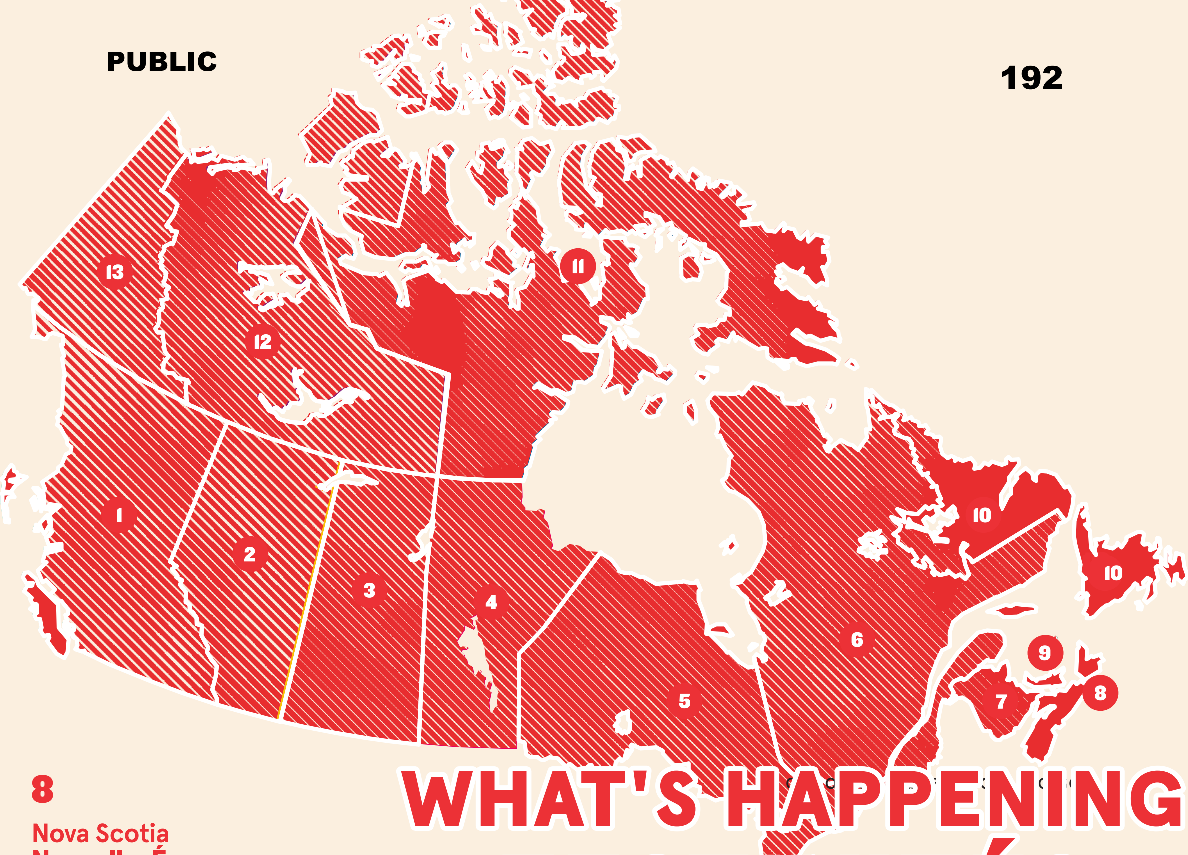
**Du 9 au 13 août, les Fêtes de la Nouvelle-France plongent les visiteurs dans l'Amérique des XVIIe et XVIIIe siècles. Jadis la capitale de la colonie, Québec replonge dans son passé grâce à une foule de reconstitutions historiques, de spectacles et d'activités, dont certaines sont axées sur la gastronomie.**

## 7

### New Brunswick
### Nouveau-Brunswick

On August 15, the Acadians will gather in Caraquet for the renowned Tintamarre to celebrate their resilient people, who were deported in 1755. During the parade, shouts, drums, rattles and other instruments will join in to make as much noise as possible!

**Le 15 août, les Acadiens se réunissent dans la ville de Caraquet pour le Grand Tintamarre afin de rappeler que malgré la déportation de 1755, ils sont toujours bien présents. Pendant le défilé, cris, tambours, crécelles et autres instruments sont utilisés pour faire le plus de bruit possible !**




# WHAT'S HAPPENING
# FESTIVITÉS

## 8
### Nova Scotia
### Nouvelle-Écosse

Devour! The Food Film Fest the biggest film festival dedicated to gastronomy, will take place in Wolfville from October 25 to 29. Canada will be commemorated this year in honour of its 150$^{th}$ anniversary. On the menu: films that highlight food and wine culture, as well as workshops and tastings. A big gala dinner assembling some of the country's best chefs will be held Saturday evening.

Devour! The Food Film Fest, le plus grand festival de cinéma dédié à la gastronomie, se déroulera à Wolfville du 25 au 29 octobre. À l'occasion du 150$^{e}$ anniversaire du pays, le Canada sera à l'honneur ! Au menu : des films dans lesquels le vin et la culture culinaire sont en vedette, ainsi que des ateliers et des dégustations. Un grand souper de gala rassemblant quelques-uns des meilleurs chefs au pays aura lieu le samedi soir.

## 9
### Prince Edward Island
### Île-du-Prince-Édouard

*Anne of Green Gables - The Musical*, based on Lucy Maud Montgomery's novel featuring the beloved red-headed orphan, has been playing in Charlottetown for more than 50 years.

La comédie musicale *Anne of Green Gables - The Musical*, qui met en vedette l'orpheline rousse imaginée par Lucy Maud Montgomery, est présentée depuis plus de 50 ans à Charlottetown.

## 10
### Newfoundland and Labrador
### Terre-Neuve-et-Labrador

Established in 2008, Torngat Mountains National Park is the newest addition to the Parks Canada network. An Inuit territory for millennia, it's home to hundreds of archaeological sites, some of which date back almost 7,000 years! Torngait in Inuktitut means "place inhabited by spirits."

Créé en 2008, le parc national des Monts-Torngat est le plus récent ajout au réseau de Parcs Canada. C'est le territoire des Inuits depuis des milliers d'années. On y trouve des centaines de sites archéologiques, dont certains remontent à près de 7000 ans ! *Torngait*, dans la langue Inuktitut, signifie « lieu habité par les esprits ».

## 11
### Nunavut

Many animals can be seen in this northern territory, such as belugas, narwhals (the unicorns of the sea), polar bears and walruses.

De nombreux animaux peuvent être observés dans ce territoire nordique, comme des bélugas, des narvals (ces baleines qui ressemblent à des licornes des mers),

## 12
### Northwest Territories
### Territoires du Nord-Ouest

Visitors may come to Yellowknife for its northern lights but will stay for its cultural diversity—there are over 90 different nationalities here!—and its history linked to the gold rush.

Si Yellowknife attire les visiteurs grâce aux aurores boréales, la ville étonne par sa diversité culturelle — on y trouve plus de 90 nationalités différentes ! — et son histoire, liée à la ruée vers l'or.

## 13
### Yukon

Did you know that the Yukon is home to the smallest desert in the world? At only 260 hectares, the Carcross Desert is located between Whitehorse and Skagway, Alaska.

Saviez-vous que c'est au Yukon que se trouve le plus petit désert au monde ? D'une superficie de 642 acres (260 hectares), le désert de Carcross se trouve entre Whitehorse et Skagway, en Alaska.

# 25 YEARS ANS

## OF THE GREAT TRAIL

It all started with a dream in 1992. The idea: linking the country from one end to the other with a trail accessible by foot, bike, cross-country ski, snowmobile and canoe by Canada's 150th anniversary. Currently completed at 91 per cent, the trail extends over 21,500 kilometres and crosses each of the 13 provinces and territories.

The route actually consists of several trails, all grouped under the name of The Great Trail. It's a collective project owned and operated at the local level. An interactive map on its website (thegreattrail.ca) allows you to easily locate the closest point of access. A mobile app has also been launched.

Developed with the financial support of Canadians from coast to coast, the project is also supported by businesses, foundations and all levels of the government.

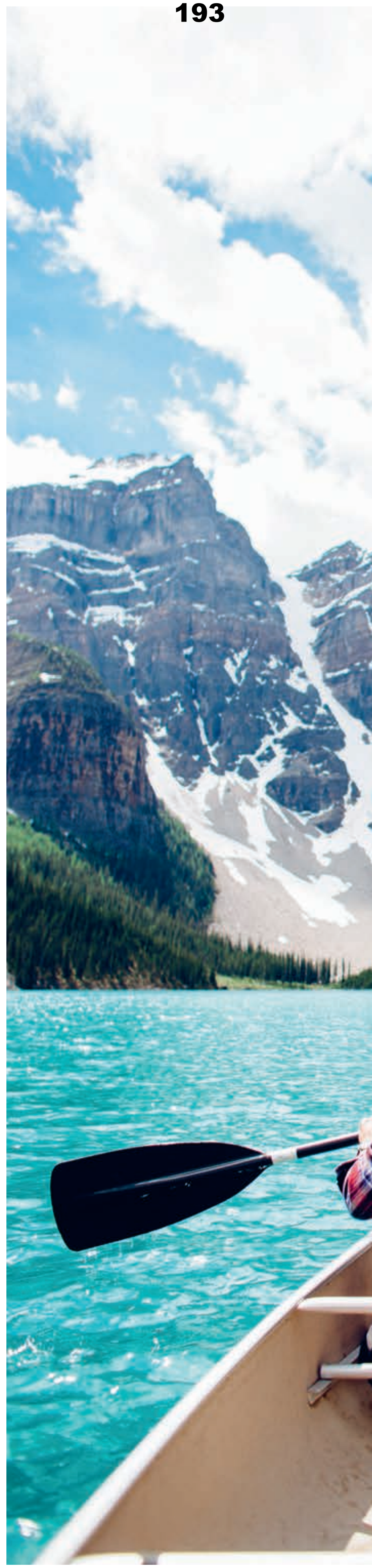
## DU GRAND SENTIER

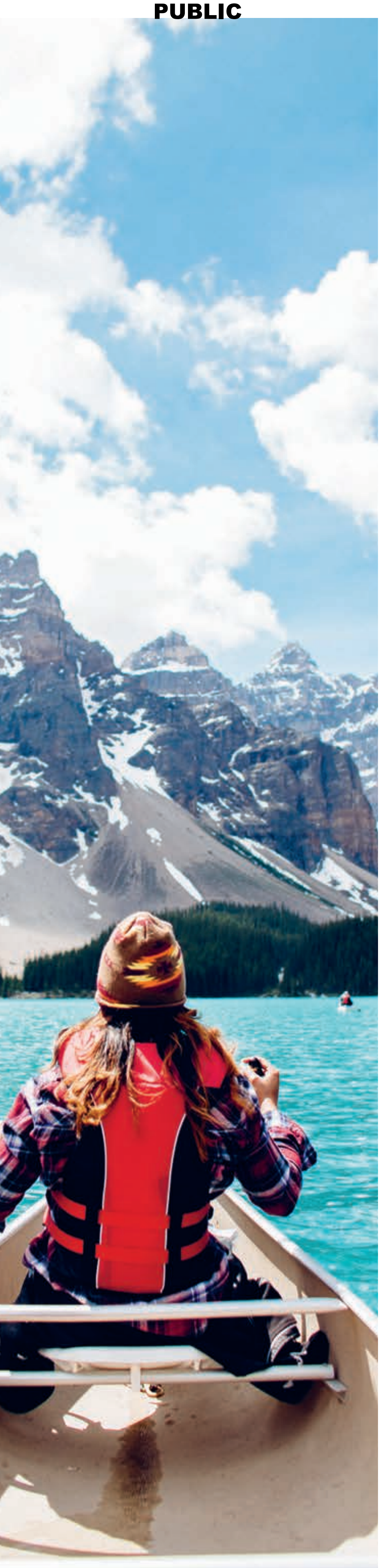
Tout a commencé par un rêve, en 1992. L'idée : relier le pays d'un bout à l'autre par un sentier accessible à pied, à vélo, en ski de fond, en motoneige et en canot d'ici le 150e anniversaire du Canada. Complété à 91 %, le parcours s'étend aujourd'hui sur 21 500 kilomètres et traverse les 13 provinces et territoires.

Le parcours compte en réalité plusieurs sentiers, regroupés sous le nom de Grand Sentier. Le sentier est un projet collectif exploité et entretenu à l'échelle locale. Sur son site Web (thegreattrail.ca), on trouve une carte interactive permettant de repérer facilement l'accès le plus proche. Une application mobile a aussi été lancée.

Développé grâce à l'appui financier des Canadiens d'un océan à l'autre, le projet est aussi soutenu par des entreprises, des fondations et tous les ordres de gouvernement.

Photo credit / Crédit photo par : Artic Photos







# A FEW WAYS TO ENJOY THE GREAT TRAIL'S ATTRACTIONS

# QUELQUES PISTES POUR BIEN PROFITER DES ATTRAITS DU GRAND SENTIER

## 1

### Dogsledding in Whitehorse

Situated 30 minutes from Yukon's capital amid foggy mountains, Sky High Wilderness Ranch gives visitors the chance to explore its trails while being pulled by huskies.
**When:** Winter

### Traîneau à chiens à Whitehorse, au Yukon

À une trentaine de minutes de la capitale yukonnaise, dans les montagnes brumeuses, Sky High Wilderness propose aux visiteurs de découvrir le sentier tirés par de gentils toutous !
**Quand :** l'hiver

*skyhighwilderness.com*

## 2

### Cycling on the Goat Creek Trail, Alberta

Travel the 17 kilometres between Canmore and Banff by cycling through its wilderness. End your day by soaking in Banff's revitalizing hot springs.
**When:** From mid-May to mid-October

### À vélo sur le sentier de Goat Creek, en Alberta

Parcourez les 17 kilomètres qui séparent Canmore et Banff en pédalant dans une vallée sauvage. À la fin de la journée, vous pourrez plonger dans les eaux régénératrices des sources thermales de Banff !
**Quand :** de la mi-mai à la mi-octobre

*hotsprings.ca*

## 3

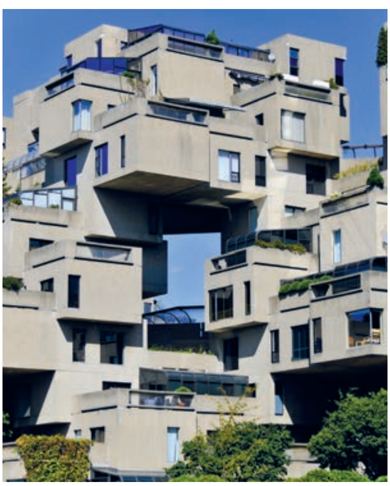
### Spend the night in a teepee in Saskatchewan

Located about 15 minutes from Saskatoon at the Great Trail's border, Wanuskewin Heritage Park allows you to discover the history of the indigenous people of the Northern Plains. Archaeological excavations have shown that the site served as a place of celebration and worship thousands of years ago, long before the Egyptian pyramids were even built! After a day of hiking or cycling, spend the night in a teepee and discover the First Nations' ancestral culture. Must be a group of at least 15 people.
**When:** Year-round

### Une nuit dans un tipi en Saskatchewan

En bordure du Grand Sentier, à une quinzaine de minutes de Saskatoon, le Wanuskewin Heritage Park propose de découvrir l'histoire des peuples autochtones des plaines du nord. Des fouilles archéologiques ont montré que le site servait de lieu de célébration et de culte il y a des milliers d'années, avant même la construction des pyramides égyptiennes ! Après une journée de randonnée à pied ou à vélo, on peut y dormir dans un tipi et découvrir la culture ancestrale des Premières Nations. Il faut toutefois faire partie d'un groupe d'au moins 15 personnes.
**Quand :** toute l'année

*wanuskewin.com*



# 375

## MONTREAL CELEBRATES ITS 375TH ANNIVERSARY!

Two hundred and twenty-five years before the Canadian Confederation, Paul de Chomedey de Maisonneuve founded the city of Montreal. To commemorate the arrival of the schooner from La Rochelle with the first settlers on board—including missionary Jeanne Mance, the city's co-founder—the committee of the 375th anniversary will roll out a slew of cultural, sporting and quirky activities. One such event: Le Super Méga Continental, a flash mob that will gather 375 non-professional dancers at the Place des Festivals on September 15, 16 and 17.

Cité Mémoire has designed a series of tableaux projected in 17 locations around town, creating the world's largest permanent and external narrative video projection. The Montréal en Histoires mobile app will lead you to encounters with characters who will immerse you into the city's history.

From August 22 to September 2, Espace Libre and the Nouveau Théâtre Expérimental will present a free travelling show by Alexis Martin about the life of Camillien Houde, who left an indelible mark on Montreal and Quebec province's political histories.

Montreal's museums will also hold exhibitions that will attract both locals and visitors alike. The Musée d'art contemporain de Montréal will present *In Search of Expo 67* from June 21 to October 8 and *Leonard Cohen: Une brèche en toute chose / A Crack in Everything* from November 9, 2017, to April 1, 2018.

You definitely won't run out of things to do this year!

## MONTRÉAL FÊTE SES 375 ANS !

Deux cent vingt-cinq ans avant la création de la Confédération canadienne, Paul de Chomedey de Maisonneuve fonde la ville de Montréal. Pour commémorer l'arrivée de la goélette partie de La Rochelle avec les premiers colons à son bord — dont la missionnaire Jeanne Mance, considérée comme la cofondatrice de la ville —, le comité du 375e mise autant sur des activités sportives que culturelles ou inusités. Parmi celles-ci, Le Super Méga Continental, un *flash mob* qui rassemblera 375 danseurs amateurs à la place des Festivals les 15, 16 et 17 septembre.

Cité Mémoire propose pour sa part une série de tableaux projetés à 17 endroits dans la ville, créant ainsi le plus grand parcours de vidéoprojection narratif permanent et extérieur au monde. L'application mobile Montréal en Histoires vous emmène à la rencontre de personnages qui vous plongeront au cœur de l'histoire de la métropole.

Du 22 août au 2 septembre, Espace Libre et le Nouveau Théâtre Expérimental (NTE) présenteront un spectacle déambulatoire gratuit signé Alexis Martin autour de la vie de Camillien Houde, qui a marqué l'histoire politique de Montréal et de la province de Québec.

Les musées organisent également des expositions qui risquent de passionner autant les Montréalais que les visiteurs. Le Musée d'art contemporain présentera notamment *À la recherche d'Expo 67*, du 21 juin au 8 octobre, et *Leonard Cohen — Une brèche en toute chose*, du 9 novembre 2017 au 1er avril 2018.

Impossible de s'ennuyer cette année!

*375mtl.com, montrealenhistoires.com, espacelibre.qc.ca, macm.org*

*gallery.ca/beaux-arts.ca*

David McMillan
*Winnipeg, Manitoba*, 1979
Dye coupler print /
épreuve à développement chromogène (Ektacolor)
40.6 x 50.8 cm
National Gallery of Canada /
Musée des beaux-arts du Canada
Purchased / Acheté 1982

Prudence Heward
*Girl on a Hill /*
*Femme sur une colline*, 1928
Oil on canvas / huile sur toile
139.9 x 101.7 cm
National Gallery of Canada /
Musée des beaux-arts du Canada
Purchased / Acheté 1930

# 150

## NATIONAL GALLERY OF CANADA CELEBRATES CANADA'S 150TH

Just in time for the summer, the National Gallery of Canada, located in Ottawa, will inaugurate its largest exhibition dedicated to art made in Canada. Its new Canadian and Indigenous art galleries and reinstalled contemporary galleries will feature works of art produced from time immemorial until today.

In addition, until September 17, the exhibition *Photography in Canada: 1960–2000* showcases images from more than 70 artists.

Other events to look out for include the fourth edition of the *Canadian Biennial*, which will present Canadian and international artists' creations as of October 19.

## LE MUSÉE DES BEAUX-ARTS DU CANADA CÉLÈBRE LE 150e DU CANADA

Juste à temps pour l'été, le Musée des beaux-arts du Canada, situé à Ottawa, inaugurera la plus grande exposition consacrée à l'art fait au Canada. Les nouvelles salles d'art canadien et autochtone ainsi que les salles d'art contemporain réinstallées présenteront des œuvres réalisées depuis des temps immémoriaux jusqu'à nos jours.

Par ailleurs, jusqu'au 17 septembre, l'exposition *La photographie au Canada, 1960–2000* affiche les images de plus de 70 artistes.

Parmi les autres événements à surveiller, la quatrième édition de la *Biennale canadienne*, qui présentera les créations d'artistes canadiens et internationaux dès le 19 octobre prochain.

Air Transat offers direct flights to many Canadian cities. Check out our destinations grid on pages 78-79 to plan your next getaway. / **Air Transat offre des vols directs vers plusieurs villes canadiennes. Consultez notre grille de destinations aux pages 78-79 pour planifier votre prochaine escapade.**

# HOW WILL YOU BE CELEBRATING CANADA'S 150TH ANNIVERSARY?

## Comment célébrerez-vous le 150e anniversaire du Canada ?

## David **McMillan**

I'll be celebrating with my daughters, fishing for bass and trout in the lake in Barkmere, Que. My own private paradise!

SPECIAL DISH FOR CANADA'S 150TH

We'll be roasting whole ducks with local raw honey and butter, and firing up the smoker in Joe Beef's garden.

*David McMillan is co-owner of popular Montreal restaurants Joe Beef, Liverpool House and Le Vin Papillon.*

Je vais célébrer avec mes filles. On va pêcher l'achigan et la truite sur le lac Barkmere, au Québec. Mon propre petit coin de paradis !

VOTRE PLAT SPÉCIAL POUR LE 150e DU CANADA

On va faire rôtir des canards entiers, badigeonnés de miel brut et de beurre, et on va allumer le fumoir dans le jardin du restaurant Joe Beef.

*David McMillan est copropriétaire des populaires restaurants Joe Beef, Liverpool House et Le Vin Papillon à Montréal.*

## Sugar **Sammy**

I hope to be celebrating in Ottawa or Montreal but will most probably be on tour in the U.S. I'll try to get fellow Canadians out to my show wherever I'll be!

FAVOURITE CANADIAN FICTIONAL CHARACTER

I loved Passe-Carreau from the popular Quebec TV show *Passe-Partout*. I'm sure I speak for most men in the province when I say she awoke our sexuality in a major way.

*World-renowned Montreal comedian Sugar Sammy is currently touring in France, Canada and the United States.*

J'espère pouvoir célébrer à Ottawa ou à Montréal, mais je serai sans doute en tournée aux États Unis. Peu importe où je me trouve, je vais inciter mes compatriotes à venir voir mon spectacle !

VOTRE PERSONNAGE D'ÉMISSION DE TÉLÉ CANADIENNE OU DE FILM CANADIEN PRÉFÉRÉ

J'étais fou de Passe-Carreau, de la populaire émission de télé québécoise *Passe-Partout*. Je crois parler au nom de la plupart des hommes de la province en disant qu'elle a joué un rôle déterminant dans l'éveil de notre sexualité.

*Originaire de Montréal, l'humoriste de renommée mondiale Sugar Sammy est actuellement en tournée en France, au Canada et aux États-Unis.*

## Chuck **Hughes**

We're setting up a hockey tournament that'll include a BBQ and a party.

FAVOURITE DISH WITH BACON OR MAPLE SYRUP IN IT

For bacon, I'd have to say a BLT. For maple syrup, it has to be pancakes, with My Woodsman's Canada Grade A Maple Syrup and tons of butter.

*Celebrity chef Chuck Hughes is co-owner and executive chef of Montreal hot spots Le Bremner and Garde Manger; stars in new food travelogue* Chuck's World *in August; and recently launched My Kitchen Staples, a line of kitchen essentials.*

On organise un tournoi de hockey, suivi d'un bon barbecue pour célébrer.

PLAT FAVORI CUISINÉ AVEC DU BACON OU DU SIROP D'ÉRABLE

Avec du bacon, je dirais un club sandwich. Pour le sirop d'érable, ce serait des crêpes avec du sirop d'érable « Canada catégorie A de mon bûcheron » et une tonne de beurre.

*Le chef vedette Chuck Hughes est copropriétaire et chef exécutif des restaurants montréalais très courus Le Bremner et Garde Manger. Il anime la nouvelle émission de voyage culinaire* Chuck's World *dès le mois d'août et a récemment lancé My Kitchen Staples, une gamme d'essentiels pour la cuisine.*

## Nelly **Furtado**

I'll be playing the Fusion Festival in Surrey, B.C.

AWESOME NAME FOR A SONG ABOUT CANADA

Simply, "Beloved."

*Victoria-born Nelly Furtado released her long-awaited sixth studio album,* The Ride, *on March 31.*

Je serai en concert au Fusion Festival à Surrey, en Colombie-Britannique.

UN BON TITRE POUR UNE CHANSON SUR LE CANADA

« Pays bien-aimé », tout simplement.

*Née à Victoria, la chanteuse Nelly Furtado a lancé son sixième album studio très attendu,* The Ride, *le 31 mars dernier.*

# P.K. **Subban**

We'll have family over and make chicken, ribs, BBQ, get the fruit salad going. It'll be a good time!

CANADIAN STEREOTYPE YOU MOST RELATE TO

Well, if I were still playing in Montreal, I'd definitely wear skates 24/7 during the winter because there's ice everywhere, you could literally skate around the city.

*Toronto-born P.K. Subban plays defenceman for the Nashville Predators after being traded by the Montreal Canadiens last year.*

On va inviter la famille et cuisiner du poulet et des côtes levées sur le barbecue, puis préparer une salade de fruits. On va bien s'amuser!

LE STÉRÉOTYPE CANADIEN AUQUEL VOUS VOUS IDENTIFIEZ LE PLUS

Si je jouais encore à Montréal, je porterais mes patins en tout temps parce que pendant l'hiver, il y a de la glace partout et on peut patiner dans presque toute la ville.

*Né à Toronto, le joueur de hockey P.K. Subban est défenseur pour les Predators de Nashville après avoir été échangé par les Canadiens de Montréal l'an dernier.*

# Alessia **Cara**

I'm going to be in Canada for the first time in a while on Canada Day, which is exciting, so I'll be celebrating with friends and family for sure!

CANADIAN STEREOTYPE YOU MOST RELATE TO

I say sorry every three seconds. I've said sorry to objects more times than I'm willing to admit.

AWESOME NAME FOR A SONG ABOUT CANADA

I would call it "Eh, Canada," as a play on, "O Canada." Duh!

*Alessia Cara's first album,* Know-It-All, *debuted in the Top 10 on the Billboard 200 chart and went gold. The Brampton, Ont., singer is currently working on her new album.*

Pour la première fois depuis longtemps, je serai dans mon pays pour la fête du Canada, et c'est génial parce que je vais pouvoir célébrer avec ma famille et mes amis!

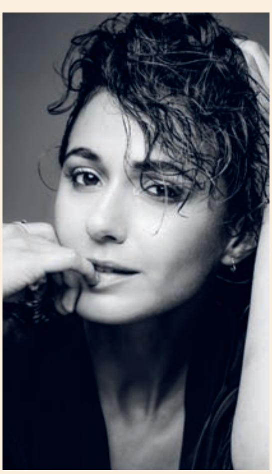
LE STÉRÉOTYPE CANADIEN AUQUEL VOUS VOUS IDENTIFIEZ LE PLUS

Je m'excuse toutes les trois secondes. Je demande même pardon à des objets plus souvent que je voudrais l'admettre.

UN BON TITRE POUR UNE CHANSON SUR LE CANADA

Je dirais « Eh, Canada » comme variante moqueuse du « Ô Canada ».

*Le premier album d'Alessia Cara,* Know-It-All, *a fait ses débuts dans le top 10 du palmarès Billboard 200 et a remporté un disque d'or. La chanteuse de Brampton, en Ontario, travaille sur son nouvel album.*



# Emmanuelle **Chriqui**

I'll be celebrating with a pool party/BBQ with other Canadians in Los Angeles.

FAVOURITE CANADIAN FICTIONAL CHARACTER

My favourite TV characters are from an old French cartoon called *Barbapapa*, which aired in Canada. I have such fond memories of those cute colourful blobs!

*Montreal-born Emmanuelle Chriqui stars in the film* Super Trooper 2.

Je vais célébrer autour d'une piscine avec d'autres Canadiens à Los Angeles.

VOTRE PERSONNAGE D'ÉMISSION DE TÉLÉ CANADIENNE OU DE FILM CANADIEN PRÉFÉRÉ

Mes personnages favoris sont ceux d'un dessin animé français appelé *Barbapapa*, qui était diffusé au Canada. Je garde de tendres souvenirs de ces gouttes d'eau colorées!

*L'actrice d'origine montréalaise Emmanuelle Chriqui joue dans le film* Super Trooper 2.

Credits / crédits: (David McMillan) Benoit Brühmüller, (Chuck Hugues) Dominique Lafond, (Nelly Furtado) Ben Guzman, (P.K. Subban) John Russell/Nashville Predators, (Emmanuelle Chriqui) Roberto Aguilar, (Alessia Cara) Def Jam Recordings

# O Canada Champagne COCKTAIL

## Cocktail au champagne Ô Canada

Photographed by / Séance photo par : Benoit Brühmüller

A bit of bubbly is just peachy for a small celebration. But when it's Canada's smashing 150th anniversary, that's when we call in the big guns! Enter David McMillan, the larger-than-life co-owner of Joe Beef, Liverpool House and Le Vin Papillon, a trio of wildly popular restaurants in Montreal that has spurred the city's food renaissance. Just for us, he hangs up his apron and stirs things up a little with his own take on a time-honoured classic cocktail to celebrate Canada's epic birthday.

Un verre de bulles, c'est parfait pour une petite célébration. Mais pour fêter le 150e anniversaire du Canada, il faut sortir les gros canons. Entre en scène David McMillan, le légendaire chef-copropriétaire du Joe Beef, du Liverpool House et du Vin Papillon, trois restaurants très courus à Montréal qui ont révolutionné la scène culinaire locale. Juste pour nous, il laisse de côté ses casseroles et bouscule les traditions en nous proposant sa propre version d'un cocktail des plus classiques afin de célébrer en grande pompe les 150 ans du pays.

## Ingredients

- 3 oz (90 ml) of your favourite Canadian sparkling wine, champagne or Crémant du Jura
- 1 sugar cube
- 3 dashes Angostura bitters
- 6 frozen elderberries

## Directions

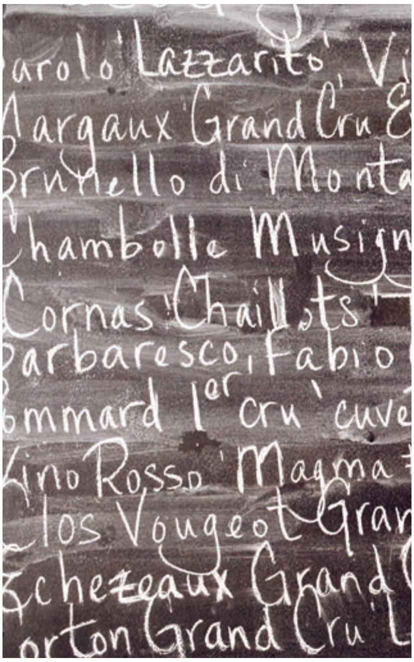
Place the sugar cube in the centre of an old-fashioned champagne glass. Add a few dashes of Angostura bitters. Pour the bubbles and drop in the frozen elderberries. Cheers!

## Ingrédients

- 3 oz (90 ml) de votre vin mousseux canadien, champagne ou crémant du Jura préféré
- 1 cube de sucre
- 3 gouttes d'amers Angostura
- 6 baies de sureau surgelées

## Préparation

Déposer le cube de sucre au centre d'une coupe à champagne traditionnelle. Ajouter les gouttes d'amers Angostura. Verser les bulles et ajouter les baies de sureau surgelées. Santé !

# CARNIVAL FEVER
# LA FIÈVRE DU CARNAVAL

Surviving four days
of wild celebrations in Martinique

**Comment survivre à quatre jours de
célébrations en Martinique**

Text and photos by / Texte et photos par : Jennifer Mahon

*Carnival: A special occasion or period of public enjoyment and entertainment involving wearing unusual clothes, dancing, eating and drinking, usually held in the streets of a city.*

I'm no stranger to this concept. Having experienced Carnival in Grenada, St. Martin and Jamaica, and being half-Grenadian myself, there's no doubt that Carnival fever is in my blood. But these Martinicans take Carnival to a whole other level.

*Carnaval : Événement spécial ou période de réjouissances collectives se déroulant le plus souvent dans les rues d'une ville et offrant l'occasion de porter des vêtements inusités, de danser, de boire et de manger.*

Le carnaval, je connais bien. J'ai déjà pris part à ceux de Grenade, de Saint-Martin et de la Jamaïque. Et comme je suis moi-même à moitié Grenadienne, il n'y a pas de doute : j'ai la fièvre du carnaval dans le sang. Mais j'avoue que les Martiniquais ont élevé ce divertissement à un tout autre niveau.

When I ask Jessica Marie from the Martinique tourism office what I should expect from the four-day Carnival in Martinique, she explodes with excitement.

"Inventive costumes, *vidés* (parades), drum music—not steel drums like other islands, more like a deconstructed drum set—and they play it with *chachas*, they're like bamboo shakers filled with sand and they make this nice *shooooka shooooka shooooka* sound."

Exhale.

"Let's see, on Sunday is the first big *vidé,* and you can see the *groupes à pied;* it's also when Vaval is revealed. Monday is *mariage burlesque* and it's also *Carnaval du sud*. Tuesday is Mardi Gras—the day of *diables rouges* and you have to dress in red and black. Wednesday is the last day of Carnival, you have to wear black and white, and Vaval is burned."

Her enthusiasm is beyond contagious, but I have a few questions. Who's Vaval? What's with the burning? And will I be able to keep up with Carnival?

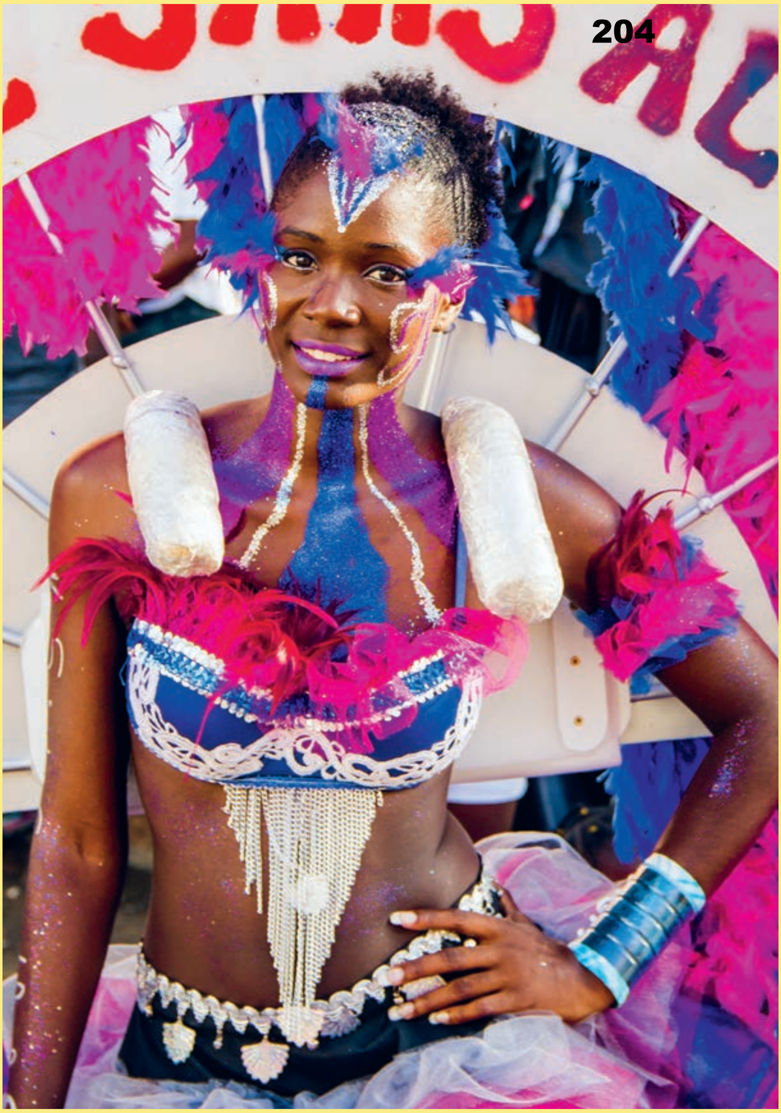
## DIMANCHE GRAS

It's 4 a.m. on Sunday morning, and we've just driven back to Fort-de-France after a night of pre-Carnival dancing in Trois-Îlets. I'm tired and achy, but I'm told I can't go to sleep yet. In half an hour, the streets of Fort-de-France will be woken up by the *vidé en pyjama*, the first official parade of Carnival.

In no time, marching bands invade the dark streets, drumming up thunderous beats. *Bradjaks*, painted cars modified to rev insanely loud, roll down. The parade is guaranteed to wake up anyone that may still be sleeping. Or give those of us coming from a party their second wind.

But I still sneak off to grab a few precious hours of sleep before heading back downtown for the afternoon parade. Carnivalgoers descend en masse, dressed up in all kinds of getups—bright ballerina tutus, neon fishnet stockings with mismatched leg warmers, feathered boas, colourful wigs. They sing and dance behind the *groupes à pied* (marching bands) that they like best.

Leading the parade is Vaval, the Carnival King, whose identity has been kept a secret until now. This huge papier-mâché statue on a float, meant to mock a political concept from the previous year, is an ever-present symbol throughout Carnival. It's burned on Ash Wednesday as penance for the wild Carnival celebrations. This year's Vaval has taken the form of a descendant of the Gauls.



Pour savoir à quoi m’attendre des quatre jours de festivités du carnaval de la Martinique, j’ai contacté Jessica Marie, du Comité martiniquais de tourisme. Elle a tout de suite fait preuve d’un enthousiasme débordant.

« Il y aura des costumes fantaisistes, des *vidés* (parades), des tambours — pas des tambours d’acier comme dans les autres îles des Caraïbes, mais plutôt comme une sorte de batterie déconstruite — et des *chachas,* sortes de maracas remplis de sable qui produisent un beau son : *chouka-chouka-chouka*. »

Elle reprend son souffle.

« Voyons voir. Le dimanche, il y a le premier grand *vidé* où l’on peut regarder passer les "groupes à pied" (fanfares) ; c’est aussi le jour où l’on présente Vaval. Le lundi, c’est le jour du mariage burlesque et du Carnaval du Sud. Vient ensuite le Mardi Gras, le jour des diables rouges, où il faut s’habiller en rouge et noir. Mercredi, dernier jour du carnaval, il faut se plutôt se vêtir de noir et de blanc, et on brûle Vaval. »

Son enthousiasme est plus que contagieux… mais j’ai encore quelques questions. Qui est Vaval, au juste ? Et pourquoi le brûle-t-on ? Mais surtout, est-ce que je serai capable de tenir le rythme du carnaval ?

## DIMANCHE GRAS

Il est 4 h du matin le dimanche, et nous revenons tout juste à Fort-de-France en voiture après une nuit de danse précarnaval aux Trois-Îlets. Je suis fatiguée et j’ai mal partout, mais on me dit que je ne peux pas aller me coucher tout de suite. Dans une demi-heure, les rues de Fort-de-France seront réveillées par le *vidé* en pyjama, la première parade officielle du carnaval.

Très vite, des fanfares envahissent les rues, battant leurs tambours bruyants comme le tonnerre. Il y a aussi des *bradjaks,* voitures peintes et modifiées pour faire le plus de bruit possible. Bonne chance aux gens qui voudraient continuer à dormir ! Et pour ceux qui, comme nous, arrivent d’une autre fête, cette parade leur insuffle une nouvelle énergie.

Je reviens cependant à la maison pour récupérer quelques précieuses heures de sommeil avant de me rendre au centre-ville pour la parade de l’après-midi. La foule des carnavaliers s’y rend aussi, habillée de toutes les façons possibles : tutus de ballerines aux couleurs vives, bas en résille fluo avec jambières de teintes différentes, boas de plumes, perruques colorées. Tous chantent et dansent derrière leurs groupes à pied préférés.

Vaval mène la parade : c’est le roi du carnaval, dont l’identité est demeurée secrète jusqu’à maintenant. Il s’agit d’une immense statue de papier mâché dressée sur un char allégorique, symbolisant avec moquerie un thème politique de l’année précédente. Elle sera présente durant tout le carnaval, puis, le mercredi des Cendres, elle sera brûlée en guise de pénitence pour les célébrations du carnaval. Cette année, Vaval a pris les traits d’un descendant des Gaulois.

## LUNDI GRAS

It’s 4:30 a.m., and I’m woken up by the sounds of drums and singing. It’s so loud I could swear it’s coming from the living room. It seems this morning’s *vidé en pyjama* route is a mere block away. Since I’m up, I slip on my slippers and shuffle out to join the parade—yup, you guessed it—in my PJs.

In the afternoon, I catch a few z's, then it’s back out again for another parade. The atmosphere has grown wilder, the music more intense. The theme today is *mariage burlesque*. Mock weddings sashay through downtown Fort-de-France, with a unique twist: the men are dressed up as glowing brides, the women as reluctant grooms.

## MARDI GRAS

It’s 4:30 a.m., and yes, the vidé is right outside my door. These Carnival days are catching up to me. Mama needs her beauty sleep, so I force myself back to bed.

Mardi Gras celebrations are happening around the world today, and here in Martinique, all the bands from around the island will strut through the streets of Fort-de-France for the mother of all parades. Leading the procession today is one of the island’s premier marching bands, Va K Band, and I head over (decked out in today’s red and black dress code) to the Squash Hotel to hang out with its 83 members as they get ready for the big day.

It’s a frenzy of yellow tulle, red ribbons and silver sparkles. Last-minute adjustments are being made to costumes, and there’s an assembly line for makeup—face, body, then sparkles all over. It seems somewhat chaotic, but Jessy, the band leader, and Chamy, her right-hand man, have it all under control. Before you know it, we’re on our way downtown. And with a sharp whistle blow from Jessy, Va K Band falls into a tight formation and begins to play, the drumming so intense you can feel it in your bones.

“Didn’t you bring earplugs?” a band member asks me. “Because it gets loud. Really loud, especially if you’re walking with us.”

Va K Band continues to march down rue Ernest Desproges, and I happily follow in its wake, welcoming the loudness.

The parade comes to an official end just after sunset, but that doesn’t mean the party stops. People fill the streets, block parties pop up around every corner, and everyone dances, eats and drinks until the wee hours of the morning.

## LUNDI GRAS

Je me fais réveiller à 4 h 30 par le son des tambours et des chants. Ils sont tellement forts que je jurerais qu'ils viennent du salon. On dirait bien que le *vidé* en pyjama de ce matin n'est qu'à une rue de distance. Comme je suis éveillée, j'enfile mes pantoufles et je sors pour rejoindre la parade… en pyjama, évidemment!

Dans l'après-midi, je fais une petite sieste avant de ressortir pour une autre parade. L'ambiance est devenue plus festive; et la musique, plus intense. C'est la journée du mariage burlesque, et de faux mariages traversent le centre-ville de Fort-de-France. Mais… attendez un peu, il y a quelque chose qui cloche: les hommes sont habillés en mariées resplendissantes, tandis que les femmes, elles, sont déguisées en mariés réticents!

## MARDI GRAS

Il est 4 h 30 et oui, le *vidé* passe encore à ma porte. Ces journées de carnaval commencent à me fatiguer. Comme j'ai vraiment besoin de sommeil, je retourne au lit.

Aujourd'hui, on célèbre le Mardi gras dans le monde entier, et ici, en Martinique, des groupes venus de toute l'île défileront dans les rues de Fort-de-France pour une parade grandiose. La fanfare qui doit mener la parade est la plus célèbre de l'île : le Va K Band. Je veux aller à sa rencontre, alors vêtue du rouge et noir réglementaire, je me rends à l'hôtel Squash pour côtoyer ses 83 membres tandis qu'ils se préparent pour le grand événement.

C'est un bazar de tulle jaune, de rubans rouges et de brillants argentés. On ajuste les costumes une dernière fois, puis hop, en file pour le maquillage: d'abord le visage et le corps, puis on ajoute des brillants un peu partout. La scène paraît chaotique, mais Jessy, la chef de bande, et Chamy, son homme de confiance, gèrent parfaitement la situation. En un éclair, nous voilà en route vers le centre-ville. Puis, au son d'un vif coup de sifflet de Jessy, le Va K Band se place en formation serrée et commence à jouer. Tout de suite, la musique des tambours est si intense qu'on la ressent jusque dans les os.

«As-tu apporté des bouchons pour les oreilles ? me demande un membre du groupe. Parce que ça va être fort. Très fort même, si tu marches avec nous.»

Le Va K Band continue sa progression vers la rue Ernest Desproges, et je le suis allègrement, me laissant entraîner par cette musique forte.

La parade en vient à sa conclusion officielle juste après le coucher du soleil, mais la fête n'est pas finie pour autant ! Les rues sont pleines de gens, des fêtes de quartier se mettent en branle à tous les coins de rue, et tout le monde danse, mange et boit jusqu'au petit matin.

## ASH WEDNESDAY

It's 4:30 a.m. and I'm asleep. I learned my lesson and popped in earplugs before going to bed last night (or, should I say, a couple of hours ago). I don't know how these Martinicans do it, but I'm not prepared to sacrifice any more sleep (though I will participate in sacrificing Vaval later on).

By the time I arrive downtown in today's dress code—black and white, to represent the mourning of Vaval, who will be burned to ashes at sundown today—the party is in full swing. Fort-de-France is pulsing with music, rhythms overlapping, from zouk to biguine to samba to reggae.

The characters are even more unusual than on previous days: *Neg gwo siwo*, men coated from head to toe in charcoal and molasses; *Mariannes lapo fig*, women dressed entirely in dried banana leaves; *Diablesses*, women in elaborate glittery costumes weeping as they mourn the impending death of Vaval; *Touloulous*, women in dresses and masks, completely covered in feathers.

The streets of the city are awash in a sea of black and white. It seems like the entire island has come out to celebrate the last day of Carnival. Excitement is at a fever pitch as the music gets louder and the crowds dance with even more fervour.

As the sun goes down, I head to the waterfront to find a spot to witness the burning of Vaval. By 7:15 p.m., flames engulf the immense statue. Carnival 2017 may have officially come to an end but, much like the runaway boa feathers drifting in the streets, Carnival fever will linger on.

## MERCREDI DES CENDRES

Il est 4 h 30 et je suis endormie. J'ai appris ma leçon : j'ai mis des bouchons avant de me coucher la nuit dernière (ou il y a quelques heures, plutôt). Je ne sais pas comment font les Martiniquais pour tenir le rythme, mais il n'est plus question que je sacrifie mes heures de sommeil (je participerai par contre au sacrifice de Vaval un peu plus tard).

Lorsque j'arrive au centre-ville, habillée des couleurs du jour — noir et blanc pour représenter le deuil de Vaval, que l'on brûlera au coucher du soleil —, la fête bat son plein. Fort-de-France vibre au son de la musique et des rythmes qui s'entremêlent : le zouk, la biguine, la samba, le reggae...

Les personnages que l'on voit aujourd'hui sont encore plus étranges que ceux des jours précédents : les *Neg gwo siwo,* des hommes enduits de charbon et de mélasse de la tête aux pieds; les *Mariannes lapo fig,* des femmes entièrement parées de feuilles de bananier; les Diablesses, des femmes vêtues de costumes d'apparat scintillants qui pleurent la mort imminente de Vaval; et les *Touloulous,* des femmes qui disparaissent sous des robes et des masques complètement recouverts de plumes.

Les rues de la ville sont envahies d'une mer de blanc et de noir. On dirait que l'île tout entière est sortie célébrer le dernier jour du carnaval. L'enthousiasme atteint son paroxysme tandis que la musique devient plus forte et que la foule danse avec abandon.

Au coucher du soleil, je me dirige vers la plage afin de trouver un bon endroit pour assister au bûcher de Vaval. À 19 h 15, les flammes englou-tissent l'immense statue. Le carnaval de 2017 est officiellement terminé, mais tout comme les plumes de boa qui glissent dans les rues, la fièvre du carnaval perdurera encore quelque temps.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Fountain of Neptune, Piazza Navona, Rome

Fontaine de Neptune, Piazza Navona, Rome



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# GALAXIES NOT SO FAR, FAR AWAY

## Des mondes fantastiques à votre portée

ON THE ANNIVERSARY OF *STAR WARS* AND *HARRY POTTER*, ONE SUPERFAN GOES IN SEARCH OF HIS FAVOURITE FICTIONAL WORLDS. AND NO, HE DIDN'T TRAVEL LIGHT YEARS OR USE ANY KIND OF SORCERY TO GET THERE!

**POUR L'ANNIVERSAIRE DES SÉRIES *STAR WARS* ET *HARRY POTTER*, UN *SUPERFAN* PART À LA RECHERCHE DES UNIVERS FICTIFS QU'IL AIME TANT, SANS AVOIR À FRANCHIR DES ANNÉES-LUMIÈRE DE DISTANCE NI À UTILISER DE SORCELLERIE !**

By / Par : Dominic Jones

# FEELING THE FORCE IN IRELAND

"She may not look like much, but she's got it where it counts."

Han Solo's famous words echo in my head as we race across the waves in a repurposed fishing boat not unlike the *Millennium Falcon*. Moving far slower than lightspeed, the jagged outline of Skellig Michael takes shape. The closer we get, the more I feel the Force. Yes… the Force is definitely strong here.

The isolated rocky island of Skellig Michael rises dramatically from the deep-blue sea off the southwest coast of Ireland. Before we know it, we're sitting in its looming shadow. Although it looks like we've crossed over into the Dark Side, a feeling of awe and serenity washes over me. I begin humming John Williams's iconic soundtrack. This is exactly the kind of place you'd expect to find a lost Jedi master.

The journey to Skellig Michael has become something of a pilgrimage for hard-core *Star Wars* fans like myself. It's here that the heroic Rey presents Luke Skywalker with his old lightsaber in *Star Wars: The Force Awakens*. A moment that represents the multi-generational appeal of the franchise, which is celebrating its 40th anniversary this year, as new and old are brought together.

Stepping onto Skellig Michael is like falling through a portal—into a universe of X-Wings, Wookiees and droids that speak six million languages. The sense of isolation is overwhelming, and I can feel the mystical energy that binds our universe to that of *Star Wars*.

I catch a glimpse of the sixth-century monastery atop the mountain, and I completely get why director J.J. Abrams chose this sacred place for such a momentous encounter. I make my way up the countless steps carved into the rocks and look out from the peak. We may as well be in another galaxy. Only the most devoted followers—be they of religion or the Force—would make this journey.

In that moment, I am one with the Force and all I can think is… I wish I'd packed my lightsaber. Fortunately, the galaxy doesn't depend on my training with the last Jedi!

# L'IRLANDE PAYS DE LA FORCE

« Peut-être que ce coucou est moche à voir, mais il en a dans le ventre et c'est ce qui compte. »

Cette citation de Han Solo me revient en tête pendant que nous affrontons les vagues dans un bateau de pêche modifié qui me paraît aussi peu fiable que le *Faucon Millenium*. Comme le bateau est très loin d'atteindre la vitesse de la lumière, j'ai le temps d'observer la silhouette escarpée de Skellig Michael. Je sens une présence m'envahir à mesure que nous approchons… Oui, la Force est puissante ici !

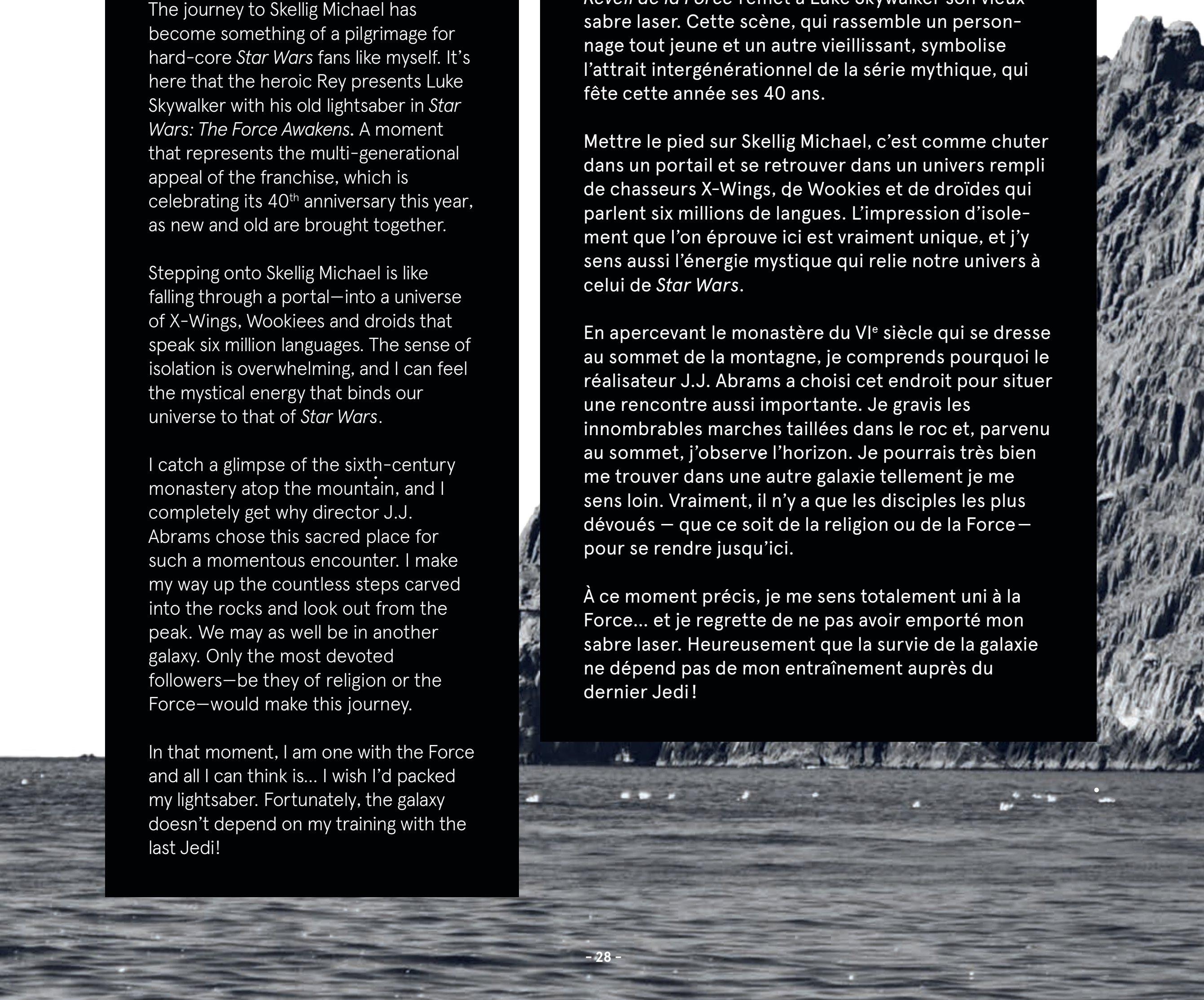
Île rocheuse isolée, Skellig Michael se dresse abruptement hors des flots bleu foncé qui baignent la côte sud-ouest de l'Irlande. Nous voilà soudainement dans son ombre. Même si on se croirait passés du côté obscur, un sentiment d'émerveillement et de sérénité m'habite. Je commence à fredonner l'emblématique trame sonore de John Williams. C'est exactement le genre d'endroit où l'on s'imaginerait rencontrer un maître Jedi perdu.

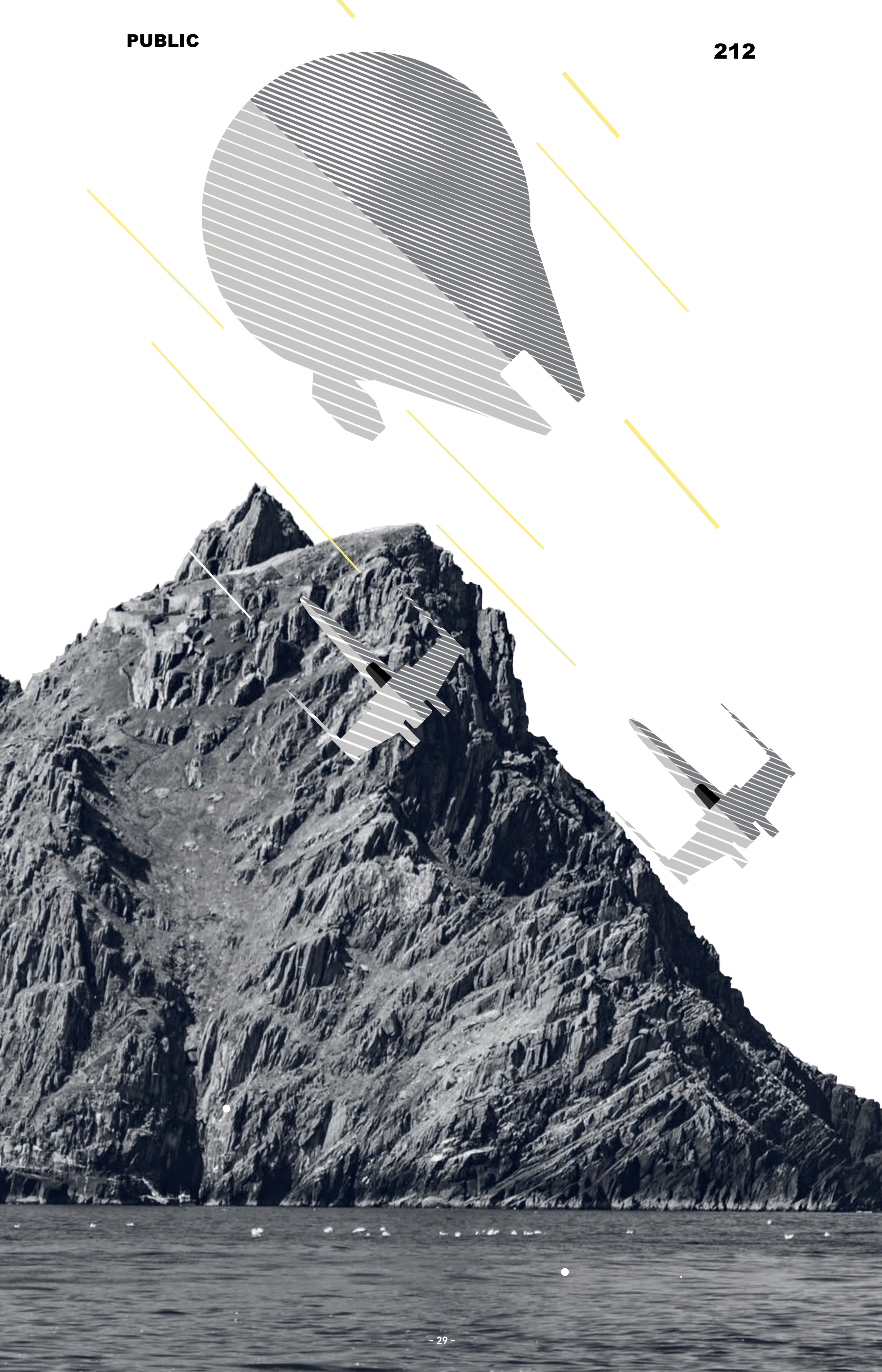
Le voyage à Skellig Michael est devenu une sorte de pèlerinage pour les accros de *Star Wars* comme moi. En effet, c'est ici que l'héroïne Rey de *Star Wars : Le Réveil de la Force* remet à Luke Skywalker son vieux sabre laser. Cette scène, qui rassemble un personnage tout jeune et un autre vieillissant, symbolise l'attrait intergénérationnel de la série mythique, qui fête cette année ses 40 ans.

Mettre le pied sur Skellig Michael, c'est comme chuter dans un portail et se retrouver dans un univers rempli de chasseurs X-Wings, de Wookies et de droïdes qui parlent six millions de langues. L'impression d'isolement que l'on éprouve ici est vraiment unique, et j'y sens aussi l'énergie mystique qui relie notre univers à celui de *Star Wars*.

En apercevant le monastère du VIe siècle qui se dresse au sommet de la montagne, je comprends pourquoi le réalisateur J.J. Abrams a choisi cet endroit pour situer une rencontre aussi importante. Je gravis les innombrables marches taillées dans le roc et, parvenu au sommet, j'observe l'horizon. Je pourrais très bien me trouver dans une autre galaxie tellement je me sens loin. Vraiment, il n'y a que les disciples les plus dévoués — que ce soit de la religion ou de la Force — pour se rendre jusqu'ici.

À ce moment précis, je me sens totalement uni à la Force… et je regrette de ne pas avoir emporté mon sabre laser. Heureusement que la survie de la galaxie ne dépend pas de mon entraînement auprès du dernier Jedi !





## MAGIC IN LONDON

In London, I embark on yet another pilgrimage, to a world that's just as thrilling but not so far, far away.

Part of the magic of the *Harry Potter* series, which celebrates its 20th anniversary this year, is the discovery of a hidden society of witches and wizards living among us. Luckily for fans like me, this makes the locations much easier to get to, as they're frequently located in the heart of London. No seasickness-inducing boat rides needed here; just a sense of adventure and belief in magic.

I make my way to the Millennium Bridge. London's only pedestrian bridge, linking St Paul's Cathedral with Tate Modern in Southwark, the 320-metre Millennium Bridge looks like it's from another world. And it kind of is. It appears in *Harry Potter and the Half-Blood Prince*, swirling with villainous black smoke before collapsing into the river below.

As I walk across the bridge, surrounded by my fellow Muggles, I look out over the River Thames hoping to see some evidence of this hidden world. Is it me or is the bridge moving? It twists and turns, and I look to the skies in hopes of seeing members of the Order of the Phoenix swooping in on their broomsticks, and not the dark shadows of Voldemort's Death Eaters.

"Watch out, mate!" I'm snapped back to reality by a passerby, and continue along the bridge... the same bridge I could've sworn was alive a few moments earlier. Sadly, no wizards or house-elves are in sight, and all motorcycles and Ford Anglias remain firmly grounded. For now, anyway...

I guess you can take the boy out of the magic, but you can't take the magic out of the boy.

## UN PONT MAGIQUE À LONDRES

Rendu à Londres, j'entreprends un autre pèlerinage vers un monde tout aussi excitant, bien que pas aussi lointain.

La série *Harry Potter* célèbre cette année son 20e anniversaire. Ce qui la rend si magique, c'est en partie le fait qu'on y découvre toute une société de sorciers et de sorcières qui vivent cachés parmi nous. Et ce qui est génial pour les *fans* comme moi, c'est que les lieux où se déroule l'histoire sont ainsi beaucoup plus faciles à atteindre, surtout qu'ils se trouvent bien souvent en plein cœur de Londres. Pas besoin de se donner le mal de mer en bateau pour s'y rendre : il suffit d'avoir le sens de l'aventure et de croire à la magie !

Je me dirige donc vers le Millenium Bridge, le seul pont piétonnier de Londres. Reliant la cathédrale Saint-Paul à la Tate Modern dans Southwark, ce pont de 320 mètres semble sorti d'un autre monde. Et, d'une certaine façon, c'est bien le cas. Dans le film *Harry Potter et le Prince de Sang-Mêlé*, on voit un Millenium Bridge agité de tremblements, entouré d'une maléfique fumée noire, qui finit par s'effondrer dans le fleuve.

Tout en traversant le pont en compagnie de mes semblables, les Moldus, j'observe l'autre côté de la Tamise en espérant repérer des indices du monde caché des sorciers. Est-ce juste une impression ou le pont est en train de bouger ? Il vibre, il ondule… Je regarde vers le ciel dans l'espoir de voir des membres de l'Ordre du Phénix arriver sur leurs balais — et surtout pas les formes noires des Mangemorts, suppôts de Voldemort !

« *Watch out, mate !* » Le cri d'un passant me ramène à la réalité, mais je continue mon chemin sur le pont, convaincu que ce dernier bougeait bel et bien quelques instants auparavant. Malheureusement, il n'y a aucun sorcier ou elfe de maison en vue, et toutes les motos et les Ford Anglia que je vois restent bien cramponnées au sol. Pour le moment, du moins…

Oui, je suppose qu'on peut sortir le gars de la magie, mais pas la magie du gars !

## Multi-Destination Flights

**Calling all fans of fantastical worlds!**

With our multi-destination flight option, land in one European city—say, Dublin, where you can then make your way to Skellig Michael, filming site for *Star Wars*—and return from another, such as London, where you can enter the magical world of Harry Potter by visiting locations that appeared in the popular series of books and movies. At no extra cost, our multi-destination option is a simple and affordable way to discover more of Europe in just one trip.

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# CELEBRATING VACATIONS IN STYLE

## CÉLÉBRER LES VACANCES AVEC STYLE

What could be more celebratory than a sun-soaked Mexican fiesta? An airy sundress paired with an equally jaunty multi-hued cotton candy? A frilly golden blouse that perfectly blends with a tropical cocktail sipped from a coconut? A cool bedazzled denim jacket vying for attention amid a bunch of scene-stealing colourful balloons? A flirtatious off-the-shoulder top that's as tempting as a playful cupcake with a cherry on top? We'll provide hints of inspiration; all you need is a little imagination to complete the picture. And maybe a tiny umbrella for your coconut.

Quoi de plus festif qu'une fiesta mexicaine ensoleillée ? Peut-être une robe soleil vaporeuse assortie à une barbe à papa multicolore tout aussi légère ? Un chemisier doré à volants qui se marie parfaitement à un cocktail tropical dans une noix de coco ? Une veste en denim garnie de strass qui réclame un peu d'attention parmi les ballons colorés qui lui volent la vedette ? Un haut épaules dénudées aussi tentant qu'un mignon petit gâteau ? Nous vous donnons ici quelques pistes d'inspiration; il vous suffit d'un peu d'imagination pour compléter le portrait. Et peut-être aussi d'un petit parasol pour votre noix de coco.

Photographed by/ Séance photo par : Sarah Laroche (Very Much)
Hair and makeup / Coiffure et maquillage : Léa Bégin
Model / Mannequin : Chanelle Riopel (Very Much)

Sundress / Robe soleil : Aritzia, $135
Shoes / Chaussures : Call It Spring, $39.99

Top / Haut :
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Dress / Robe :
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Top / Haut:
Banana Republic, $85
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# AT THE CHEF’S TABLE
# À la table du chef

By / Par : Jim Byers

**We talk with great Quebec chef Daniel Vézina about celebrating Canadian cuisine, reducing food waste and his culinary inspirations**

**Entretien avec le grand chef québécois Daniel Vézina sur la célébration de la cuisine canadienne, la réduction du gaspillage alimentaire et ses inspirations culinaires**

Founder and executive chef of Laurie Raphaël restaurants in Quebec City and Montreal, Daniel Vézina has also authored several cookbooks and hosted various radio and television shows. He has a passion for cooking and was a pioneer of the farm-to-table concept at an early age. The first dish he made as an apprentice chef was a strawberry shortcake with fruit from Île d’Orléans, just outside Quebec City.

Today Vézina gets his inspiration from any number of places. Even in his sleep.

“There’s one dish that I created in my dreams and that I made the very next morning at the restaurant,” he recalls. “I called it Salmon of My Dreams on the menu. It’s a simple and delicious recipe. It’s a carpaccio of zucchini slices fried with thyme and olive oil, on which I place a pavé of salmon poached in court bouillon, and I cover it all in a sparkling apple cider sabayon.”

Delectable, and probably not the sort of thing most of us would attempt at home.

Fondateur et chef exécutif des restaurants Laurie Raphaël de Québec et de Montréal, Daniel Vézina est également auteur de plusieurs livres de recettes et animateur à la radio et à la télévision. Mais il est avant tout un véritable passionné de cuisine. Apprenti chef, il confectionne un shortcake aux fraises avec des fruits de l’île d’Orléans, près de Québec, devenant ainsi un pionnier du concept « de la ferme à la table ».

Aujourd’hui, il puise son inspiration d’un peu partout, même dans son sommeil.

« Il y a un plat que j’ai créé dans mes rêves et que j’ai refait tout de suite en arrivant au restaurant le lendemain matin, se souvient-il. Je l’ai nommé Saumon de mes rêves sur le menu. C'est une recette simple et délicieuse : un carpaccio de rondelles de courgettes poêlées au thym et à l’huile d’olive, sur lequel je dépose un pavé de saumon poché au court-bouillon, et je recouvre le tout d’un sabayon au cidre de pommes mousseux. »

Succulent. Et sans doute pas le genre de recette que nous essayerions à la maison.


Vézina believes strongly in leaving a legacy. He wrote a book called *La cuisine réfléchie*, in which he shares recipes and practical and accessible tips on how to reduce food waste by cooking 100 per cent of the product, roots and all.

Those green bits at the top of carrots? Toss them into a soup. Green asparagus peels? Fry them up as delicious veggie chips.

In addition to helping the planet, he also wants to leave a legacy for his children. The restaurant he founded with his wife, Suzanne Gagnon, is named Laurie Raphaël after their two children. Raphaël is a partner and chef de cuisine at the Quebec City restaurant, while Laurie helps with customer service and marketing.

"I always thought it would be important to pass on my knowledge and my company to my children, in order to create a family tradition of gastronomy in Quebec as seen in other countries like France or Italy," says Vézina.

"FOR ME, GREAT CUISINE STARTS WITH GOOD-QUALITY PRODUCTS."

Moreover, the chef celebrates Canadian cuisine by participating in culinary demonstrations around the world. He also dreams of opening a fine Quebec-inspired food spot in Paris.

"For me, great cuisine starts with good-quality products," he says. "A carrot that has just been plucked from the garden or a fruit that has just been picked are accessible to almost anyone. Then you need to respect their flavours in order to enhance them."

One of his favourite ingredients is the Gorria pepper, more commonly known as an Espelette pepper. They originated in France but are now also grown in Quebec.

"Every fall, I tie them by their stems and hang them in our kitchens in Montreal and Quebec City to dry them for a few months before grinding them to a fine power," he describes. "It's not too strong, and it adds a spicy twist to my salty dishes and even to some of my chocolate desserts."

Now, that's something to chew on!

Le chef croit profondément en la nécessité de laisser un héritage. C'est dans cette optique qu'il a écrit un livre intitulé *La cuisine réfléchie*, dans lequel il partage des recettes et des techniques pratiques et accessibles pour inciter les gens à réduire le gaspillage en cuisinant les aliments en entier, de la racine à la feuille.

Que faire avec les fanes au bout des carottes ? Ajoutez-les à votre potage. Avec les pelures d'asperges vertes ? Faites-en de délicieuses croustilles de légumes.

En plus d'aider à protéger la planète, Daniel Vézina souhaite léguer son patrimoine à ses enfants. Ses restaurants Laurie Raphaël, fondés avec sa femme Suzanne Gagnon, ont d'ailleurs été baptisés ainsi en l'honneur de leurs deux enfants. Raphaël est aujourd'hui partenaire et chef de cuisine au restaurant de Québec, alors que Laurie travaille au service à la clientèle et au marketing.

**« POUR MOI, LA GRANDE CUISINE COMMENCE PAR DE BONS PRODUITS DE QUALITÉ. »**

« J'ai toujours pensé qu'il serait important de transmettre mes connaissances et mon entreprise à mes enfants afin de créer une tradition familiale de gastronomie au Québec, comme en France ou en Italie », soutient Daniel Vézina.

Par ailleurs, le chef rend hommage à la cuisine canadienne en faisant des prestations culinaires partout dans le monde. Il rêve aussi d'ouvrir un restaurant inspiré des saveurs du terroir québécois à Paris.

« Pour moi, la grande cuisine commence par de bons produits de qualité, souligne-t-il. Une carotte que l'on vient d'arracher du jardin ou un fruit à point que l'on vient de cueillir sont accessibles à presque tout le monde. Ensuite, il suffit de les respecter et de les mettre en valeur. »

L'un de ses ingrédients favoris est le piment Gorria, mieux connu sous le nom de piment d'Espelette. Cette variété provient de la France, mais on la cultive maintenant au Québec aussi.

« Chaque automne, j'attache mes piments par leurs queues et les suspens dans nos cuisines de Montréal et de Québec pour les faire sécher pendant quelques mois avant de les réduire en poudre, raconte-t-il. Leur goût n'est pas trop prononcé. Il apporte une touche piquante à presque tous mes plats salés et même à certains de mes desserts au chocolat. »

Voilà de quoi alimenter votre créativité !





## CHEF'S MENU

by

## Daniel Vézina

Daniel Vézina has joined forces with Air Transat to create on-board gourmet dishes. "I think I can put my talents in the kitchen to the service of a clientele or an industry that is concerned about eating well," he says.

The chef isn't giving away any secrets but reveals that his goal is to introduce the flavours that characterize his cuisine into the flight experience. Cooking for folks who will dine at a high altitude presents challenges, but Vézina and a team of experts are up to the task.

Find the menu in the seat pocket in front of you. Bon appétit!

## LE MENU

par le Chef

## Daniel Vézina

Daniel Vézina fait équipe avec Air Transat afin d'élaborer des plats gourmands servis à bord. « Je crois que je peux mettre mes talents en cuisine au service d'une clientèle ou d'une industrie qui a le souci de bien manger », affirme-t-il.

Sans révéler ses secrets, il mentionne qu'il souhaite proposer les saveurs qui caractérisent sa cuisine dans le cadre de l'expérience en vol. Bien sûr, préparer des mets destinés à être savourés dans les airs s'avère plus complexe, mais le chef Vézina et les experts qui l'assistent sont à la hauteur de ce délicieux défi.

Vous trouverez notre menu dans la pochette du siège devant vous. Bon appétit !


# Do you remember 1987?

Shoulder pads and crimped hair were all the craze. Wayne Gretzky led the Edmonton Oilers to a fourth Stanley Cup. And everyone was wild about *La Bamba*, a remake of a Mexican folk song.

That same year, the very first Air Transat passengers landed in Acapulco, Mexico, for an affordable Sun holiday... and, no doubt, for some spicy dancing to a certain Latin hit!

Yes, 1987 marks the year the tourism company of Transat and its airline, Air Transat, took off. Its founders — Jean-Marc Eustache, Lina De Cesare and Philippe Surreau — dreamt of offering vacations accessible to all, starting with students eager to discover France. Were you perhaps among those seeking new horizons?


# Vous souvenez-vous de 1987 ?

La mode était aux épaulettes et aux cheveux crêpés. Wayne Gretzky menait les Oilers d'Edmonton vers une quatrième Coupe Stanley. Et le monde entier s'enflammait pour *La Bamba*, reprise d'un air traditionnel mexicain.

C'est d'ailleurs à Acapulco, au Mexique, qu'atterrissaient cette année-là les tout premiers passagers d'Air Transat pour y passer des vacances au soleil à prix abordable… et sans doute se déhancher sur le *hit* de l'heure !

Oui, 1987 marque l'envol de l'entreprise de tourisme Transat et de sa compagnie aérienne, Air Transat. Les fondateurs, Jean-Marc Eustache, Lina De Cesare et Philippe Surreau, avaient alors un grand rêve : offrir des vacances à la portée de tous, en commençant par les étudiants avides de découvrir la France. Peut-être faisiez-vous partie de cette jeunesse ouverte sur le monde ?

# Founders
# Les fondateurs

Jean-Marc Eustache, Lina De Cesare, Philippe Surreau. © Stephane Najman / 2007.


Jean-Marc Eustache, president and CEO / 1989

**Jean-Marc Eustache, président et chef de la direction de Transat / 1989**

## Thirty years

Transat has since expanded its land, sea and sky product lines to brighten your everyday with the joy of vacations. From all-inclusive packages to à la carte holidays, our travel offerings have multiplied to meet your growing needs. And so have our destinations!

In 1989, *hola* to Costa Rica's rainforests. In 1993, *bem-vindo* to Lisbon, Portugal's vibrant capital. In 2005, we headed to El Salvador, a surfer's paradise. In 2014, we landed in imperial Prague. And this year, why not Tel Aviv, Israel's trendy metropolis!

Thirty years… that's an entire generation! Transat has grown alongside its original student clientele, who now travels with family. Hence, the creation of the Air Transat Kids Club for our mini-globetrotters!

To the on-board reader: you have been the wind beneath our wings for the past 30 years. We hope to be your travel companion for many more years to come… and perhaps, one day, take you dancing to yet another remake of *La Bamba*.

## Trente ans

Depuis, Transat n'a cessé d'élargir son offre sur terre, sur mer et dans les airs pour ensoleiller votre quotidien par la joie des vacances. Des forfaits tout inclus aux croisières en passant par les séjours à la carte, nos options de voyage se sont diversifiées au rythme de vos envies. Et nos destinations aussi !

En 1989, *hola* les forêts vierges du Costa Rica ! En 1993, *bem-vindo* à Lisbonne, éclatante capitale du Portugal. Dès 2005, direction le Salvador, paradis du surf. En 2014, cap sur la ville impériale de Prague. Et cette année, pourquoi pas Tel-Aviv, métropole branchée d'Israël ?

Trente ans déjà… C'est une génération entière ! Transat a grandi avec sa clientèle étudiante de l'époque, qui voyage aujourd'hui en famille. Ainsi est né le Club Enfants Air Transat pour le plus grand bonheur des petits vacanciers.

Vous qui nous lisez à bord aujourd'hui, vous êtes le vent sous nos ailes depuis 30 ans. Nous espérons être complices de vos vacances encore longtemps… et peut-être un jour vous emmener danser sur un nouveau remake de *La Bamba* !

# Our Kids Club has a new look

No one sees the world quite like our tiny travellers. Remember that time Abigail tried to pet that jellyfish? Or when little Johnny thought he had bent the Leaning Tower of Pisa? It's as if kids view the world through a pair of googly eyes, where all the characters spring to life in colourful, cartoonish ways. That's the inspiration behind the revamp of the Kids Club, now in its 11th year.

For those mini-globetrotters, travelling by airplane is always an adventure. And it's even more exciting when they become members of the Air Transat Kids Club! From VIP treatment at the airport to surprises on board, we've thought of everything to make flying super fun for our "tiny travellers." Well, that's how we see them, but in their own imaginary worlds, surely they're the ones piloting the plane!

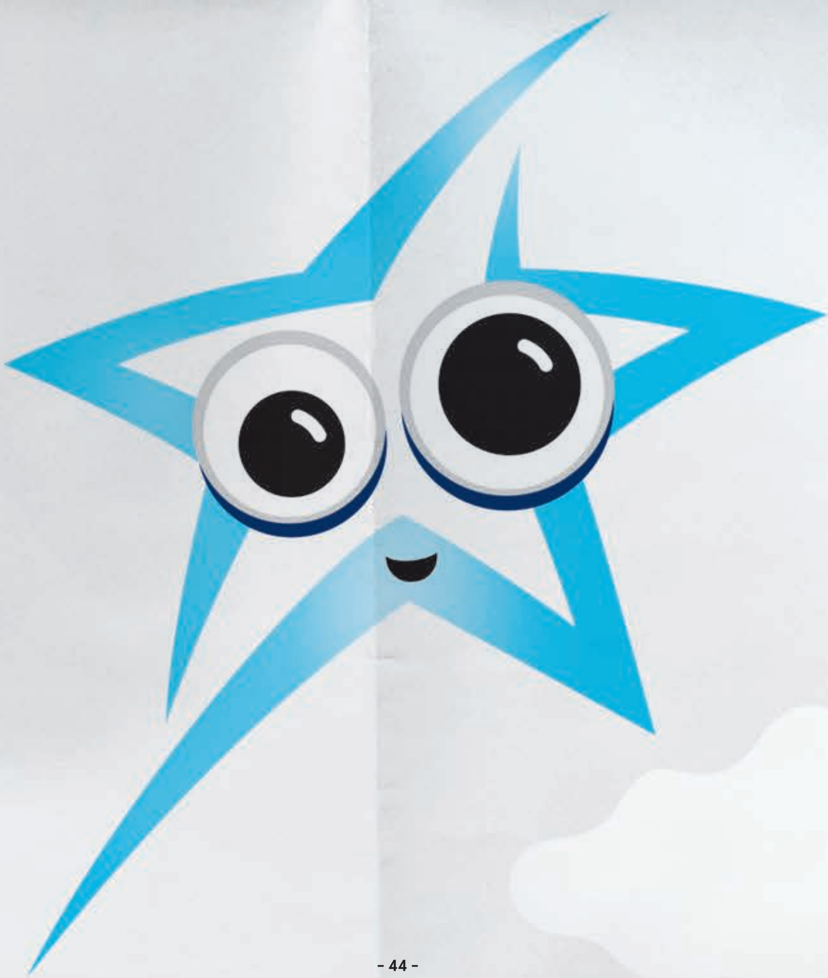
Sign up your kids at airtransat.com.

# Notre Club Enfants change de look

Personne ne voit le monde comme nos petits voyageurs. Vous souvenez-vous de la fois où Léa a voulu apprivoiser un *jellyfish* ? Ou de la fois où Émile était convaincu d'avoir fait pencher la tour de Pise ? Oui, à travers leur regard, tout s'anime autour d'eux comme de sympathiques personnages aux yeux rigolos. Voilà ce qui a inspiré le nouveau look de notre Club Enfants, qui célèbre cette année ses 11 ans !

Pour les mini globe-trotteurs, chaque voyage en avion est une aventure. Et elle devient plus palpitante encore lorsqu'ils sont membres du Club Enfants Air Transat ! Du traitement VIP à l'aéroport aux surprises à bord, tout a été pensé pour rendre les voyages super amusants pour nos « petits passagers ». Enfin, c'est comme ça que nous les appelons. Mais dans leur monde imaginaire, ce sont bien sûr eux qui pilotent l'avion.

Pour inscrire vos enfants, rendez-vous sur airtransat.com.



| 1987 | | 2017 |
|---|---|---|
| 1 aircraft appareil | → | 30 aircraft appareils |
| 2 destinations | → | 66 destinations |
| 118,390* passengers passagers | → | 4,300,000 passengers passagers |
| 165 employees employés | → | 5,000 employees employés |

## The airport just got brighter!

Your vacation begins as soon as you enter the new Espace Air Transat at Montréal-Trudeau airport. Waiting to board your flight has never been more entertaining! Between restaurants and shops, our multimedia installation by Moment Factory plunges you into our unique universe of fun and inspiring travels.

## Un univers ensoleillé à l'aéroport

Ça sent les vacances dès votre arrivée dans notre nouvel Espace Air Transat à l'aéroport Montréal-Trudeau. Ici, attendre votre embarquement n'aura jamais été aussi divertissant, car entre restos et boutiques, une œuvre multimédia signée Moment Factory vous plonge au cœur de notre univers de voyage ludique et inspirant.

*Data collected in 1988. / Données recueillies en 1988.

SIRENIS PUNTA CANA RESORT
CASINO & AQUAGAMES
PUNTA CANA - DOMINICAN REPUBLIC

## SIRENIS TROPICAL SUITES CASINO & AQUAGAMES

Slide into fun and luxury at this five-star resort in one of the most beautiful coconut groves in Punta Cana. Spend the day hurling down slides at its spectacular water park.
Then retreat to your recently renovated room in Le Mirage section and unlock new levels of pampering, offered exclusively by Transat.

## SIRENIS TROPICAL SUITES CASINO & AQUAGAMES

Goûtez au plaisir et au luxe dans ce complexe cinq étoiles situé au cœur d'une des plus belles cocoteraies de Punta Cana. Passez la journée à dévaler les glissades de son parc aquatique spectaculaire. Puis, retirez-vous au calme dans votre chambre nouvellement rénovée dans la section Mirage pour profiter des nombreux avantages offerts en exclusivité par Transat.


# FOR ALL, FOR YOU!

# *Pour tous, pour vous !*

**By / Par : Carolyne Parent**

Discover two different places: a popular one “for all” and a lesser-known one “for you,” related to a given theme or destination. That’s the idea behind this original feature.

In this issue, festive and fictional unite as we celebrate two anniversaries in the literary world by immersing you in timeless classics.

Our “for all” piece transports Sherlock Holmes fans to London’s crime scenes. Written by Sir Arthur Conan Doyle and published in 1892, *The Adventures of Sherlock Holmes* was the first collection of short stories featuring the famous detective.

“For you” sets the course for a journey through Switzerland and France, exploring the sites linked either to the characters of *Frankenstein* or to its author, Mary Shelley, born 220 years ago.

Off we go!

Deux suggestions de lieux à explorer, l’un populaire, « Pour tous », l’autre méconnu, « Pour vous », correspondant à une destination ou à une thématique donnée : voici l’idée derrière cette rubrique originale !

Dans ce numéro, le festif se marie au fictif puisque nous célébrons deux anniversaires dans le monde littéraire en vous plongeant au cœur des décors d’œuvres intemporelles.

Notre proposition « Pour tous » transporte les *fans* de Sherlock Holmes sur les « lieux du crime », à Londres. Signé Sir Arthur Conan Doyle et publié en 1892, *Les Aventures de Sherlock Holmes* constitue le premier recueil de nouvelles mettant en vedette le célèbre détective.

« Pour vous » met le cap sur un circuit en Suisse et en France, à la découverte de sites liés soit aux personnages de *Frankenstein*, soit à son auteure, Mary Shelley, née il y a 220 ans cette année.

Bonnes découvertes !

# Sherlock Holmes


## FOR ALL: ELEMENTARY, MY DEAR WATSON!

This year marks the 125th anniversary of the first collection of Sherlock Holmes's adventures. Since 2010, these stories have been inspiring the popular British TV series *Sherlock*, starring Benedict Cumberbatch. But another important part of Holmes's world is London, and a great way to explore the city is to walk in the footsteps of the eccentric sleuth himself!

First stop: the fictitious apartment of Holmes and his assistant, Dr. Watson, at 221B Baker Street. On the small screen, 187 North Gower Street actually doubles as the exterior of the famous duo's residence. (Speedy's, the coffee shop next door, makes a yummy Sherlock wrap!)

Second stop: The Sherlock Holmes Museum, at 221B Baker Street, which has recreated the detective's famous study.

Third stop: the Sherlock Holmes pub at 10 Northumberland Street, frequented by the protagonists. It serves Dr. Watson's favourite pork sausages and boasts a cabinet of curiosities dedicated to the dynamic duo.

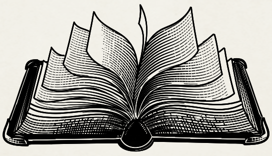
## POUR TOUS : ÉLÉMENTAIRE, MON CHER WATSON !

Cette année marque le 125e anniversaire de la parution du premier recueil des aventures de Sherlock Holmes. Depuis 2010, ces aventures inspirent notamment la très populaire télésérie britannique *Sherlock*, avec Benedict Cumberbatch dans le rôle-titre. Mais une autre grande vedette de l'univers de l'excentrique détective est Londres elle-même, et une bonne façon de l'explorer consiste à marcher dans les pas du fin limier !

Premier arrêt : l'appartement fictif de Holmes et de son acolyte, le Dr Watson, dont l'adresse est le 221B Baker Street. Au petit écran, c'est plutôt la porte du 187 North Gower Street qui mène chez le célèbre duo. (Le café voisin, Speedy's, sert d'ailleurs un bon *wrap* baptisé Sherlock !)

Deuxième arrêt : The Sherlock Holmes Museum, qui occupe le... 221B Baker Street et recréé le bureau du détective.

Troisième arrêt : le pub Sherlock Holmes, que fréquentent nos héros, au 10 Northumberland Street. On y sert les saucisses de porc dont raffole le Dr Watson et on y présente une collection de curiosités liées aux deux compères.



# Frankenstein

## FOR YOU: IN THE FOOTSTEPS OF FRANKENSTEIN, IN SWITZERLAND AND FRANCE

It was during her holiday in Cologny, near Geneva, Switzerland, that Mary Shelley first had the idea of her horror masterpiece, *Frankenstein*, published in 1818.

Upon the invitation of poet Lord Byron, the young Englishwoman stayed at the Belle Rive villa, the name she gave to the house of Victor Frankenstein, the monster's creator. Also called Diodati, the villa is now a cultural monument of national importance, which can't be visited but can be admired while sailing on Lake Geneva.

In her novel, Mary Shelley also mentions Coppet Castle, set in the neighbouring canton of Vaud. This property, where the famed Madame de Staël held a literary salon that Byron often attended, is a cultural treasure open to visitors every afternoon from April to October.

Then, head to the charming town of Évian-les-Bains, located on the French shores of Lake Geneva, where Victor and Elizabeth Frankenstein honeymooned. And, to complete the picture, visit the Plaine de Plainpalais square in Geneva, where a bronze statue of the grotesque creature stands. Shake his hand if you dare!

## POUR VOUS : SUR LES TRACES DE FRANKENSTEIN, EN SUISSE ET EN FRANCE

En vacances à Cologny, près de Genève, en Suisse, Mary Shelley écrivit le brouillon de ce qui allait devenir l'œuvre phare du roman d'épouvante, *Frankenstein*, publié en 1818.

À l'invitation du poète Lord Byron, la jeune Anglaise séjourna à la villa Belle Rive, nom qu'elle donna à la maison de Victor Frankenstein, le créateur du monstre. Également appelée Diodati, la villa est aujourd'hui un bien culturel d'importance nationale qui ne se visite pas, mais de toute façon, on l'admire mieux en croisière sur le lac Léman !

Dans son œuvre, Mary Shelley mentionne également le château de Coppet, situé dans le canton voisin de Vaud. Cette propriété, où la célèbre Madame de Staël tenait un salon littéraire que fréquentait Byron, est un bien culturel ouvert aux visiteurs les après-midis d'avril à octobre.

Puisque les amoureux du roman, Victor et Elizabeth Frankenstein, font leur voyage de noces à Évian-les-Bains, cap sur cette charmante bourgade située sur la rive française du lac. Et pour boucler la boucle, direction la plaine de Plainpalais, à Genève, où s'élève une statue de bronze à l'effigie de la créature. Oserez-vous lui serrer la pince ?

© Photo : Fondation Martin Bodmer, Naomi Wenger

© Photo : Julien Gregorio, Ville de Genève

Air Transat offers direct flights to London and Lyon (less than a two-hour drive from Geneva). Check out our destinations grid on pages 78-79 to plan your next getaway. / **Air Transat offre des vols directs vers Londres et Lyon (à moins de deux heures de route de Genève). Consultez notre grille de destinations aux pages 78-79 pour planifier votre prochaine escapade.**

# THE QUEBEC YOU'VE DREAMED OF!

Mauricie and Lanaudière, between Montreal and Quebec City on the north shore of the St. Lawrence River, have forged lasting ties based on authenticity and hospitality. The two regions come together to form Authentic Quebec, and it's yours to explore!

Teeming with lakes (more than 30,000!) and rivers, this land of wide open spaces is renowned for its forest inns. Cradle of industrialization and ideal setting for first meetings, this region is the gateway to the great outdoors and a must for any stay in Quebec.

Vibrant small towns, a wealth of forests, a gentle rolling countryside and the warm inclusive greeting of its denizens all pave the way for an unforgettable stay in Authentic Quebec! A place to lay roots where conversations spring up naturally!

Welcome to Authentic Quebec!

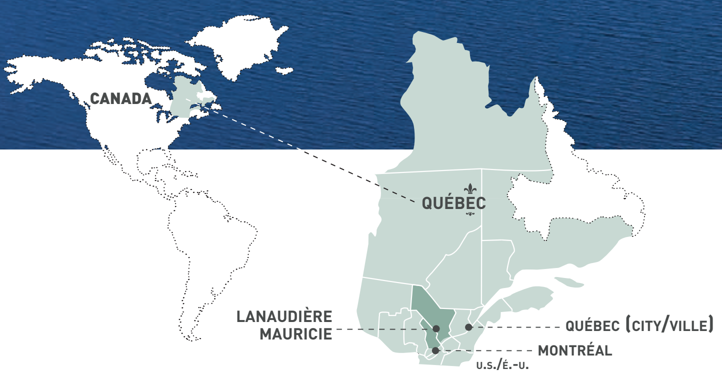
# LE QUÉBEC COMME VOUS L'AVEZ RÊVÉ !

La Mauricie et Lanaudière, sur la rive nord du fleuve Saint-Laurent, entre Montréal et Québec, ont tissé des liens profonds basés sur l'authenticité et l'hospitalité. Par grand bonheur, les deux régions se sont unifiées en un territoire à découvrir : le Québec Authentique.

Parsemée de lacs (pas moins de 30 000 !) et de rivières, cette terre de grands espaces est réputée pour ses auberges de la forêt. Territoire des premières rencontres et berceau de l'industrialisation, cette région offre une proximité avec la grande nature, ce qui en fait un incontournable dans les séjours au Québec.

Entre l'effervescence des petites villes, la richesse des forêts, la douceur des campagnes et l'accueil intégrant des habitants, un séjour au Québec Authentique est inoubliable ! On y crée des liens,— des vrais —, et l'art d'échanger se fait tout naturellement !

Bienvenue au Québec Authentique !


LE QUÉBEC AUTHENTIQUE
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## MEET ERIC PEREZ AND HIS BRAND-NEW

# TORONTO WOLFPACK

## À LA RENCONTRE D'ERIC PEREZ ET DE SON TOUT NOUVEAU WOLFPACK DE TORONTO

### Move over, hockey… Canada celebrates Rugby League
### **Oubliez le hockey : le Canada célèbre le rugby à XIII**

**By / Par : Olivier Pratte**

Describing what makes Rugby League truly Canadian, Eric Perez doesn't skimp on the sport's vibrant attributes. "It's fast-paced, hard-hitting and pure," he says more than once before honing in on the word "people." "The Toronto Wolfpack is a people's team for a people's sport, sponsored by a people's airline, Air Transat."

Having travelled extensively to the United Kingdom, Perez saw first-hand how Rugby League can whip people into a frenzy. And last year, 40 Air Transat roundtrip flights later, his dream of bringing that same passion to Canada came true when he introduced the Toronto Wolfpack, the world's first transatlantic Rugby League team.

In March, the Wolfpack made its long-awaited debut in League 1, the third tier of the English Rugby Football League (RFL), scoring an impressive 76-0 win over the London Skolars in its first game. It's already garnering incredible buzz in the UK. With such great success, Perez goes so far as to claim the team will change the fabric of Canadian sport. And we're tempted to believe him.

Quand on lui demande ce qui fait du rugby à XIII (« Rugby League » en anglais) un sport vraiment canadien, Eric Perez ne passe pas par quatre chemins : « La vitesse, la dureté, la pureté. » Il répète ces mots comme un mantra avant de trouver un autre qualificatif : « C'est un sport populaire. Le Wolfpack de Toronto, c'est une équipe populaire qui joue un sport populaire, commanditée par une ligne aérienne populaire : Air Transat. »

Ayant beaucoup voyagé au Royaume-Uni, Perez a pu constater à quel point le rugby à XIII peut enflammer les esprits. Et l'an dernier, après 40 voyages aller-retour sur les ailes d'Air Transat, il a réalisé son rêve de faire vivre cette passion au Canada avec la création du Wolfpack de Toronto, la première équipe de rugby à XIII de ce côté-ci de l'Atlantique.

En mars dernier, à son tout premier match, le Wolfpack faisait son entrée tant attendue au sein de la League 1, le troisième échelon de la Rugby Football League (RFL) anglaise, avec une impressionnante victoire de 76-0 contre les Skolars de Londres. Après un tel succès, l'équipe fait déjà beaucoup parler d'elle au Royaume-Uni, et Perez affirme qu'elle transformera le paysage du sport canadien. Nous sommes bien tentés de le croire.

Having assembled captains from many other national teams, the Wolfpack's world-class lineup is every rugby lover's dream. Leading the pack is Brian Noble, the team's general manager, who has coached Great Britain for a number of years. To Perez, the man is "an all-around legend."

If all goes as planned, and all seems to point in that direction, the Toronto Wolfpack should climb up the ranks of the RFL and make it to the top of the Super League—Rugby League's highest level—in no time. We could also see the birth of another transatlantic team on North American soil. "What could be a better rival to the French national team than Montreal?" asks Perez.

Réunissant des capitaines de plusieurs équipes nationales comme joueurs, le Wolfpack offre un alignement de calibre mondial qui relève du rêve pour tout amoureux du rugby. À la tête de la meute, on retrouve Brian Noble, directeur général de l'équipe, qui a été entraîneur de l'équipe de Grande-Bretagne durant plusieurs années. Selon Perez, cet homme est « tout simplement une légende ».

Si tout se déroule comme prévu, et rien ne laisse supposer le contraire, le Wolfpack de Toronto devrait gravir les échelons de la RFL et accéder à la Super League — le sommet du rugby à XIII — en peu de temps. On pourrait aussi assister à la naissance d'une autre équipe de ligue européenne en territoire nord-américain. « Montréal serait une rivale idéale pour l'équipe nationale de France ! », affirme Perez.

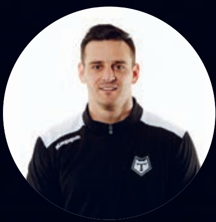
If you know what a try, scrum and line-out are, then you're well on your way to surviving a day at "The Den," a.k.a., Lamport Stadium, where Toronto Wolfpack will play its home matches. For the newbies, here's a flash survival guide to the basic rules of Rugby League.

- The aim is to score more points than your opponents over an 80-minute-long match divided into two 40-minute halves.
- A try (kind of like a touchdown, when a player touches the ground with the ball over the opponent's goal line) is worth four points and can be converted to six points with a kick.
- A penalty goal is worth two points, and a drop goal (kicking the ball over the crossbar and between the goalposts) is worth one point.
- The ball is always passed backwards (never forward!), and each 13-player team has it for six plays (or tackles), after which it must be handed over to the opposition.
- If it's still not clear, just yell out "Knock-on!" or "Hands in the ruck!" and you'll fit right in!

Si vous savez déjà ce que sont un essai, une mêlée et une touche, vous êtes en bonne posture pour survivre à une journée dans l'antre du Wolfpack : le stade Lamport, où l'équipe torontoise disputera ses matchs à domicile. Pour les novices, voici un guide éclair des principales règles du rugby à XIII :

- Le but du jeu est de compter plus de points que votre adversaire au cours d'un match de 80 minutes divisé en deux demies de 40 minutes.
- Un essai vaut quatre points (ça ressemble à un touché au football, sauf que le joueur doit porter le ballon au sol dans la zone de but adverse). Un botté de transformation réussi fait monter le total à six points.
- Un botté de pénalité donne deux points, tandis qu'un drop (le fait de botter le ballon entre les poteaux des buts et au-dessus de la barre transversale) donne un point.
- On peut passer le ballon seulement vers l'arrière (jamais vers l'avant !), et chacune des équipes de 13 joueurs possède le ballon pour six jeux, appelés « tenus », après quoi elle doit le remettre à l'autre équipe.
- Si vous n'y comprenez toujours rien, criez simplement « En-avant ! » ou « Une main dans la mêlée ! » et vous aurez l'air de vous y connaître.

# PLAYERS TO KEEP AN EYE ON
# QUELQUES JOUEURS À SURVEILLER



## CRAIG HALL

**POSITION**
Centre, Team Captain

**HEIGHT + WEIGHT**
6'4", 205 lb

**NICKNAME**
Hally

**FAVOURITE DESTINATION**
Cancun, but I'm planning on taking my little girl to Orlando to go to Walt Disney World in the near future.

**PRE-GAME SUPERSTITIONS OR RITUALS**
I like to have a Red Bull before warming up, and I always wear a pair of trunks under my shorts.

**POSITION**
Centre, capitaine de l'équipe

**TAILLE ET POIDS**
1,93 m, 93 kg

**SURNOM**
Hally

**DESTINATION PRÉFÉRÉE**
Cancun, mais je prévois emmener ma petite fille à Orlando prochainement pour visiter Walt Disney World.

**SUPERSTITION OU RITUEL D'AVANT-MATCH**
J'aime bien boire un Red Bull avant l'échauffement et je porte toujours un caleçon boxeur sous mon short.

## FUIFUI MOIMOI

**POSITION**
Prop

**HEIGHT + WEIGHT**
6', 231 lb

**NICKNAME**
Fui

**FAVOURITE DESTINATION**
Tonga. For heritage reasons.

**PRE-GAME SUPERSTITIONS OR RITUALS**
Eat right, sleep well, and always pray before a match.

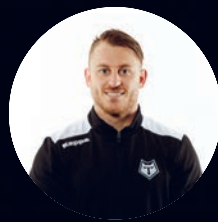
**POSITION**
Pilier

**TAILLE ET POIDS**
1,83 m, 105 kg

**SURNOM**
Fui

**DESTINATION PRÉFÉRÉE**
Tonga, pays de mes origines.

**SUPERSTITION OU RITUEL D'AVANT-MATCH**
Bien manger, bien dormir et toujours prier avant un match.



## RHYS JACKS

**POSITION**
Halfback

**HEIGHT + WEIGHT**
5'8", 131 lb

**NICKNAME**
Jacksie

**FAVOURITE DESTINATION**
Too many to choose from, but if I had to pick just one, it would be Barcelona. Nice weather, food and beach.

**PRE-GAME SUPERSTITIONS OR RITUALS**
My main superstition is having a routine. I love keeping everything exactly the same leading up to a game.

**POSITION**
Demi de mêlée

**TAILLE ET POIDS**
1,73 m, 59 kg

**SURNOM**
Jacksie

**DESTINATION PRÉFÉRÉE**
Il y en a trop, mais si je devais en choisir une seule, ce serait Barcelone. Température, bouffe, plage : tout est super !

**SUPERSTITION OU RITUEL D'AVANT-MATCH**
Ma principale superstition est d'avoir une routine. J'aime que les choses se passent exactement de la même manière avant chaque partie.

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# THE TREASURE OF / LE TRÉSOR DE *Lyon*

By / Par : Carol Perehudoff

A trip to Lyon, the gastronomic capital of France, turns into a food-fuelled adventure

**Un voyage à Lyon, capitale gastronomique de la France, se transforme en une délicieuse aventure gustative**

# “Nose?

You ordered beef nose?” I asked my husband, Mark, as we sat inside a *bouchon*, a traditional working-class restaurant unique to Lyon, the capital of the Auvergne-Rhône-Alpes region of France.

“Why not?” He reached across the red-checkered tablecloth to pour some Beaujolais.

Why not, indeed? Nose is hip. So are bouchons, convivial family-style restaurants that sprang up in the 17th and 18th centuries to serve the *canuts*, Lyonnais silk workers who fuelled the city’s booming silk industry.

Here’s the thing, though. My husband is not hip. (Don’t tell him I said that.) He didn’t come to Lyon on a food pilgrimage like the legions of gastronomic tourists who flock here for the food halls, bouchons and Michelin-starred restaurants. He wasn’t ordering breaded pig’s trotters or “Jesus of Lyon” sausages because it’s trendy, but because Lyon’s celebration of food is as honest as his love for France and meat.

Luckily, I found plenty to tempt my lighter palate: airy-as-a-cloud pike dumplings (*quenelles*), salade Lyonnaise, even the provocatively named silk worker’s brains, *cervelle de canut*, a dish that sounds as if it came from the graveyard but is actually soft cheese with herbs.

One of the best places to experience Lyon’s vibrant food culture is at Les Halles de Lyon - Paul Bocuse, a bustling food hall named after Lyon’s most celebrated chef. The leading figure behind the French style of cooking that would become known as nouvelle cuisine, Paul Bocuse also founded the prestigious Bocuse d’Or culinary competition in 1987, making 2017 the contest’s 30th anniversary.

It was impossible to express my true taste-bud happiness as Mark and I cruised by stalls selling everything from plump Bresse chicken to multi-hued macarons, not so much because I was overcome with emotion but because my teeth were clamped shut by the caramelized sugar in the pink praline tart I’d just bought at Boulangerie Jocteur. Unique to Lyon, these bright-hued confections are said to have been inspired by the Rhône Valley’s rose gardens.

Whether that’s true or not I don’t know, but as I marvelled at other regional specialties such as the creamy Saint-Marcellin cheese at La Mère Richard and the artisanal sausages at Charcuterie Sibilia, it seemed clear Lyon’s cuisine has been shaped by the lakes, farms and vineyards that surround it. Maybe that’s the real treasure of Lyon—the rich local produce that turns a trip here into a journey of flavours, whether you’re a meat-loving adventurer or not.

# « *Du museau ?*

Tu as commandé du museau de bœuf ? », ai-je demandé à mon mari, Mark, alors que nous venions de nous attabler dans un « bouchon », nom donné aux restaurants autrefois destinés aux ouvriers de Lyon, la capitale de la région française d'Auvergne-Rhône-Alpes.

« Pourquoi pas ? » Il a tendu le bras au-dessus de la nappe à carreaux rouge et blanc pour me verser du beaujolais.

Oui, pourquoi pas. Manger du museau, c'est branché. Tout comme les bouchons d'ailleurs, ces restos populaires à l'ambiance conviviale qui ont émergé aux XVII^e^ et XVIII^e^ siècles pour nourrir les ouvriers de la prospère industrie du tissage de la soie à Lyon, qu'on appelait les « canuts ».

Le hic, c'est que mon mari n'est pas du type branché. (Mais ne lui dites surtout pas !) Mark n'est pas venu à Lyon en pèlerinage culinaire, comme les milliers de touristes gastronomiques qui visitent la ville pour ses Halles, ses bouchons et autres restaurants étoilés Michelin. Et il ne commande pas des pieds de cochon panés ou du saucisson « jésus de Lyon » parce que c'est tendance, mais parce que le culte que Lyon voue à la cuisine est aussi authentique que l'amour qu'il porte à la France et à la viande.

Heureusement, j'ai trouvé de quoi combler mon palais plus délicat : des quenelles de brochet toutes légères, de la salade lyonnaise et même de la cervelle de canut, un plat dont le nom laisse croire qu'il provient tout droit d'un cimetière, mais il s'agit en fait de fromage blanc aux herbes.

L'un des meilleurs endroits pour découvrir la diversité culinaire de la ville est sans doute les Halles de Lyon — Paul Bocuse, un fourmillant marché qui porte le nom du chef le plus renommé de Lyon. Figure de proue d'un style de cuisine française plus tard connue sous le nom de « nouvelle cuisine », Paul Bocuse a également fondé en 1987 le prestigieux concours du Bocuse d'Or, une compétition de chefs qui célèbre son 30^e^ anniversaire en 2017.

Je n'arrivais pas à exprimer tout mon bonheur gustatif tandis que Mark et moi déambulions entre les étals qui proposaient toutes sortes de délices, des poulets de Bresse aux jolis macarons multicolores. Pas tant parce que j'étais émue, mais parce que j'avais les dents collées dans le sucre caramélisé de la tarte à la praline rose que je venais d'acheter à la Boulangerie Jocteur. Typiquement lyonnaise, cette confection de couleur éclatante aurait été inspirée des jardins de roses de la vallée du Rhône.

Mythe ou réalité, je n'en sais rien. Mais pendant que je m'émerveillais devant d'autres spécialités régionales telles que l'onctueux fromage Saint-Marcellin de La Mère Richard et les saucisses artisanales de la Charcuterie Sibilia, il m'a semblé évident que la cuisine de Lyon avait été façonnée par les lacs, les fermes et les vignobles des environs. Au fond, le vrai trésor de Lyon, c'est sans doute la richesse des produits locaux qui transforme un voyage dans cette magnifique ville en une odyssée de saveurs, même si vous n'êtes pas un grand amateur de viande.

# BOCUSE D'OR

By / Par : Tanya Solari

## *Behind the Scenes*

January 25, 2017: Today is a special day in Lyon, France. Inside Hall Paul Bocuse, Chef James Olberg frantically searches the small kitchen for a paring knife while Coach Trevor Ritchie keeps an eye on the oven. These lads have only five hours and 35 minutes to prepare an epic Canadian feast *à la française*, and boy, does time fly in a chaotic space shared by a dozen teams.

Olberg goes over the recipe in his head. Potatoes, squash, corn, cabbage… How are they expected to add a French twist to their dish when the ingredients they've been provided are just so… Canadian?

Welcome to Bocuse d'Or, the F1 of cooking, one of the world's most esteemed—and most intense—culinary competitions. Every two years, the *crème de la crème* of chefs from around the globe are summoned to the hometown of legendary French chef and contest co-founder Paul Bocuse. Twenty-four teams go head-to-head for the grand prize: a golden statue of Bocuse and €20,000, not to mention a whole lot of prestige.

To celebrate the event's 30th anniversary, this year's competitors were challenged to reinvent the recipe for *poulet de Bresse aux crustacés* to reflect their own country, and then whip up a vegan creation.

Team Canada's Bresse chicken and lobster dish packed a whole lot of flavour punch from back home with garnishes like Canadian icewine, apple cider and pickled pine needles.

The vegan challenge gave them even more freedom to experiment: they worked with plant-based ingredients like truffles, mushrooms, chickpeas and cocoa butter to concoct flavours that don't normally mingle (think red bean ganache coated with white chocolate).

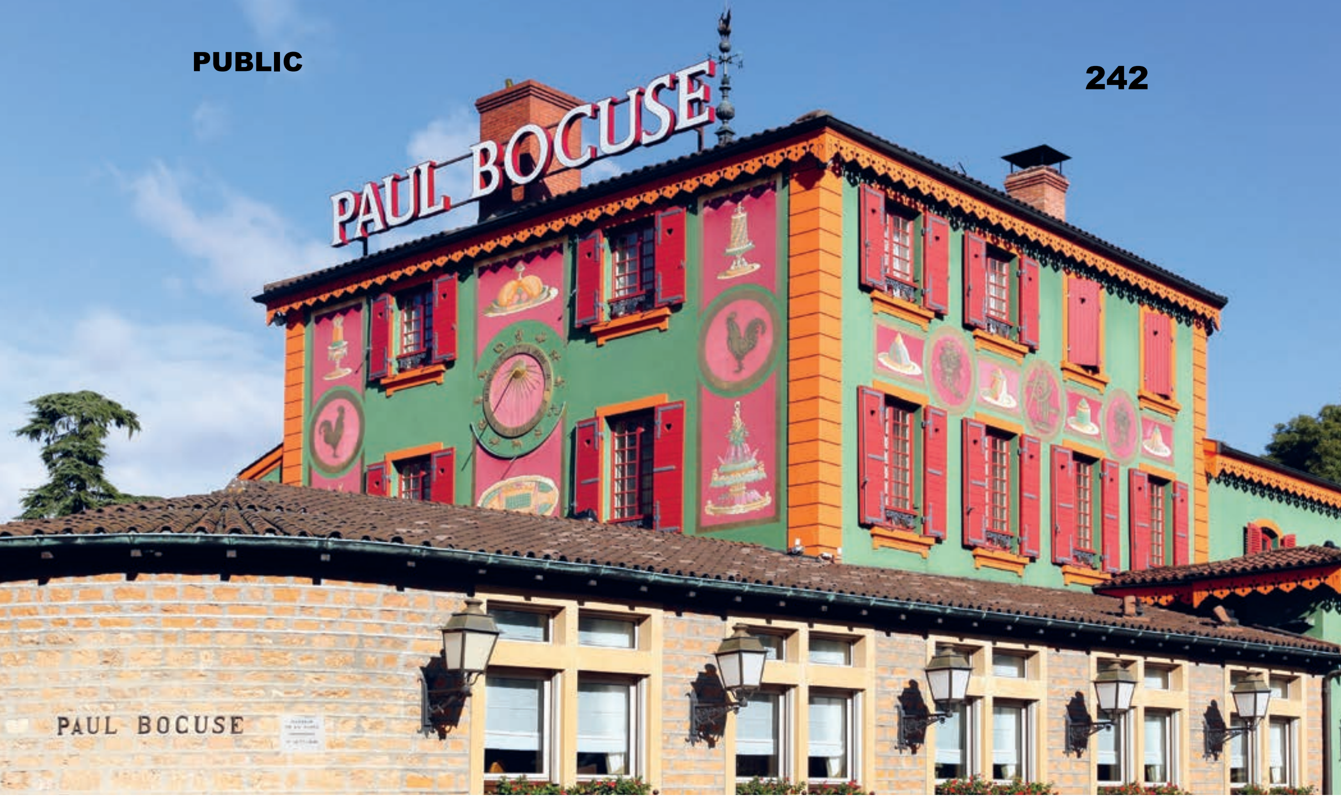
The Canadians went the extra mile by turning their grill into a small firepit, which they used to roast carrots and char pears, leaving an indelible mark on the judges' taste buds.

While Olberg and his team didn't bring home the gold, their dishes, marinated with a dash of creativity and a pinch of perseverance, blew the judges away, showing the world that Canada's got gastronomic game, too!

Our 150-year-old country may not have the long-standing culinary traditions Europe does, but that's what has allowed its palate and cooking to evolve so quickly. "Some recipes in Europe are centuries old, and no one messes around with them. In Canada, we can be creative without holding the distinction of having 400-year-old cheese recipes," says Olberg, laughing.

"When I was growing up, there were lots of rules about cooking. Those rules are gone.Today's great young chefs have no pre-notion of how things should be done. They're just having fun trying out different techniques, creating a bold, innovative food culture."

And that's precisely what defines Canadian cuisine.




Restaurant Paul Bocuse, L'Auberge du Pont de Collonges

# *En coulisses*

Le 25 janvier 2017 : une journée très spéciale à Lyon, en France. À l'intérieur de l'Espace Paul Bocuse, le chef James Olberg remue ciel et terre pour trouver un couteau d'office tandis que l'entraîneur Trevor Ritchie surveille le four. Ces cuisiniers n'ont que 5 heures 35 minutes pour préparer un festin canadien « à la française », et le temps s'écoule à un rythme infernal dans cet environnement chaotique où s'affairent douze équipes.

Olberg repasse la recette dans sa tête. Pommes de terre, courge, maïs, chou… Comment feront-ils pour ajouter une touche française à leur plat, alors que les ingrédients dont ils disposent sont tellement… canadiens ?

Bienvenue au Bocuse d'Or, l'un des concours culinaires les plus réputés — et les plus exigeants — au monde. Tous les deux ans, la crème des chefs du monde entier est invitée dans la ville natale du légendaire chef français et cofondateur du concours Paul Bocuse. Vingt-quatre équipes s'affrontent pour remporter le grand prix : une statuette dorée de Bocuse et une bourse de 20 000 €, sans parler du prestige qui l'accompagne.

Pour souligner le 30e anniversaire de l'événement, les compétiteurs devaient réinventer la recette du poulet de Bresse aux crustacés de manière à refléter leur pays d'origine, puis créer un plat végétalien.

L'équipe canadienne a donc relevé à souhait l'assiette de poulet de Bresse et de homard avec des saveurs bien de chez nous : vin de glace, cidre de pomme et aiguilles de pin marinées.

La création végétalienne leur donnait encore plus de liberté pour expérimenter : ils ont travaillé avec des ingrédients tels que des truffes, des champignons, des pois chiches et du beurre de cacao afin de concocter des mélanges de saveurs inhabituels (dont une ganache aux haricots rouges enrobée de chocolat blanc).

Les Canadiens ont tout donné, transformant même leur gril en un petit foyer où ils ont rôti des carottes et grillé des poires, offrant aux papilles des juges un souvenir inoubliable.

Bien qu'Olberg et son équipe n'aient pas remporté l'or, leurs plats agrémentés d'une pincée de créativité et d'un soupçon de persévérance ont épaté les juges. Ils nous ont rendus fiers en prouvant que notre pays aussi a sa place au sommet de la gastronomie.

Fêtant ses 150 ans cette année, le Canada n'a peut-être pas la longue tradition culinaire des pays européens, mais c'est justement ce qui lui a permis de connaître une évolution fulgurante en fait de goût et de cuisine. « En Europe, certaines recettes sont vieilles de plusieurs siècles, et personne n'oserait les modifier. Au Canada, nous savons faire preuve de créativité même si nous n'avons pas de recette de fromage vieille de 400 ans », dit James Olberg en riant.

« Dans ma jeunesse, il y avait un tas de règles entourant la cuisine, poursuit-il. Aujourd'hui, ces règles n'existent plus. Les jeunes chefs n'ont pas d'a priori sur la façon dont les choses devraient être faites. Ils ne font que s'amuser à essayer différentes techniques, créant ainsi une culture culinaire audacieuse et innovatrice. »

Oui, voilà deux mots qui définissent bien la cuisine canadienne actuelle.

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# 24 HOURS HEURES

# IN VENICE
# À VENISE

Illustrations: VRUN

IN EVERY ISSUE, TRACE THE FOOTSTEPS OF A TRANSAT EMPLOYEE TO ONE OF THEIR FAVOURITE CITIES FOR A WHIRLWIND HOLIDAY! THIS TIME AROUND, SEE OUR PRODUCT COORDINATOR XAVIER BONNEAU SUBIRANA'S PICKS FOR HIS VENICE... IN 24 HOURS.

**DANS CHAQUE NUMÉRO *D'ATMOSPHERE*, NOUS SUIVONS LES TRACES D'UN EMPLOYÉ DE TRANSAT DANS L'UNE DE SES VILLES COUP DE CŒUR. CETTE FOIS-CI, XAVIER BONNEAU SUBIRANA, COORDONNATEUR PRODUITS, NOUS ENTRAÎNE À LA DÉCOUVERTE DE VENISE... EN 24 HEURES!**

**11:30 a.m.**

Head to the San Polo neighbourhood, one of the city's oldest districts. Walk over the famous 16th-century Rialto Bridge and check out the bustling Rialto markets, filled with fresh vegetables, fruits and seafood. This is where the chefs from Antiche Carampane, one of my favourite restaurants, shop. At Antiche Carampane, try the spaghetti in cassopippa (spicy shellfish sauce) or the squid in black ink sauce with polenta. The restaurant's motto is "You don't arrive by chance," and it's true.

**2 p.m.**

Make your way to St. Mark's Square, where you'll find many of the city's landmarks: St. Mark's Basilica, Doge's Palace and the Clock Tower. Then give your feet a rest and discover the city on a boat tour along the Grand Canal, exploring the smaller canals and passing by famous palaces and bridges. The tour ends at San Giorgio Maggiore—go up to the top of the bell tower for an incredible 360-degree view of Venice.

**5:30 p.m.**

Time to escape the crowds and head to a local *bacaro* (gastropub). Take a *vaporetto* (water taxi or water bus) to the Cannaregio area and enjoy traditional *cicchetti* (the Venetian take on tapas) and sip on a spritz (the favoured local aperitif) with the locals. Salizada del Pistor street has great restaurants and bars.

**9:30 p.m.**

Take a stroll north to the old Jewish ghetto. You can still walk through the tunnels where the Jewish community was locked up during the Second World War. If Venice hasn't tired you out yet, head back to Salizada del Pistor to soak up the city's nightlife. I really like El Sbarlefo, a little wine bar with great fried *cicchetti*.

**8:30 a.m.**

Try to make it back to St. Mark's Square early to enjoy the area before the huge crowds. Grab breakfast and coffee at Caffè Florian in the square—or better yet, a hot chocolate, as it's known for that. Don't leave Venice without visiting the museum of the Peggy Guggenheim Collection. It's housed in Palazzo Venier dei Leoni, an 18th-century palace on the Grand Canal, in which she lived. She spent 30 years in Venice collecting works of art, many of which are exhibited here.

**11 h 30**

Marchez en direction du quartier de San Polo, un des plus anciens secteurs de la ville. Traversez le célèbre pont du Rialto, datant du XVIe siècle, et découvrez les marchés animés du Rialto avec leurs étals de fruits, de légumes et de poissons frais. C'est ici que s'approvisionnent les chefs du Antiche Carampane, un de mes restaurants préférés. N'hésitez pas à vous y attabler pour déguster leur délicieux spaghetti cassopippa, nappé d'une sauce épicée aux crustacés, ou les calmars à l'encre de seiche servis avec de la polenta. La devise de ce restaurant, «Vous n'êtes pas ici par hasard», est tout à fait exacte.

**14 h**

Rendez-vous sur la place Saint-Marc, où se trouvent plusieurs des principaux monuments de Venise, dont la basilique Saint-Marc, le palais des Doges et le campanile. Prenez ensuite une pause bien méritée en profitant d'une visite guidée en bateau le long du Grand Canal pour découvrir la ville. Vous sillonnerez de plus petits canaux et passerez devant des ponts et des palais très célèbres. La visite se termine à San Giorgio Maggiore. Grimpez au sommet du campanile, d'où vous aurez une vue époustouflante à 360 degrés sur Venise.

**17 h 30**

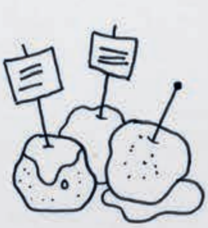
Il est temps de prendre congé de la foule et de filer dans un *bacaro* local (pub gastronomique). Prenez un *vaporetto* (bateau-taxi ou bateau-bus) en direction du quartier Cannaregio et savourez des *cicchetti* traditionnels, ces tapas à la vénitienne, tout en sirotant l'apéritif local par excellence qu'est le spritz avec les gens du coin. C'est sur la rue Salizada del Pistor qu'on peut dénicher de bons restaurants et des bars sympathiques.

**21 h 30**

Partez vers le nord de la ville pour explorer l'ancien ghetto juif. On peut encore y traverser les tunnels dans lesquels on enfermait les Juifs durant la Deuxième Guerre mondiale. S'il vous reste encore un peu d'énergie après cette journée bien remplie, revenez vers Salizada del Pistor pour profiter de l'ambiance nocturne. J'aime beaucoup El Sbarlefo, un petit bar à vin qui sert de délicieux *cicchetti* frits.

**8 h 30**

Essayez de retourner sur la place Saint-Marc tôt le matin pour profiter de cet endroit merveilleux avant l'arrivée de la foule. Prenez un petit-déjeuner et un café au Caffè Florian, directement sur la place. Ou mieux encore, commandez un chocolat chaud, sa spécialité. Et ne quittez surtout pas Venise sans avoir vu la collection Peggy Guggenheim qu'abrite le palais Venier dei Leoni, un établissement du XVIIIe siècle situé sur le Grand Canal où la célèbre mécène a vécu. Peggy Guggenheim a passé 30 ans à Venise à collectionner de nombreuses œuvres d'art, dont la plupart sont exposées ici.



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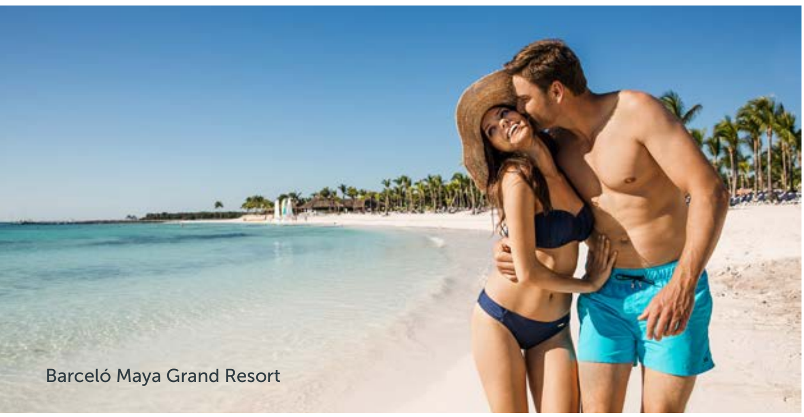
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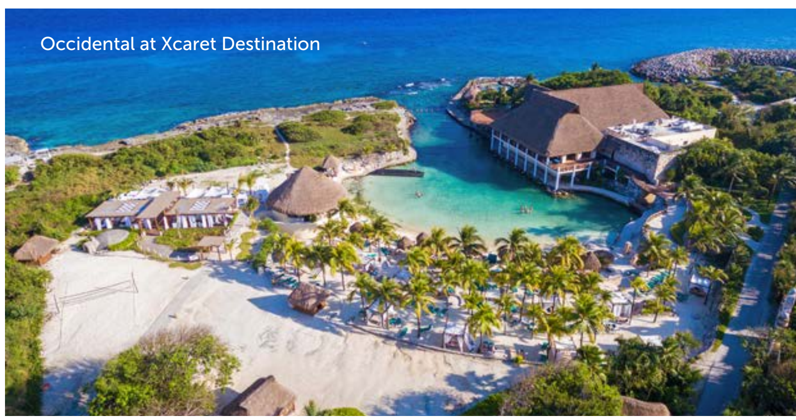
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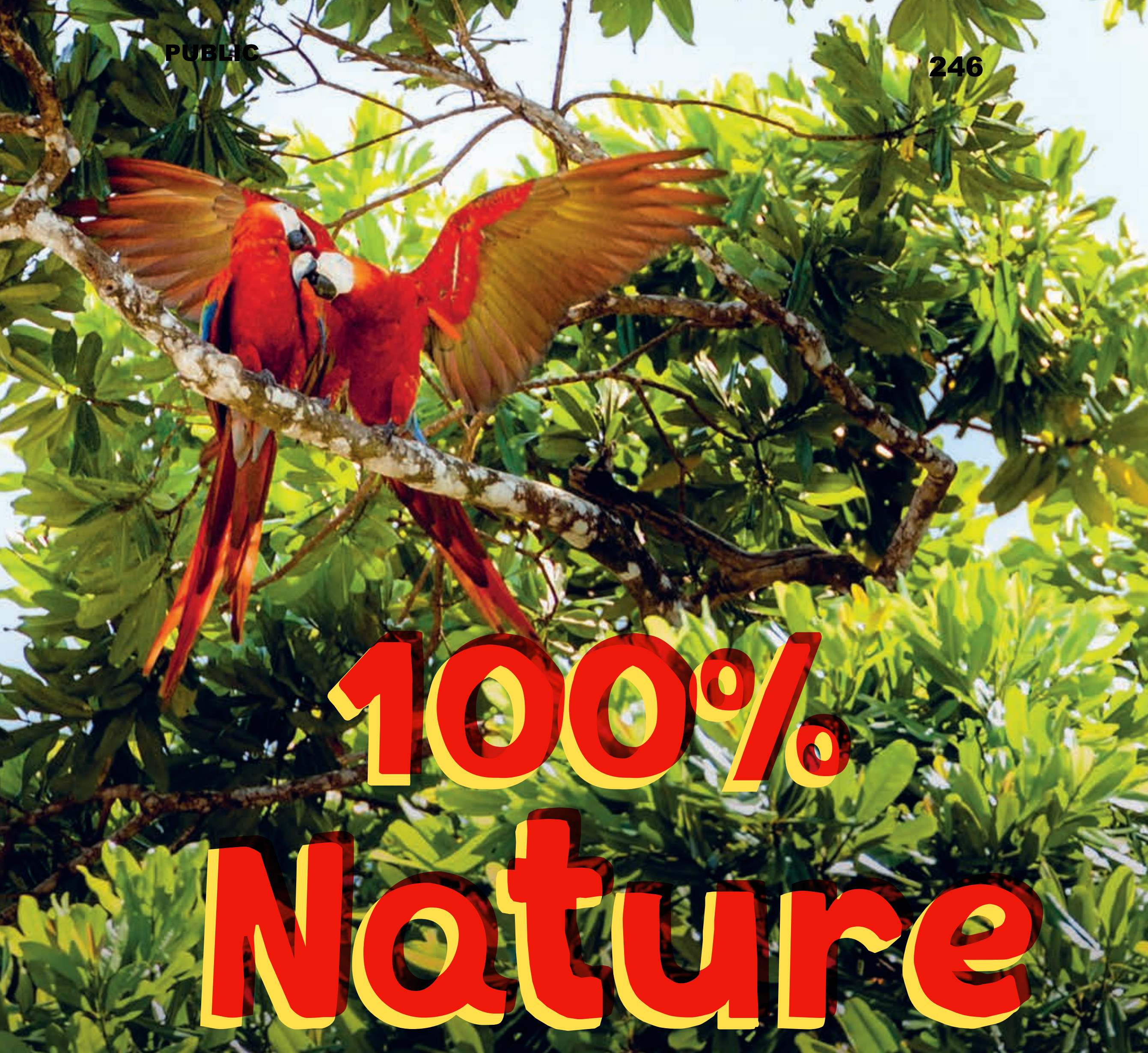


# 100% Nature

By / Par : Marie-Julie Gagnon

**Sloths and monkeys and toucans, oh, my!
Celebrating ecotourism in the Costa Rican jungle.**

**Il y avait des paresseux, des singes et des toucans...
Une célébration de l'écotourisme dans la jungle du Costa Rica.**

"These are your birds!" proclaims the guide. I'm confused for a second. But then I realize that the species surrounding me are, indeed, the same ones we have back in Canada: tree swallows, ruby-throated hummingbirds and red-winged blackbirds. And what a great destination they've chosen—I could spend a whole season in Costa Rica, too!

I've been exploring the country now for about 10 days with my eight-year-old daughter. An ecotourism hot spot, Costa Rica produces almost 100 per cent of its electricity from renewable energy. It's also the perfect travel destination for 2017, designated as the International Year of Sustainable Tourism for Development by the United Nations, which highlights the occasion with three keywords: travel, enjoy and respect.

«Ce sont vos oiseaux ! », me lance le guide. Perplexe, je réalise que les espèces qui m'entourent sont effectivement les mêmes qu'au Canada. Hirondelles bicolores, colibris à gorge rubis, carouge à épaulettes. J'approuve leur choix : je pourrais bien passer une saison entière au Costa Rica moi aussi !

Je sillonne le pays depuis une dizaine de jours avec ma fille de huit ans. Haut lieu de l'écotourisme, le Costa Rica produit presque 100 % de son électricité à partir d'énergies renouvelables. Une destination parfaite pour 2017, proclamée Année internationale du tourisme durable pour le développement par les Nations Unies, qui met de l'avant ces trois mots clés pour l'occasion : voyager, profiter et respecter.

## THREE OTHER COSTA RICAN ADVENTURES

1 Birdwatching in San Gerardo de Dota to catch a glimpse of the rare and colourful quetzal.

2 Hiking around Rincón de la Vieja Volcano, in the province of Guanacaste, followed by a few hours of relaxation in the hot springs.

3 Visiting Tirimbina Biological Reserve in Puerto Viejo de Sarapiquí to learn more about making chocolates from bean to bar.

## TROIS AUTRES EXPÉRIENCES MARQUANTES AU COSTA RICA

1 Observation du légendaire quetzal, oiseau rare et flamboyant, à San Gerardo de Dota.

2 Randonnée autour du volcan Rincón de la Vieja, dans la province de Guanacaste, suivie de quelques heures de détente dans les sources d'eau chaude.

3 Visite de la réserve biologique Tirimbina à Puerto Viejo de Sarapiqui pour en apprendre plus sur la fabrication du chocolat, de la cabosse à la tablette.

Costa Rica's exceptional biodiversity makes for exciting nature vacations. The country harbours more than 160 types of mammals, 12,000 plant varieties and around 850 bird species. Plus, its mountains, volcanoes, forests, lakes and rivers plunge travellers into a ton of adventures. There are no zoos in Costa Rica, and 30 per cent of its territory is protected.

After admiring the mist dissipate over the Poás Volcano, the fascinating fumaroles and hot springs of Rincón de la Vieja National Park, the crocodiles of Tárcoles River and the indomitable Arenal Volcano, we head out to Drake Bay in the Osa Peninsula. A small motorboat leads us into the mangroves, and then docks near Corcovado Adventures Tent Camp, where we settle in for three nights.

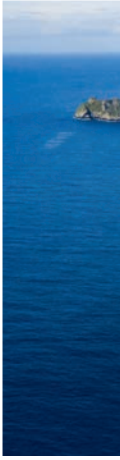
## Animals everywhere!

All tents at Corcovado Adventures are equipped with comfortable beds, a fan and a small lamp. Even the WiFi works great!

"Don't leave any food in the tent," warns the fella at the reception desk. "The capuchin monkeys know how to open the doors!" In addition to the sloths, howler monkeys and toucans we've seen since the beginning of our journey, will we get a surprise visit in the middle of the night? We'll have to wait and see!

The beach at Manuel Antonio National Park on the Pacific Coast may have delighted us a few days ago, but the nearly deserted Playa San Josecito perfectly wraps up our unforgettable holiday. And to complete this picture-perfect scene, two bright-red macaws soar across the sky just as we're about to go for a swim. Impossible not to feel a strong desire to want to protect such a beautiful world.

Upon returning to our campsite, we see the primates shamelessly wondering from one tent to another. Fortunately, none of them have the nerve to invite themselves over to our place!



L'exceptionnelle biodiversité du Costa Rica en fait une destination de choix pour des vacances 100 % nature. En effet, on peut y observer plus de 160 types de mammifères, 12 000 variétés de plantes et quelque 850 espèces d'oiseaux. De plus, ses montagnes, ses volcans, ses forêts, ses lacs et ses rivières permettent de vivre une foule d'aventures. Le pays ne compte aucun zoo, et 30 % de son territoire est protégé.

Après avoir admiré la brume se dissiper au-dessus du volcan Poás, les surprenantes fumerolles et les mares d'eau bouillante du parc national Rincón de la Vieja, les crocodiles de la rivière Tarcoles et l'indétrônable volcan Arenal, nous mettons le cap sur la baie de Drake, dans la péninsule d'Osa. Un petit bateau à moteur nous entraîne dans la mangrove, puis accoste près de Corcovado Adventures Tent Camp, où nous nous installons pour trois nuits.

## Des animaux partout

Les tentes sont toutes dotées de lits confortables, d'un ventilateur et d'une petite lampe. Même le Wi-Fi fonctionne à merveille !

« Ne laissez aucune nourriture dans la tente, les singes capucins savent comment ouvrir la porte », nous met en garde le préposé à l'accueil. En plus des paresseux, des singes hurleurs et autres toucans aperçus depuis le début du voyage, aurons-nous droit à une visite impromptue au milieu de la nuit ? Suspense !

Si la plage du parc national Manuel-Antonio, sur la côte pacifique, nous a ravis quelques jours plus tôt, celle quasi déserte de San Josecito conclut magnifiquement bien ce séjour inoubliable. Pour ajouter aux clichés paradisiaques, deux aras rouge vif traversent le ciel au moment où nous allons nous baigner. Impossible de ne pas ressentir l'envie de faire sa part pour préserver un monde aussi beau.

De retour au camp, nous constatons que les primates n'ont effectivement aucun scrupule à se balader d'une tente à l'autre. Heureusement, aucun d'entre eux n'a eu le culot de s'inviter chez nous !

Air Transat offers direct flights to Liberia and San José in Costa Rica. Check out our destinations grid on pages 78-79 to plan your next getaway. / **Air Transat offre des vols directs vers Liberia et San José au Costa Rica. Consultez notre grille de destinations aux pages 78-79 pour planifier votre prochaine escapade.**

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## Responsible Tourism

**With its natural parks, biological reserves and protected areas, Costa Rica is an ecotourist's paradise.**

We, at Transat, share this spirit of preservation, promoting responsible tourism everywhere we go. As the first North American tour operator to be awarded Travelife Partner status, we're committed to protecting the natural and cultural heritage of our destinations, encouraging our hotel partners to adopt sustainable tourism practices, and reducing our greenhouse gas emissions. In essence, helping to protect the planet so you can see more of it.

Visit resp.transat.com to learn more about our sustainable tourism initiatives.

## Tourisme responsable

**Avec ses parcs naturels, ses réserves biologiques et ses zones protégées, le Costa Rica est un paradis de l'écotourisme.**

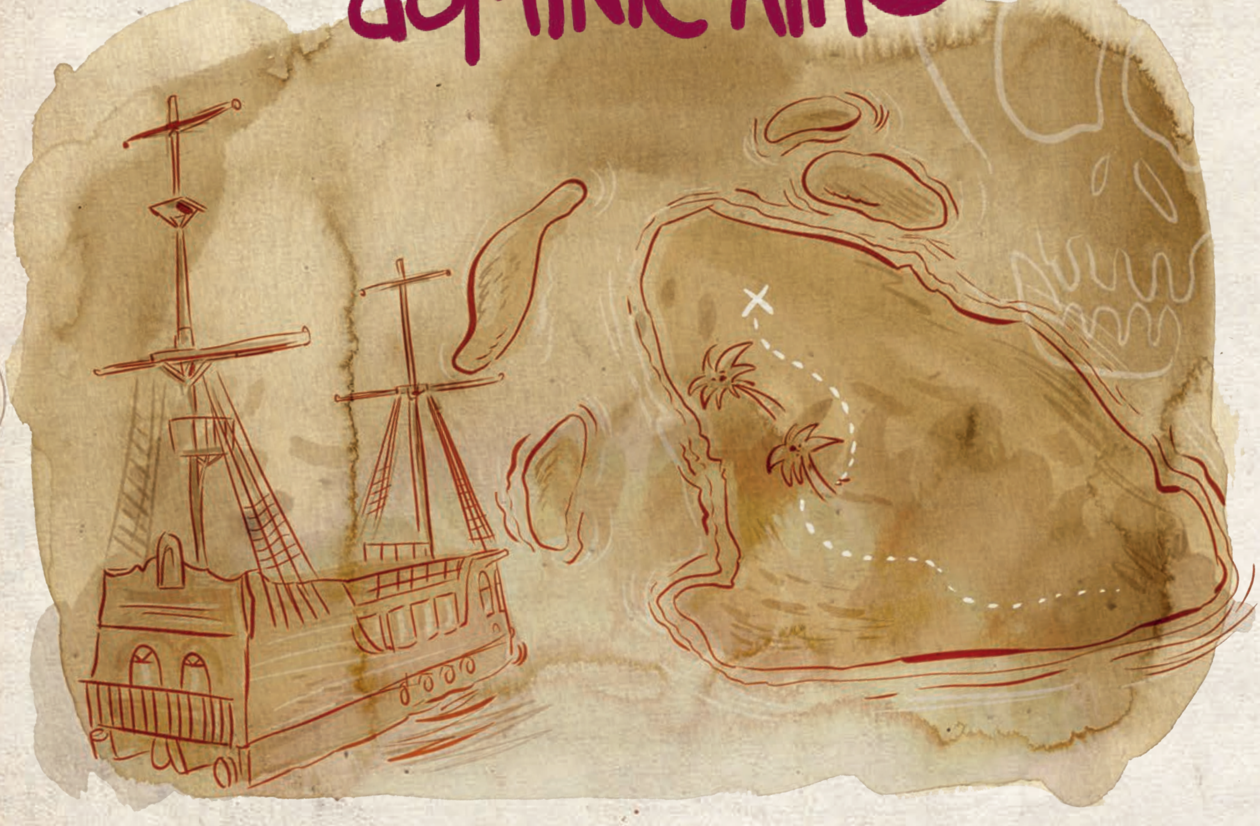
Chez Transat, nous partageons cet esprit de préservation, promouvant le tourisme responsable partout où nous allons. En tant que premier voyagiste en Amérique du Nord à avoir obtenu la statut de Partenaire Travelife, nous soutenons la conservation du patrimoine naturel et culturel de nos destinations en encourageant nos partenaires hôteliers à adopter des pratiques durables et en réduisant nos émissions de gaz à effet de serre. En somme, nous aidons à protéger la planète pour mieux vous la faire découvrir.

Visitez resp.transat.com pour en apprendre davantage sur nos initiatives en matière de tourisme durable.


Honduras
EXPLORE THE TURQUOISE WATERS AND
CORAL WONDERLAND OF ONE OF THE
WORLD'S TOP DIVING SPOTS.
EXPLOREZ LES EAUX TURQUOISE ET
LES MERVEILLES CORALLIENNES DE L'UN
DES MEILLEURS SITES DE PLONGÉE AU MONDE.

# Pirates of the Dominican

# Pirates de la République dominicaine



**ON THE ANNIVERSARY OF *PIRATES OF THE CARIBBEAN*, ONE WRITER GOES ON THE HUNT FOR A 300-YEAR-OLD PIRATE SHIP… AND ITS TREASURE**

**POUR L'ANNIVERSAIRE DES *PIRATES DES CARAÏBES*, UNE AUTEURE PART À LA RECHERCHE D'UN NAVIRE VIEUX DE TROIS SIÈCLES… ET DE SON TRÉSOR**

Text by / Texte par : Line Abrahamian
Illustrations : Paul Bordeleau

There's a mutiny on board the *Hispaniola*, a replica 16th-century galleon sailing the seas off Punta Cana in the Dominican Republic. Diablo has rallied his ragtag band of pirates against Captain Jack Blackand, demanding he surrender his treasure map.

I'm on a thrilling Caribbean Pirates excursion aboard the *Hispaniola*, the ship that seems to have amassed all the pirate stereotypes. It flies a skull and crossbones flag. "Ahoy" and "arghhhh" make the rounds profusely. The buccaneers erupt into song and dance for no reason at all. And they're all decked out in flashy duds that have no business mingling together: frilly shirts spilling out of fancy waistcoats, baggy trousers cinched up with big-buckled belts, bright-coloured sashes, lone hoop earrings dangling under tricorns.

Captain Jack peers at Diablo through eyeliner-smothered eyes and, with a sudden flick, frees his cutlass from its sheath. Soon a dozen pirates are brawling. Fists fly furiously, duelling swords slice the air, swashbucklers swing from upper decks.

I'm utterly captivated. And when a net unravels out of thin air, ensnaring Diablo and his rebel pirates, I cheer the loudest and join in yet another round of festivities.

**Pirates have become deeply embedded in tall tales.**

I totally get why we're so fascinated with pirates. These scoundrels pillage our imagination with their buried treasures, flamboyant outfits, brash sword fighting, rowdy merrymaking and lust for danger and adventure. And so it is that pirates have become so embedded in tall tales, they've sailed past real-life men and into romanticized caricatures.

The Dominican Republic is steeped in pirate history. In the 15th century, pirates would hide around Catalina Island to ambush Spanish ships sailing to and from Santo Domingo. In the 16th century, famous pirate Francis Drake captured and plundered Santo Domingo. *Pirates of the Caribbean*—which celebrates the 10th anniversary of its *At World's End* instalment this year—filmed scenes on Saona Island.

And in 2007, the *Quedagh Merchant* ship was discovered off Catalina Island… 300 years after it was captured by one of the most notorious pirates in the world, Captain William Kidd.

C'est la mutinerie à bord de l'*Hispaniola*, réplique d'un galion du XVIe siècle qui vogue au large de Punta Cana, en République dominicaine. Diablo a réussi à monter son petit groupe de pirates contre le capitaine Jack Blackand pour lui arracher sa carte au trésor.

Je participe à une palpitante excursion sur le thème des pirates des Caraïbes, et l'*Hispaniola* rassemble tous les stéréotypes qu'on s'attend à trouver chez des pirates. Sous son pavillon noir décoré d'une tête de mort, on entend partout des «Aarrgh» et des «Ohé». À tout moment, les boucaniers se lancent dans une chanson ou une danse sans raison apparente, agitant leurs vêtements et accessoires tape-à-l'œil : chemises à fanfreluches dépassant de leurs vestes fantaisistes, pantalons larges retenus par des ceintures à grosses boucles, écharpes colorées, anneaux d'oreilles oscillant à l'ombre des tricornes.

Le capitaine Jack défie Diablo d'un regard que souligne un épais trait de khôl et, soudain, retire son sabre de son fourreau. Voilà qu'une douzaine de pirates se battent, faisant aller leurs poings et tranchant l'air de leurs épées tandis que d'autres fauteurs de trouble se balancent au bout de câbles depuis les ponts supérieurs.

Je suis sous le charme de la mise en scène. Et lorsqu'un filet, déroulé du haut des airs, attrape Diablo et ses pirates rebelles, je crie de joie et prends part aux festivités.

**Les pirates ont pris énormément de place dans nos histoires.**

Je comprends tout à fait notre fascination pour les pirates. Ces fripouilles s'emparent aisément de notre imaginaire avec leurs trésors enfouis, leurs costumes flamboyants, leurs combats à l'épée, leurs fêtes bruyantes et leur goût pour l'aventure et le danger. Les pirates ont pris tellement de place dans nos histoires qu'on ne voit plus en eux de vrais hommes, mais des caricatures romancées.

L'histoire de la République dominicaine possède une riche composante de piraterie. Au XVe siècle, les pirates se cachaient près de l'île Catalina pour embusquer les vaisseaux espagnols quittant Santo Domingo ou y arrivant. Au XVIe siècle, le légendaire pirate Francis Drake a capturé et pillé la ville de Santo Domingo. De plus, les films *Pirates des Caraïbes* — dont l'épisode *Jusqu'au bout du monde* célèbre cette année son 10e anniversaire — ont vu certaines de leurs scènes tournées sur l'île Saona.

Et en 2007, on a découvert près de l'île Catalina l'épave du *Quedagh Merchant*, 300 ans après sa capture par l'un des pirates les plus marquants de l'histoire : le capitaine William Kidd.

**THE DOMINICAN REPUBLIC IS STEEPED IN PIRATE HISTORY.**
**In the 15th century, pirates would hide around Catalina Island to ambush Spanish ships sailing to and from Santo Domingo. In the 16th century, famous pirate Francis Drake captured and plundered Santo Domingo.**

**L'HISTOIRE DE LA RÉPUBLIQUE DOMINICAINE POSSÈDE UNE RICHE COMPOSANTE DE PIRATERIE**
**Au XVe siècle, les pirates se cachaient près de l'île Catalina pour embusquer les vaisseaux espagnols quittant Santo Domingo ou y arrivant. Au XVIe siècle, le légendaire pirate Francis Drake a capturé et pillé la ville de Santo Domingo.**

It's the type of secret that would send Jack Sparrow into a rum-soaked frenzy. A 300-year-old secret that lies, ironically not so secretly, in only three metres of crystal-clear ocean, a mere 25 metres off the coast of Catalina Island in the Dominican Republic. Surely, the pirates of the olden days would laugh at such an unstealthily hidden treasure.

Yet, here it is. The wreck of *Quedagh Merchant*, a ship that vanished in 1699 after it was captured by the infamous Captain William Kidd.

Captain Kidd. A name that'll shiver even the fiercest timbers. Legends have painted the Scotsman as a buccaneer whose bravado and moustache knew no bounds, swinging his cutlass, swigging rum, burying treasures, sailing the high seas and ambushing unsuspecting ships.

**It's the type of secret that would send Jack Sparrow into a rum-soaked frenzy.**

Perhaps no other tale will slip you so seamlessly into the parrot-perched waistcoat of a pirate like that of *Quedagh Merchant*. On January 30, 1698, Captain Kidd spied the 400-ton Armenian merchant vessel laden with precious cargo sailing along the Indian coast and gave chase in his ship. Outgunned by their rival's 34 cannons, the crew of *Quedagh Merchant* surrendered without a fight.

The capture of Kidd's most valuable prize branded him a ruthless pirate. Wanted by the British government, Kidd abandoned *Quedagh Merchant* at Catalina Island in 1699 and hid his treasure.

Treasure hunters scavenged far and wide for *Quedagh Merchant* and its loot. But it was a snorkeller who spotted the shipwreck off Catalina Island in 2007, 300 years after its disappearance.

But the bounty aboard was missing.

X

From the moment I dive into the windswept seas off Catalina Island, the world above me evaporates, and I'm marooned in a time warp. A lone cannon lies on a desolate patch of sand, smothered in algae. I can almost hear its thunderous roar, drowned in water, silenced forever. A school of black-striped damselfish glides by me, and I trail it to a mound of corals and barnacles.

C'est le genre de secret que le capitaine Jack Sparrow n'hésiterait pas à fêter avec une barrique de rhum... Mais ironiquement, ce secret vieux de trois siècles n'en est pas vraiment un, puisque l'épave repose à seulement trois mètres de la surface et à 25 mètres de la côte de l'île Catalina. Les pirates d'autrefois se moqueraient sûrement d'un trésor aussi mal caché !

Et pourtant, il est bien là, le *Quedagh Merchant*, ce navire disparu en 1699 après sa capture par le tristement célèbre capitaine William Kidd.

Le capitaine Kidd : un nom qui ferait trembler la plus solide des carènes ! La légende dépeint cet Écossais comme un boucanier dont la vantardise et la moustache semblaient sans fin. Il brandissait facilement son sabre, buvait du rhum à grandes lampées et parcourait les mers à la poursuite de navires à surprendre.

**C'est le genre de secret que le capitaine Jack Sparrow n'hésiterait pas à fêter avec une barrique de rhum.**

L'histoire du *Quedagh Merchant* est probablement l'une des plus emblématiques de la piraterie. Le 30 janvier 1698, le capitaine Kidd apercevait ce navire arménien de 400 tonneaux, chargé d'une cargaison précieuse, qui naviguait le long de la côte indienne. La chasse était lancée, mais très vite, incapable de rivaliser avec les 34 canons de son assaillant, le *Quedagh Merchant* se rendait sans opposer de résistance.

En capturant un prix d'aussi grande valeur, le capitaine Kidd assoyait sa renommée. Mais recherché par le gouvernement britannique, Kidd abandonna le *Quedagh Merchant* à l'île Catalina en 1699 et en cacha le butin.

Les chasseurs de trésors ont longtemps écumé les eaux de la région pour tenter de retrouver le *Quedagh Merchant* et son trésor. Ce n'est qu'en 2007, toutefois, soit 300 ans après sa disparition, qu'un plongeur a repéré l'épave près de l'île Catalina.

Or, le trésor n'était pas au rendez-vous.

X

Dès le moment où je plonge dans la mer battue par les vents, au large de l'île Catalina, le monde au-dessus de moi s'évanouit. Je m'échoue dans un autre espace-temps. Je vois un canon solitaire étendu sur le sable, envahi par les algues. Je peux imaginer son bruit assourdissant, aujourd'hui noyé dans l'eau, à jamais silencieux. Un banc de poissons-demoiselles à rayures noires passe tout près, et je les suis jusqu'à un monticule de coraux et de balanes.

Illustration based on photo from Indiana University

Treasure hunters scavenged far and wide for *Quedagh Merchant* and its loot. But it was a snorkeller who spotted the shipwreck off Catalina Island in 2007, 300 years after its disappearance. But the bounty aboard was missing.

**Les chasseurs de trésors ont longtemps écumé les eaux de la région pour tenter de retrouver le *Quedagh Merchant* et son trésor. Ce n'est qu'en 2007, toutefois, soit 300 ans après sa disparition, qu'un plongeur a repéré l'épave près de l'île Catalina. Or, le trésor n'était pas au rendez-vous.**

Yet look closer. That mound of corals and barnacles is really a heap of cannons and anchors, colonized by sea creatures. And that damselfish that just fluttered by me with three eyes is really sporting a false eye spot on its tail to hoodwink predators.

No, not all is as it seems.

Truth is, Kidd was no pirate. He was a reputable mariner who was commissioned by the King of England to capture and plunder enemy and pirate ships, then divvy up the spoils among his noble backers. He captured *Quedagh Merchant* believing it to be an enemy vessel. But when he was accused of piracy by international powers, the king and his cohorts laid all the blame on Kidd. Kidd was hanged in London in 1701.

Kidd had left *Quedagh Merchant* at Catalina Island intending to return for it, but the men to whom he had entrusted it burned it and set it adrift. The skeleton of the scorched vessel lies all but embedded into the seafloor —among its remnants, 26 cannons and three anchors scattered about.

**Stories of Kidd's hidden booty stirred imaginations worldwide.**

And its treasure? Stories of Kidd's hidden booty stirred imaginations worldwide. Robert Louis Stevenson crafted a map leading to Kidd's buried loot in his famous *Treasure Island*. Edgar Allan Poe rifled through Kidd's chest in *The Gold Bug*. However, the underwater archaeologists from Indiana University who combed the *Quedagh Merchant* wreck found no trace of Kidd's treasure.

Even so, there's a small part of you that naively believes that, being the eagle-eyed snorkeller that you are, you might spy a glint of gold in the coral. And as the sun pierces the water, Poe's words rattle in my head: "As the rays of the lantern fell within the pit, there flashed upwards from a confused heap of gold and jewels, a glow and glare that absolutely dazzled our eyes."

I find no heap of jewels, but swimming among the ghosts of the past, I feel like I'm trespassing upon their sacred realm. The underwater appears haunting, blurring the lines between this world and the otherworldly. Perhaps, then, this eerie watery grave is the most fitting resting place for the ill-fated ship of the man who, himself, blurs the lines between reality and legend.

So I glide away, feeling privy to a mysterious world that most will only stumble upon in their imagination. And the booty that was on board the *Quedagh Merchant*?

"If you were Captain Kidd, leaving a ship behind on purpose, what would you have done with its precious cargo?" cheekily asks Charles Beeker, Indiana University underwater archaeologist whose team identified the *Quedagh Merchant*.

In other words… the treasure is still out there.

En m'approchant, je constate que ce monticule est en fait constitué d'un amas de canons et d'ancres colonisé par les créatures marines. Quant à ce poisson-demoiselle qui vient de passer tout près, on dirait qu'il a trois yeux, mais celui du côté de la queue est en réalité une tache destinée à déjouer ses prédateurs.

Les choses ne sont pas toujours ce qu'elles semblent être.

Ainsi, le capitaine Kidd n'était pas vraiment un pirate, mais plutôt un marin respecté que le roi d'Angleterre avait engagé pour capturer et piller les vaisseaux ennemis ou pirates, et pour ensuite répartir le butin recueilli entre les nobles qui finançaient ses expéditions. Kidd a capturé le *Quedagh Merchant* en croyant qu'il s'agissait d'un navire ennemi, mais lorsque les puissances internationales l'accusèrent de piraterie, le roi et sa suite jetèrent le blâme sur Kidd. L'infortuné capitaine fut ensuite pendu à Londres en 1701.

Kidd avait laissé le *Quedagh Merchant* à l'île Catalina en pensant pouvoir y revenir… sauf que les hommes à qui il avait confié le navire le brûlèrent et le laissèrent partir à la dérive. L'épave calcinée du bateau est aujourd'hui presque complètement avalée par le fond marin : il en reste, éparpillé autour, 26 canons et trois ancres.

**L'histoire du butin caché du capitaine Kidd a enflammé bien des esprits dans le monde entier.**

Et le trésor, alors? L'histoire du butin caché du capitaine Kidd a enflammé bien des esprits dans le monde entier. Dans son célèbre roman *L'île au trésor*, Robert Louis Stevenson a dessiné une carte supposée mener au trésor enfoui de Kidd. Edgar Allan Poe a quant à lui fouillé en imagination le coffre de Kidd dans sa nouvelle *Le scarabée d'or*. Toutefois, les archéologues sous-marins de l'Université de l'Indiana qui ont passé l'épave du *Quedagh Merchant* au peigne fin n'ont trouvé aucune trace de richesses.

Malgré tout, quand on nage dans ces eaux, il est difficile de ne pas imaginer que notre œil de plongeur averti saura capter le reflet d'une pièce d'or parmi les coraux. Et tandis que les rayons du soleil pénètrent dans l'eau, les mots de Poe me reviennent en tête : «Les rayons des lanternes tombaient dans la fosse, et faisaient jaillir d'un amas confus d'or et de bijoux des éclairs et des splendeurs qui nous éclaboussaient positivement les yeux.»

Je ne trouve bien sûr aucun amas d'or ou de bijoux, mais en nageant parmi les fantômes du passé, je sens que je franchis les limites de leur domaine sacré. Le monde sous-marin commence à me hanter, comme si je me trouvais à la frontière entre notre monde et l'au-delà. Ce cimetière marin constitue peut-être le meilleur repos pour le navire au destin tragique, capturé par un homme qui chevauche lui-même la frontière entre légende et réalité.

Alors je m'éloigne peu à peu, avec ce sentiment d'avoir percé le secret d'un monde mystérieux que la plupart des gens ne découvriront que par hasard dans leur imagination. Et le butin qui était à bord du *Quedagh Merchant*?

«Si vous aviez été à la place du capitaine Kidd, abandonnant volontairement un navire, qu'auriez-vous fait avec sa précieuse cargaison?», me demande sur un ton taquin Charles Beeker, archéologue sous-marin de l'Université de l'Indiana, dont l'équipe a identifié le *Quedagh Merchant*.

Autrement dit, le trésor existe toujours quelque part...

## TRACE THE FOOTSTEPS OF PIRATES IN THE DOMINICAN REPUBLIC:

- Snorkel or dive down to William Kidd's 300-year-old shipwreck, *Quedagh Merchant*, a living museum off Catalina Island, with Scubafun Dive Center: *scubafun.info*
- Set sail on an adventure fit for the bravest buccaneers with Ocean Adventures' Caribbean Pirates excursion in Punta Cana: *oceanadventures-puntacana.com*
- Taste 300-year-old pirate rum recipes at the Pirate Rum Factory in Punta Cana: *piraterumfactory.com*

## SUIVEZ LES TRACES DES PIRATES EN RÉPUBLIQUE DOMINICAINE :

- En plongée libre ou sous-marine, explorez l'épave du *Quedagh Merchant*, un musée vivant près de la côte de l'île Catalina, avec Scubafun Dive Center : *scubafun.info*
- Voguez vers une aventure conçue pour les plus braves des boucaniers avec l'excursion Pirates des Caraïbes d'Ocean Adventures à Punta Cana : *oceanadventures-puntacana.com*
- Goûtez à des recettes de rhum de pirates vieilles de 300 ans à la Pirate Rum Factory de Punta Cana : *piraterumfactory.com*

## On-Board Entertainment

Read about real-life pirates in the Caribbean while cheering on the bumbling Captain Jack Sparrow as he hunts for treasure in *Pirates of the Caribbean**. Watch this and many other exciting films and TV shows on individual touch screens on board our Airbus A330s, as well as on your mobile devices by downloading the CinePlus A app for Airbus A310s or CinePlus B app for Boeing 737s. Happy viewing, arghhhh!

*Films vary by aircraft. *Pirates of the Caribbean* won't be available via the CinePlus B app.

## Divertissement en vol

Lisez le récit d'un vrai pirate dans les Caraïbes, puis suivez la chasse au trésor rocambolesque du maladroit capitaine Jack Sparrow dans *Pirates des Caraïbes*. Regardez ce film légendaire et d'autres divertissements captivants sur écrans tactiles individuels à bord de nos Airbus A330, ainsi que sur vos appareils mobiles en téléchargeant l'app CinéPlus A pour nos Airbus A310 ou CinéPlus B pour nos Boeing 737. Bon visionnement, aarrgh!

*Les films varient selon le type d'appareil. *Pirates des Caraïbes* n'est pas disponible sur l'app CinéPlus B.

# TEL AVIV

## Four Ways

We asked locals in Tel Aviv to tell us their favourite places to dine, dance, drink, get their beach on and soak up the culture. Here, we share some of the best-kept—and best-known—secrets of the City That Never Stops for the foodie, night owl, beach bum and culture lover.

## de quatre façons

**Nous avons demandé à des résidents de Tel-Aviv de nous dévoiler leurs endroits préférés pour manger, boire, danser, profiter de la mer et s'imprégner de la culture locale. Voici donc quelques secrets bien gardés— et bien connus — de la « ville qui ne dort jamais », que vous soyez du type gourmand, oiseau de nuit, adepte de plage ou passionné de culture.**

### Foodie
### Gourmand

If you're looking for local delicacies, head to Abu Hassan for the best hummus in town, or to HaKosem for mouth-watering falafel—they might even treat you to a hot one while waiting in line. For a taste of the whimsical, check out The Container, a waterfront warehouse turned restaurant, bar and art space in Jaffa Port. Watch the fishing boats as you feast on colourful seafood—think purple squid, red snapper or blue crab—and soak up the live music bouncing off its walls, which are adorned with local art.

**Pour goûter aux spécialités de la ville, le resto Abu Hassan prépare le meilleur houmous en ville, et vous trouverez au HaKosem de délicieux falafels (on vous en servira même un tout chaud pendant que vous attendez en file !). Pour une expérience culinaire hors de l'ordinaire, direction The Container, un entrepôt converti en resto-bar-espace artistique au port de Jaffa. Admirez les jolis bateaux de pêche amarrés en vous délectant de fruits de mer colorés — calmar pourpre, vivaneau rouge ou crabe bleu. De la musique *live* résonne entre les murs ornés d'œuvres d'artistes locaux.**

### Night Owl
### Oiseau de nuit

Rediscover the lost art of the cocktail at Imperial Craft Cocktail Bar. This ridiculously cool spot creates the most original libations, with even more creative names—Puff Puff Pass, anyone? Peek into the local music scene at Haezor. An intimate venue, you'll feel like you're sitting in your living room, grooving to your favourite bands, from rock to jazz to Latin. End the night at Clara, a trendy beach club that throws a wild party—expect hot DJs, electro and house music, a beautiful crowd with real or spray tans, and hammocks to rest between wicked dance moves.

**Redécouvrez l'art perdu de la mixologie au Imperial Craft Cocktail Bar. Cet endroit hyper branché invente des cocktails originaux aux noms plus créatifs encore — un petit Puff Puff Pass, peut-être ? Plongez au cœur de la scène musicale locale au Haezor, une salle intime qui donne l'impression d'être assis dans votre salon, vibrant sur des rythmes de rock, de jazz et de musique latine, entre autres styles. Terminez la soirée au Clara, un beach club très couru où la fête est à son meilleur. Au programme : DJ réputés, musique électro et house, gens magnifiques exhibant leur vrai ou faux bronzage et hamacs pour vous reposer entre deux pas de danse endiablés.**

Alankolnik | Dreamstime.com

Air Transat offers direct flights to Tel Aviv. Check out our destinations grid on pages 78-79 to plan your next getaway. / **Air Transat offre des vols directs vers Tel-Aviv. Consultez notre grille de destinations aux pages 78-79 pour planifier votre prochaine escapade.**

## Beach Bum
## Adepte de plage

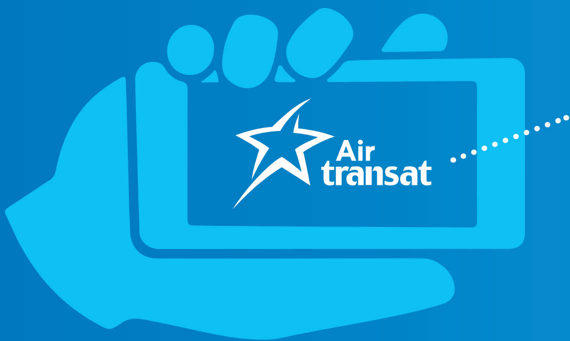
For a refreshing dip or a relaxing lounge under the sun, head to Tel Baruch Beach. It's a favourite hangout of the locals on a lazy Saturday (the equivalent of our Sunday). But if you're looking for a little more action, then try surfing at the Dolphinarium Beach. Are you a pro at riding the waves? You'll surely find Jaffa Beach to be gnarly, which is why it attracts the world's best surfers! And that *tack tack* sound you hear on all the beaches? That's matkot, the popular paddleball game dubbed Israel's national sport. Learn how to play it on Geula Beach, known as the matkot beach!

**Si vous voulez vous baigner ou lire paresseusement au soleil, cap sur la plage de Tel Baruch. C'est là où les Tel-Aviviens aiment se détendre le samedi (l'équivalent de notre dimanche). Mais si vous préférez l'action, essayez le surf à la plage du Dolphinarium. Pro des vagues? La plage de Jaffa attire les surfeurs de haut calibre du monde entier. Sur toutes les plages, vous entendrez le *tac-tac* du matkot, le célèbre jeu de raquettes considéré comme le sport national d'Israël. Apprenez à jouer sur la plage de Geula, la plus populaire auprès des *fans*!**

## Culture Lover
## Passionné de culture

Calling all antique collectors: a jaunt to the Jaffa Flea Market will be like stepping into Ali Baba's cave. The Old City of Jaffa also abounds with unique art galleries and cafés like Puaa, where everything is for sale, even the cup from which you drink! Art is everywhere in Tel Aviv, at times popping up in the most unexpected places, like Habima Square, where you'll hear classical music floating through the speakers day and night. A quick stop at the art studios in the bohemian Noga district, and then it's off to the Cinematheque to see a fascinating foreign film.

**Avis aux amateurs d'antiquités : le marché aux puces du vieux Jaffa est une véritable caverne d'Ali Baba. La vieille ville de Jaffa abonde aussi en galeries d'art et cafés uniques comme le Puaa, où tout est à vendre, même la tasse dans laquelle vous boirez! L'art est omniprésent à Tel-Aviv, émergeant parfois d'endroits inattendus, comme au Habima Square, où des haut-parleurs diffusent de la musique classique jour et nuit. Après avoir visité les ateliers d'artistes du quartier bohème de Noga, offrez-vous une pause bien méritée en filant voir un film étranger à la cinémathèque.**




# On Your Mobile Device

# **Sur votre appareil mobile**


Book your flight and your hotel on the app, then check out the new My Trips section, and let the countdown begin!

**Réservez votre vol et votre hôtel avec l'app, puis découvrez la nouvelle section Mes voyages et comptez les jours avant votre départ !**

Download the Air Transat app for free at the App Store or Google Play Store.

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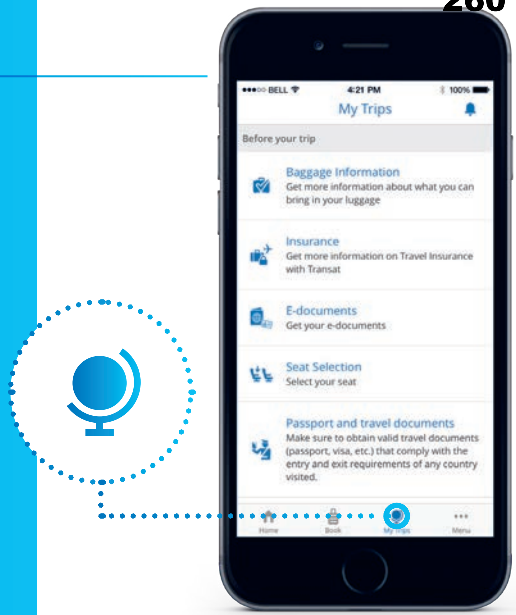
Make travel simpler with our timeline, a unique place to find all the information about your trip.

Read about:
· baggage allowance
· insurance options
· documents to bring

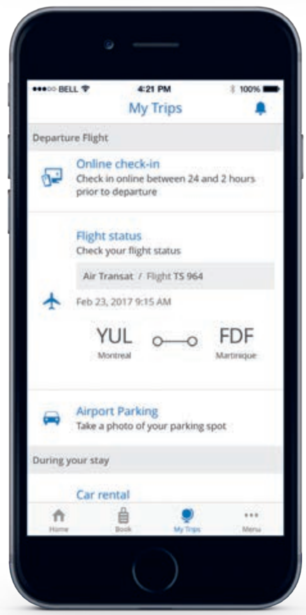
**Voyagez plus facilement grâce à notre ligne du temps, un endroit unique où trouver toutes les informations utiles à votre voyage.**

**Renseignez-vous sur :**
**• la franchise de bagages**
**• les options d'assurance**
**• les documents à emporter**



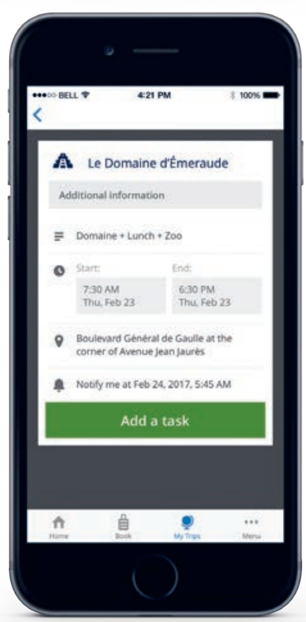

Prepare for your departure by:
· checking your flight status
· registering online
· selecting your seat
· taking a photo of your parking spot at the airport

**Préparez votre départ en :**
**• suivant l'état de votre vol**
**• vous enregistrant en ligne**
**• sélectionnant votre siège**
**• prenant une photo de votre place de stationnement à l'aéroport**




A simple way not to forget anything:
· add activities to your timeline
· receive automatic reminders on your phone

**Un moyen facile de ne rien oublier :**
**• ajoutez des activités à votre ligne du temps**
**• recevez des rappels automatiques sur votre téléphone**



# Our Destinations

# Nos destinations

## SOUTH & UNITED STATES / SUD ET ÉTATS-UNIS

| Country | Destination | Victoria | Vancouver | Kelowna | Calgary | Edmonton | Saskatoon | Regina | Winnipeg | Thunder Bay | Sault Ste. Marie | Windsor, Ont. | London, Ont. | Hamilton | Toronto | Ottawa | Rouyn-Noranda | Montreal / **Montréal** | Quebec City / **Québec** | Fredericton | Halifax | St. John's | Moncton |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| COLOMBIA / **COLOMBIE** | Cartagena / **Carthagène** | | | | | | | | | | | | | | ● | | | ● | | | | | |
| | San Andres | | | | | | | | | | | | | | | | | ● | | | | | |
| COSTA RICA | Liberia | | | | | | | | | | | | | | ● | | | ● | | | | | |
| | San José | | | | | | | | | | | | | | ● | | | ● | | | | | |
| CUBA | Cayo Coco | | | | | | | | | | | | | ● | ● | ● | | ● | ● | | ● | | |
| | Cayo Largo | | | | | | | | | | | | | | ● | | | ● | | | | | |
| | Cayo Santa Maria | | ● | | | | | | ● | | | | ● | | ● | ● | | ● | ● | | ● | | |
| | Havana / **La Havane** | | | | | | | | | | | | | | ● | | | ● | | | | | |
| | Holguin | | | | | | | | | | | | | | ● | | | ● | ● | | ● | | |
| | Santa Lucia (Camaguey) | | | | | | | | | | | | | | ● | | | ● | | | | | |
| | Varadero | | ● | | ● | ● | | | ● | | | | | ● | ● | ● | | ● | ● | | ● | | ● |
| DOMINICAN REPUBLIC / **RÉPUBLIQUE DOMINICAINE** | La Romana | | | | | | | | | | | | | | ● | | | ● | ● | | | | |
| | Puerto Plata | | | | | | | | | | | | | ● | ● | ● | | ● | ● | ● | ● | | |
| | Punta Cana | | ● | | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | | ● | ● | ● | ● | ● | ● |
| | Samana | | | | | | | | | | | | | | ● | ● | | ● | ● | | | | |
| | Santo Domingo | | | | | | | | | | | | | | ● | | | ● | | | | | |
| EL SALVADOR / **SALVADOR** | San Salvador | | | | | | | | | | | | | | | | | ● | | | | | |
| GUADELOUPE | Pointe-à-Pitre | | | | | | | | | | | | | | | | | ● | | | | | |
| HAITI / **HAÏTI** | Port-au-Prince | | | | | | | | | | | | | | | | | ● | | | | | |
| HONDURAS | Roatan | | | | | | | | | | | | | | ● | | | ● | ● | | | | |
| JAMAICA / **JAMAÏQUE** | Montego Bay | | | | | | | | | | | | | | ● | | | ● | | | ● | | |
| MARTINIQUE | Fort-de-France | | | | | | | | | | | | | | | | | ● | | | | | |
| MEXICO / **MEXIQUE** | Acapulco | | | | | | | | | | | | | | | | | ● | | | | | |
| | Cancun-Riviera Maya | ● | ● | ● | ● | ● | ● | ● | ● | | | ● | ● | ● | ● | ● | | ● | ● | | ● | | ● |
| | Cozumel | | | | | | | | | | | | | | ● | | | ● | | | | | |
| | Huatulco | | ● | | ● | ● | ● | ● | | | | | | | ● | | | | | | | | |
| | Ixtapa | | | | | | | | | | | | | | | | | ● | | | | | |
| | Los Cabos | | ● | | ● | | | | | | | | | | ● | | | | | | | | |
| | Puerto Vallarta | ● | ● | ● | ● | ● | ● | ● | ● | | | | | | ● | | | ● | ● | | | | |
| NICARAGUA | Managua | | | | | | | | | | | | | | ● | | | ● | | | | | |
| PANAMA | Playa Blanca | | | | | | | | | | | | | | ● | | | ● | | | | | |
| ST. MAARTEN / **SAINT-MARTIN** | Philipsburg | | | | | | | | | | | | | | ● | | | ● | | | | | |
| UNITED STATES / **ÉTATS-UNIS** | Fort Lauderdale | | | | | | | | | | | | | | ● | | | ● | ● | | ● | | |
| | Orlando | | | | | | | | | | | | | | ● | | | ● | ● | | ● | ● | ● |
| | Tampa | | | | | | | | | | | | | | ● | | | ● | | | | | |

● Direct flights / Vols directs

Our domestic flights within Canada open the door to more European destinations. For instance, passengers can now fly from Quebec City to Rome via Montreal. What's more, these domestic flights also give travellers more opportunities to discover Canada, the country that *Lonely Planet* named top travel destination for 2017!

**Grâce à nos vols à l'intérieur du Canada, les voyageurs ont accès à encore plus de destinations européennes. Par exemple, les passagers peuvent maintenant se rendre de Québec à Rome en passant par Montréal. De plus, ces vols intérieurs multiplient les possibilités pour les voyageurs qui souhaitent découvrir le Canada, pays que *Lonely Planet* a nommé meilleure destination à visiter en 2017 !**

Please note that certain flights may be operated by a carrier other than Air Transat. Visit airtransat.com to view the schedule for connecting flights. Destinations are subject to change.

**Il se peut que certains vols soient exploités par un autre transporteur qu'Air Transat. Consultez airtransat.com pour connaître le calendrier des vols de correspondance. Les destinations peuvent changer.**

**VISIT / VISITEZ**
**airtransat.com**


## EUROPE

| | | Toronto | Montreal / **Montréal** | Quebec City / **Québec** | Calgary | Vancouver |
|---|---|---|---|---|---|---|
| BELGIUM / **BELGIQUE** | Brussels / **Bruxelles** | ○ | ● | ○ | | ○ |
| CROATIA / **CROATIE** | Zagreb | ● | ○ | | ○ | ○ |
| CZECH REPUBLIC / **RÉPUBLIQUE TCHÈQUE** | Prague | ○ | ● | | | ○ |
| ENGLAND / **ANGLETERRE** | Birmingham | ● | ○ | | ○ | ○ |
| | London / **Londres** | ● ○ | ● ○ | ○ | ● ○ | ● ○ |
| | Manchester | ● | ○ | | ○ | ● ○ |
| FRANCE | Bordeaux | ○ | ● | ○ | | ○ |
| | Lyon | ○ | ● | ○ | | ○ |
| | Marseille | ○ | ● | ○ | | ○ |
| | Nantes | ○ | ● | ○ | | |
| | Nice | ○ | ● | | | ○ |
| | Paris | ● ○ | ● ○ | ○ | ○ | ● ○ |
| | Toulouse | ○ | ● | ○ | | ○ |
| GREECE / **GRÈCE** | Athens / **Athènes** | ● ○ | ● ○ | ○ | ○ | ○ |
| IRELAND / **IRLANDE** | Dublin | ● ○ | ● ○ | ○ | ○ | ○ |
| ISRAEL / **ISRAËL** | Tel Aviv / **Tel-Aviv** | ○ | ● | ○ | | ○ |
| ITALY / **ITALIE** | Lamezia | ● | ○ | | ○ | ○ |
| | Rome | ● ○ | ● ○ | ○ | ○ | ○ |
| | Venice / **Venise** | ● ○ | ● ○ | ○ | ○ | ○ |
| NETHERLANDS / **PAYS-BAS** | Amsterdam | ● | ○ | | ● ○ | ● ○ |
| PORTUGAL | Faro | ● | ○ | | | |
| | Lisbon / **Lisbonne** | ● ○ | ● ○ | ○ | ○ | ○ |
| | Porto | ● ○ | ● ○ | ○ | ○ | ○ |
| SCOTLAND / **ÉCOSSE** | Glasgow | ● | ○ | | ○ | ● ○ |
| SPAIN / **ESPAGNE** | Barcelona / **Barcelone** | ● ○ | ● ○ | ○ | ○ | ○ |
| | Madrid | ○ | ● | | | ○ |
| | Malaga | ○ | ● | ○ | | ○ |
| SWITZERLAND / **SUISSE** | Basel-Mulhouse / **Bâle-Mulhouse** | ○ | ● | | | |

● Direct flights / Vols directs ○ Connecting flights / Vols de correspondance

## CANADA

| | | Calgary | Montreal / **Montréal** | Ottawa | Quebec City / **Québec** | Rouyn-Noranda | Toronto | Vancouver |
|---|---|---|---|---|---|---|---|---|
| ALBERTA | Calgary | | | | | | ● | ● |
| BRITISH COLUMBIA / **COLOMBIE-BRITANNIQUE** | Vancouver | ● | ● | | | | ● | |
| ONTARIO | Toronto | ● | ● | | | | | ● |
| QUEBEC / **QUÉBEC** | Montreal / **Montréal** | | | | ● | ● | ● | ● |
| | Quebec City / **Québec** | | ● | | | | | |
| | Rouyn-Noranda | | ● | | | | | |

# The Fleet La flotte

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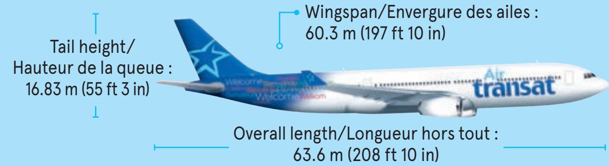
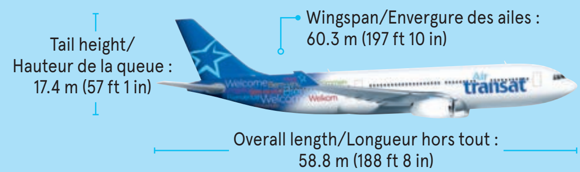
## AIRBUS A330-300




**Engines:**
2 Rolls Royce Trent 772
**Fuel capacity:**
76,839 kg (169,403 lb)
**Cruising speed:**
870 km/h (541 mph)
**Maximum takeoff weight:**
215,000 kg (473,986 lb)
**Maximum range:**
8,000 km (5,000 nautical miles)
**Number of seats:**
346 or 375
- 12 in Club Class
- 334 or 363 in Economy Class

**Moteurs :**
2 Rolls Royce Trent 772
**Capacité de carburant :**
76 839 kg (169 403 lb)
**Vitesse de croisière :**
870 km/h (541 mi/h)
**Poids maximum au décollage :**
215 000 kg (473 986 lb)
**Autonomie maximale :**
8 000 km (5 000 milles nautiques)
**Nombre de sièges :**
346 ou 375
- 12 en classe Club
- 334 ou 363 en classe Économie

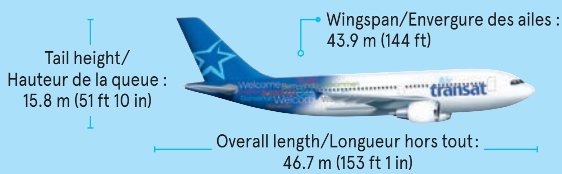
## AIRBUS A330-200




**Engines:**
2 Rolls Royce Trent 772B
**Fuel capacity:**
111,272 kg (245,316 lb)
**Cruising speed:**
870 km/h (541 mph)
**Maximum takeoff weight:**
233,000 kg (509,042 lb)
**Maximum range:**
9,600 km (6,000 nautical miles)
**Number of seats:**
345
- 12 in Club Class
- 333 in Economy Class

**Moteurs :**
2 Rolls Royce Trent 772B
**Capacité de carburant :**
111 272 kg (245 316 lb)
**Vitesse de croisière :**
870 km/h (541 mi/h)
**Poids maximum au décollage :**
233 000 kg (509 042 lb)
**Autonomie maximale :**
9 600 km (6 000 milles nautiques)
**Nombre de sièges :**
345
- 12 en classe Club
- 333 en classe Économie

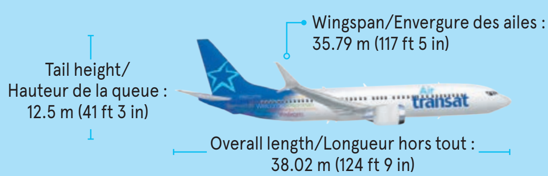
## AIRBUS A310-300




**Engines:**
2 GE CF6-80C2A2
or 2 GE CF6-80C2A8
**Fuel capacity:**
48,872 kg (107,750 lb)
**Cruising speed:**
850 km/h (528 mph)
**Maximum takeoff weight:**
Model A - 164,000 kg (361,560 lb)
Model B - 157,000 kg (348,106 lb)
**Maximum range:**
8,300 km (5,200 nautical miles)
**Number of seats:**
250
- 12 in Club Class
- 238 in Economy Class

**Moteurs :**
2 GE CF6-80C2A2
ou 2 GE CF6-80C2A8
**Capacité de carburant :**
48 872 kg (107 750 lb)
**Vitesse de croisière :**
850 km/h (528 mi/h)
**Poids maximum au décollage :**
Modèle A - 164 000 kg (361 560 lb)
Modèle B - 157 000 kg (348 106 lb)
**Autonomie maximale :**
8 300 km (5 200 milles nautiques)
**Nombre de sièges :**
250
- 12 en classe Club
- 238 en classe Économie

## BOEING 737-800




**Engines:**
2 GE CFM56
**Cruising speed:**
795 km/h (494 mph)
**Maximum range:**
4,300 km (2,300 nautical miles)
**Number of seats:**
189 in Economy Class

**Moteurs :**
2 GE CFM56
**Vitesse de croisière :**
795 km/h (494 mi/h)
**Autonomie maximale :**
4 300 km (2 300 milles nautiques)
**Nombre de sièges :**
189 en classe Économie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SAVOURE L'INSTANT™C
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Les produits Coca-ColaMD sont offerts sur tous les vols d'Air Transat.
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# EXHIBIT

# 4

Air transat

# BISTRO

NEW / **NOUVEAU**

## CHEF'S MENU
## LE MENU

by · par le Chef

## Daniel Vézina

Details on page 8 / **Détails en page 8**

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**$6.75**
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Imported Beer
**Bières importées**
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**Cocktails**
starting at / **à partir de**
**$6.75**

Wine
**Vin**
**$6.75**
*Grand Sud* Red / Rouge (Syrah-Malbec)
*Grand Sud* White / Blanc (Sauvignon)

Spirits & Liqueurs
**Spiritueux et liqueurs**
**$7.75**
*Courvoisier* Cognac, *The Glenlivet* Scotch

**$6.75**
*Baileys*, *Beefeater* Gin, *Bacardi* Rum / Rhum, *Iceberg* Vodka, *Crown Royal* Whisky

Natural Spring Water
**Eau de source naturelle**
**$3**
*Eska*

Soft Drinks
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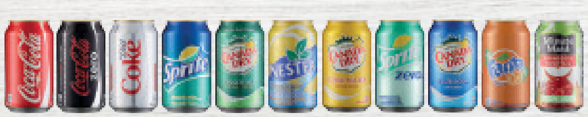

Presentation may vary. / **La présentation des produits peut varier.**

# SOUTH AND WITHIN CANADA

# SUD ET À L'INTÉRIEUR DU CANADA

on flights longer than 3 hours

**sur les vols de plus de 3 heures**

## Full Breakfast
## **Petit-déjeuner complet**

**$15**

Breakfast platter featuring a cheese omelette with salsa and roasted fingerling potatoes, a plain croissant, yogourt, jam and a glass of juice

**Plateau de petit-déjeuner comprenant une omelette au fromage accompagnée de salsa et de pommes de terre rôties, un croissant nature, un yogourt, de la confiture et un verre de jus**

## Croque Monsieur
## **Croque-monsieur**

**$7.75**

Croque monsieur with ham, Swiss cheese and Dijon mustard in ciabatta bread

**Croque-monsieur au jambon et au fromage suisse avec moutarde de Dijon sur pain ciabatta**

## Turkey Sandwich
## **Sandwich à la dinde**

**$8.75**

Turkey sandwich with provolone cheese, roasted red peppers, bacon and sun-dried tomato spread in multi-grain bread

**Sandwich à la dinde et au fromage provolone avec poivrons rouges rôtis, bacon et tartinade aux tomates séchées sur pain multigrain**

**$18.50**

1 Bistro meal
1 repas Bistro

+

1 treat
1 grignotine

+

1 alcoholic beverage
1 boisson alcoolisée

## Margherita Pizza
## **Pizza margherita**

**$8.75**

Wheat flour, tomatoes, cheddar cheese, olive oil, mustard, cooked onions

**Farine de blé, tomates, fromage cheddar, huile d'olive, moutarde, oignons cuits**

## Mac & Cheese
## **Macaroni au fromage**

**$8.75**

Mac and cheese topped with *Goldfish* cheddar crackers

**Macaroni au fromage gratiné, garni de craquelins *Goldfish* au cheddar**

## Cheeseburger
## **Hamburger au fromage**

**$8.75**

Cheeseburger with caramelized onions and pickles in a sesame bun

**Hamburger au fromage garni d'oignons caramélisés et de cornichons sur pain aux graines de sésame**



Presentation may vary. / **La présentation des produits peut varier.**

# CHEF'S MENU
# LE MENU

by · par le Chef

## Daniel Vézina

Braised Leg of Lamb
**Braisé de gigot d'agneau**

## $25

Main course created by Chef Daniel Vézina, cheese plate, dessert and wine

–

Plat principal créé par le chef Daniel Vézina, assiette de fromages, dessert et vin

Air Transat is proud to partner with renowned Quebec chef Daniel Vézina to offer a menu inspired by his signature recipes. Experience gourmet dining in the sky with his delicious dishes created specially for you. The perfect way to celebrate your vacation in style!

–

**Air Transat est fière de s'associer au célèbre chef québécois Daniel Vézina pour vous offrir un menu inspiré de ses recettes distinctives. Profitez d'une expérience gourmande dans les airs grâce à ses plats savoureux spécialement concoctés pour vous. Rien de tel pour célébrer les vacances !**


Chicken Blanquette
**Blanquette de volaille**


Gnocchi With Bolognese Sauce
**Gnocchis sauce bolognaise**


Vegetable Risotto
**Risotto aux légumes**

CHEF'S MENU
LE MENU
by · par le Chef
Daniel Vézina

$25

Main course, cheese plate, dessert and wine

Plat principal, assiette de fromages, dessert et vin

## From
## À partir du
## Canada

### Chicken Blanquette
### Blanquette de volaille

Chicken ragout with lemon-zest cream sauce and seasonal vegetables

**Sauce à la crème au zeste de citron et garniture de petits légumes de saison**

### Gnocchi With Bolognese Sauce
### Gnocchis sauce bolognaise

Sweet potato gnocchi with red wine bolognese sauce, spinach pesto and Parmesan shavings

**Gnocchis à la patate douce, sauce bolognaise au vin rouge, pesto d'épinards et copeaux de parmesan**

### Vegetable Risotto
### Risotto aux légumes

Vegan risotto with rice cream, red pepper coulis and diced root vegetables with fennel

**Risotto végétalien à la crème de riz et coulis de poivrons rouges, macédoine de légumes racines et fenouil**

To enjoy a signature Daniel Vézina dish, ask your flight attendant about availability or pre-order one up to 48 hours before your next flight. Taxes may apply on certain flight segments. Quantities are limited. Menu not available on Tel Aviv flights.

**Pour déguster un plat signé Daniel Vézina, renseignez-vous sur la disponibilité auprès de votre agent de bord ou précommandez-le jusqu'à 48 heures avant votre prochain vol. Certaines taxes peuvent s'appliquer selon le segment de vol. Les quantités sont limitées. Menu non disponible sur les vols de/vers Tel-Aviv.**

Presentation may vary. / La présentation des produits peut varier.

CHEF'S MENU
LE MENU
by · par le Chef
Daniel Vézina

$25

Main course, cheese plate, dessert and wine

Plat principal, assiette de fromages, dessert et vin

## To
## Vers le
## Canada

### Duck Confit Lasagna
### Lasagne au confit de canard

With spinach and a sherry and foie gras emulsion

**Avec épinards et émulsion de jus de viande au xérès et foie gras**

### Braised Leg of Lamb
### Braisé de gigot d'agneau

With spices, maple syrup and Indian vegetable curry

**Aux épices et sirop d'érable, cari de légumes à l'indienne**

### Vegetarian Moussaka
### Moussaka végétarienne

With grilled vegetables, creamed goat cheese, tomato and red pepper coulis

**Aux légumes grillés, crème de fromage de chèvre, coulis de tomates et poivrons rouges**

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Duck Confit Lasagna
**Lasagne au confit de canard**


Braised Leg of Lamb
**Braisé de gigot d'agneau**


Vegetarian Moussaka
**Moussaka végétarienne**

# TREATS
# GRIGNOTINES

on all flights
**sur tous les vols**

***Pringles***
**$3**
Original

Oatmeal
**Gruau**
**$3.50**
***Quaker***
Oats, apple, cinnamon
**Flocons d'avoine, pomme, cannelle**

***Twizzlers Nibs***
**$3**

Chocolate
**Chocolat**
**$3**
*Kit Kat*
*Aero*

***Mini Oreo***
**$3**

# SNACKS
# COLLATIONS

on flights to/from the South and within Canada
(on flights longer than 3 hours)
**sur les vols de/vers le Sud et à l'intérieur du Canada**
**(sur les vols de plus de 3 heures)**

Cheese
& Crackers
**Fromages**
**et craquelins**
**$8.75**
Cheddar and Oka cheese, with crackers, apple slices and grapes
**Fromages cheddar et Oka accompagnés de craquelins, de tranches de pomme et de raisins**

**$15.50**
Bottle of red or white *Grand Sud* wine (187 mL) with cheese and crackers
**Bouteille de vin rouge ou blanc *Grand Sud* (187 ml) accompagnée de fromages et de craquelins**

Presentation may vary. / La présentation des produits peut varier.

# TRIOS

on all flights
**sur tous les vols**

## ZEN TRIO
**$16.50**

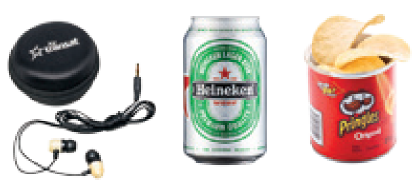
Comfort Kit, alcoholic beverage and a treat

**Trousse Confort, une boisson alcoolisée et une grignotine**


## FUN TRIO
**$16.50**

Natural wood earbuds, alcoholic beverage and a treat

**Écouteurs en bois naturel, une boisson alcoolisée et une grignotine**




Natural Wood Earbuds
**Écouteurs en bois naturel**
**$9**

Comfort Kit
**Trousse Confort**
**$9**

COMBO
**$15**



PAYMENT BY CREDIT CARD ONLY / **PAIEMENT PAR CARTE DE CRÉDIT UNIQUEMENT**
(We accept / **Nous acceptons :** Mastercard, Visa, American Express, Diners Club)

Prices and products indicated are subject to change without notice, and quantities are limited.
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Air transat

MELIÃ
HOTELS
INTERNATIONAL
CUBA

The renowned hotel chain Meliá Cuba has designed its exclusive rooms with Royal Service to provide guests amazing experiences in a paradise-like setting. It is the perfect combination for an exceptional stay.

La chaîne hôtelière Meliá Cuba propose ses chambres exclusives avec Service Royal, la combinaison parfaite pour vivre une expérience de voyage unique, dans un cadre paradisiaque.

## Vacation is calling • Ça sent les vacances

Paradisus Princesa del Mar | Paradisus Varadero | Paradisus Río de Oro

ROYAL SERVICE
BY PARADISUS

# EXHIBIT

# 5

# BISTRO

NEW / **NOUVEAU**

## CHEF'S MENU
## LE MENU

by · par le Chef

## Daniel Vézina

Details on page 8 / **Détails en page 8**

# DRINKS
# BOISSONS

on all flights
**sur tous les vols**

Canadian Beer
**Bière canadienne**
**$6.75**
*Molson Canadian*

Imported Beer
**Bières importées**
**$7.75**
*Heineken, Corona*

**Cocktails**
starting at / **à partir de**
**$6.75**

Wine
**Vin**
**$6.75**
*Grand Sud* Red / Rouge (Syrah-Malbec)
*Grand Sud* White / Blanc (Sauvignon)

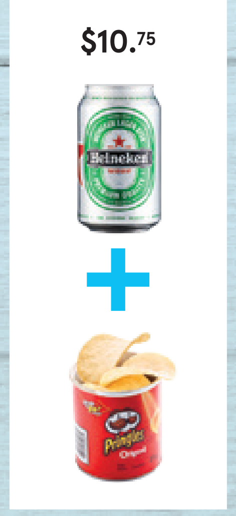
Spirits & Liqueurs
**Spiritueux et liqueurs**
**$7.75**
*Courvoisier* Cognac, *The Glenlivet* Scotch

**$6.75**
*Baileys*, *Beefeater* Gin, *Bacardi* Rum / Rhum, *Iceberg* Vodka, *Crown Royal* Whisky

Natural Spring Water
**Eau de source naturelle**
**$3**
*Eska*

Soft Drinks
**Boissons gazeuses**
FREE / **GRATUIT**

**$10.75**



*Coca-Cola* Products
**Produits *Coca-Cola***

Presentation may vary. / **La présentation des produits peut varier.**

The trademarks that appear are the property of their respective trademark owners.
**Les marques de commerce indiquées appartiennent à leur propriétaire respectif.**

# CANADA → EUROPE

complimentary on Canada to Europe flights
**gratuit sur les vols du Canada vers l'Europe**

### Warm Ham & Brie Sandwich
### **Sandwich chaud au jambon et au brie**

Torta sesame bun, smoked ham, brie cheese, cranberry spread

**Petit pain aux graines de sésame, jambon fumé, fromage brie, tartinade aux canneberges**

### Warm Mediterranean Chicken Sandwich
### **Sandwich chaud au poulet méditerranéen**

Panini bread bun, chicken strips, grilled bell peppers, mozzarella cheese, basil pesto aioli

**Petit pain panini, lanières de poulet cuit, poivrons rouges grillés, fromage mozzarella, aïoli au pesto de basillic**

### Warm Grilled Vegetable Sandwich
### **Sandwich chaud aux légumes grillés**

Onion baguette, grilled zucchini, grilled eggplant, grilled bell peppers, pesto spread

**Baguette aux oignons, courgettes grillées, aubergines grillées, poivrons rouges grillés, tartinade au pesto**

Presentation may vary. / **La présentation des produits peut varier.**

# EUROPE → CANADA

complimentary on Europe to Canada flights
**gratuit sur les vols de l'Europe vers le Canada**

### Chicken Parmigiana With Orzo Pasta
### **Poulet parmigiana avec pâtes orzo**

Breaded chicken in tomato sauce and topped with mozzarella cheese, served with orzo pasta and vegetables

**Poulet pané enrobé de sauce tomate et parsemé de fromage mozzarella, servi avec pâtes orzo aux légumes**

### Shanghai Noodles
### **Nouilles Shanghai**

Wheat noodles sautéed with vegetables in an Asian sauce, sprinkled with sesame seeds

**Nouilles de blé sautées aux légumes dans une sauce asiatique, saupoudrées de graines de sésame**

### Beef in Red Wine Sauce
### **Bœuf sauce au vin rouge**

Seasoned beef in red wine sauce, accompanied with mashed potatoes

**Bœuf assaisonné nappé de sauce au vin rouge, accompagné de purée de pommes de terre**

# CHEF'S MENU
# LE MENU

by · par le Chef

## Daniel Vézina

$25

Main course created by Chef Daniel Vézina, cheese plate, dessert and wine

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Plat principal créé par le chef Daniel Vézina, assiette de fromages, dessert et vin

Braised Leg of Lamb
**Braisé de gigot d'agneau**


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Chicken Blanquette
**Blanquette de volaille**

Gnocchi With Bolognese Sauce
**Gnocchis sauce bolognaise**

Vegetable Risotto
**Risotto aux légumes**

CHEF'S MENU
LE MENU
by · par le Chef
Daniel Vézina

# $25

Main course, cheese plate, dessert and wine

Plat principal, assiette de fromages, dessert et vin

## From
## À partir du
## Canada

### Chicken Blanquette
### **Blanquette de volaille**

Chicken ragout with lemon-zest cream sauce and seasonal vegetables

**Sauce à la crème au zeste de citron et garniture de petits légumes de saison**

### Gnocchi With Bolognese Sauce
### **Gnocchis sauce bolognaise**

Sweet potato gnocchi with red wine bolognese sauce, spinach pesto and Parmesan shavings

**Gnocchis à la patate douce, sauce bolognaise au vin rouge, pesto d'épinards et copeaux de parmesan**

### Vegetable Risotto
### **Risotto aux légumes**

Vegan risotto with rice cream, red pepper coulis and diced root vegetables with fennel

**Risotto végétalien à la crème de riz et coulis de poivrons rouges, macédoine de légumes racines et fenouil**

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With spices, maple syrup and Indian vegetable curry

**Aux épices et sirop d'érable, cari de légumes à l'indienne**

### Vegetarian Moussaka
### **Moussaka végétarienne**

With grilled vegetables, creamed goat cheese, tomato and red pepper coulis

**Aux légumes grillés, crème de fromage de chèvre, coulis de tomates et poivrons rouges**

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Vegetarian Moussaka
**Moussaka végétarienne**

# TREATS
# GRIGNOTINES

on all flights
**sur tous les vols**

***Pringles***
**$3**
Original

Oatmeal
**Gruau**
**$3.50**
***Quaker***
Oats, apple, cinnamon
**Flocons d'avoine, pomme, cannelle**

***Twizzlers Nibs***
**$3**

Chocolate
**Chocolat**
**$3**
*Kit Kat*
*Aero*

***Mini Oreo***
**$3**

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# TRIOS

on all flights
**sur tous les vols**

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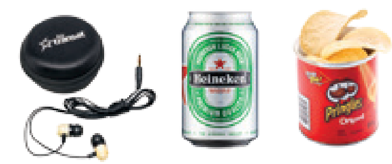
**Écouteurs en bois naturel, une boisson alcoolisée et une grignotine**



Natural Wood Earbuds
**Écouteurs en bois naturel**
**$9**

Comfort Kit
**Trousse Confort**
**$9**

COMBO
**$15**

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Air transat

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Paradisus Princesa del Mar | Paradisus Varadero | Paradisus Río de Oro

ROYAL SERVICE BY PARADISUS

# EXHIBIT

# 6

**[REDACTED AS CONFIDENTIAL]**

# EXHIBIT

# 7

## [REDACTED AS CONFIDENTIAL]

3

CT–2016–015

THE COMPETITION TRIBUNAL

**IN THE MATTER OF** the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

**AND IN THE MATTER OF** certain practices of Vancouver Airport Authority relating to the supply of in-flight catering at Vancouver International Airport;

**AND IN THE MATTER OF** an application by the Commissioner of Competition for one or more orders pursuant to section 79 of the *Competition Act*.

**BETWEEN:**

**COMMISSIONER OF COMPETITION**

**Applicant**

**– and –**

**VANCOUVER AIRPORT AUTHORITY**

**Respondent**

---

**WITNESS STATEMENT OF**

**RHONDA BISHOP**

**JAZZ AVIATION LP**

---

I, Rhonda Bishop, of the community of Fletchers Lake, of the Halifax Regional Municipality, in the Province of Nova Scotia, state as follows:

1. I am Director, Inflight Services and Onboard Product of Jazz Aviation LP (“**Jazz**”). Jazz operates the largest regional airline in Canada and is the third largest Canadian airline, based on passengers carried.

2. I have personal knowledge of the matters in this Witness Statement, except where I have otherwise indicated that I am relying on information from others, in which case I believe such information to be true.

**PURPOSE OF THIS WITNESS STATEMENT**

3. I make this Statement on behalf of Jazz in connection with the application by the Commissioner of Competition against Vancouver Airport Authority (“**VAA**”) in proceeding CT–2016–015, relating to alleged anti-competitive conduct by VAA concerning In-flight Catering (defined in paragraphs 16-22, below) at Vancouver International Airport (“**YVR**”).

4. As I describe below, Jazz conducted a competitive request-for-proposal (“**RFP**”) process for its In-flight Catering requirements in 2014. The 2014 RFP evaluation presented a significant cost-savings opportunity for Jazz without sacrificing the quality or service that Jazz and its passengers expect and demand. Based on evaluating the bids received in response to the 2014 RFP, Jazz estimated that it could save approximately [redacted] per year on its In-flight Catering costs at YVR, had Jazz been able to select a competitive new-entrant alternative at the airport instead of the incumbent provider, Gate Gourmet Canada Inc. (“**Gate Gourmet**”). In 2015 alone, Jazz realized actual cost savings of $2.9 million or 16% on In-flight Catering, by switching away from Gate Gourmet at eight airports (also referred to as “**stations**”) in Canada and procuring the services of new providers, specifically Newrest Holding Canada Inc. (“**Newrest**”) and Sky Café Ltd., a subsidiary of Strategic Aviation Holdings Ltd. (“**Sky Café**”). Jazz would also have switched providers at YVR, were it not for VAA’s refusal, unlike the

airport authorities at the eight other airports, to authorize these new providers to operate.

5. Effective 1 May 2017, Jazz assigned its In-flight Catering contracts with Sky Café, Newrest and Gate Gourmet to Air Canada (as described below). From 1 January 2015 until 31 March 2017, Jazz incurred significant forgone In-flight Catering cost savings at YVR as a result of Jazz's inability to switch to a new-entrant provider at the airport. Multiplying Jazz's actual flight volumes at YVR between 1 January 2015 and 31 March 2017 by the 2014 RFP pricing proposed by Sky Café, and comparing it with Gate Gourmet's actual pricing for the period, Jazz was forced to pay approximately [redacted] more for In-flight Catering at YVR. These forgone cost savings are even greater than Jazz could have estimated in 2014, due primarily to a change in Jazz's fleet composition at YVR.

6. Jazz's inability to switch providers of In-flight Catering at YVR led to increases in Jazz's costs of operations and negatively impacted the cost competitiveness of the rates charged to Air Canada for In-flight Catering under Jazz's Capacity Purchase Agreement ("**CPA**") with Air Canada.

## PERSONAL PROFILE

7. I have 26 years of experience in the aviation industry in a number of management roles, including:

   a. Director, Inflight Services and Onboard Product, for Jazz, since 2010. In this capacity, I am responsible for the oversight of four business units: Inflight Services, Regulatory & Standards, Inflight Training, and Onboard Product. I perform the duties of Flight Attendant Manager as required under the *Canadian Aviation Regulations* ("**CARs**"), and am responsible for the operation and implementation of CARs requirements, including Subpart 705 (airline operations). I am responsible for the professional standards of cabin crews, and more generally oversee the efficient operation of the Inflight Services Department;

b. Manager, Corporate Cabin Safety and Occupational Safety & Health, for Jazz, from 2009 to 2010. In this capacity, I was responsible for integrating occupational safety and health with safety management systems, injury prevention and investigation, and safety training;

c. Regional Manager, Inflight Services – East, for Jazz, from 2005 to 2007. In this position, I was responsible for managing more than 200 flight attendants and 5 management employees; and

d. Civil Aviation Inspector, Cabin Safety & Aviation Occupational Health and Safety, for Transport Canada, in 2008.

8. More specifically, in providing oversight of Onboard Product, until 30 April 2017 I was responsible for:

- ensuring that the onboard product is aligned with cost control and customer expectations and satisfies the requirements of the CPA;
- negotiating, where possible, better products and services to reduce the cost of In-flight Catering on board Jazz's aircraft;
- overseeing the budget and billings for all In-flight Catering;
- conducting a monthly review to maintain target and costs in all areas; and
- identifying and analyzing areas of opportunity and implementing process improvements for efficiencies in terms of both process and costs. In this regard, I provided strategic direction to the In-flight Catering RFP process team with day-to-day responsibility for the 2014 RFP process.

9. As of 1 May 2017, Air Canada assumed responsibility for Onboard Product, including In-flight Catering, for Jazz's fleet. In connection with this transfer, Jazz

and Air Canada [redacted]. As of 1 May 2017, my role with regard to Onboard Product is principally limited to:

- communicating service failures to Air Canada;
- managing alcohol and bond cage licensing; and
- shared responsibility and decision-making for In-flight Catering equipment on the Jazz fleet.

## OVERVIEW OF JAZZ'S BUSINESS

Business Lines

10. Jazz's principal business is the provision of passenger air transportation services to Air Canada, pursuant to the CPA.

11. Under the CPA, the term of which has been extended to 31 December 2025, Air Canada purchases the majority of Jazz's fleet capacity at pre-determined rates. Jazz operates the CPA flights on behalf of Air Canada under the "Air Canada Express" brand. Jazz provides the aircraft (including crews), airframe maintenance, flight operations and some airport operations. Jazz also contracts directly with third-party suppliers to provide certain essential services, including until 30 April 2017 In-flight Catering. 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, and is entitled to all revenues associated with the operation of the covered flights. Additional information about the CPA may be found in the 2016 Annual Information Form of Chorus Aviation Inc. ("**Chorus**"), a copy of which is attached and marked as **Exhibit 1**.

12. Pursuant to the CPA, Jazz provides service to and from lower-density markets, as well as higher-density markets at off-peak times, throughout Canada and to and from certain destinations in the United States. As of August 2017, Jazz uses a fleet of 117 aircraft to operate scheduled passenger service on behalf of Air Canada, with more than 660 departures per weekday to 70 destinations across Canada and the United States. A detailed map of the airports that Jazz serves is in included in Chorus' March 2017 Investor Relations Presentation, a copy of which is attached and marked as **Exhibit 2**.

13. In addition to its principal business with Air Canada, Jazz has three ancillary business lines. Jazz offers air transportation charter services to a variety of customers, to Canadian and international locations. Jazz's airport handling business offers passenger and ramp handling services to third-party airlines. Finally, Jazz Technical Services (JTS) performs regional jet and turboprop line maintenance, heavy maintenance and overhauls to support Jazz operations, and to third parties.

<u>Jazz's Fleet</u>

14. Jazz operates a fleet of Canadian-made Bombardier aircraft, consisting (as of August 2017) of:

   a. 16 Dash 8-100 turboprops (37 economy seats);

   b. 26 Dash 8-300 turboprops (50 economy seats);

   c. 10 CRJ 200 jets (50 economy seats);

   d. 16 CRJ 705 jets (65 economy seats and 10 business class seats);

   e. 5 CRJ 900 jets (64 economy seats and 12 business class seats); and

   f. 44 Q400 turboprops (6 with 74 economy seats and 38 with 78 economy seats).

15. As part of Jazz's fleet modernization plan, over the coming years Jazz will transition to more efficient, larger aircraft. Older, less efficient Dash 8-100s and CRJ-200s will be replaced, and CRJ 900s and Q400s will be added.

**JAZZ'S PROCUREMENT OF IN-FLIGHT CATERING UNTIL 30 APRIL 2017**

Products & Services Procured

16. Until 30 April 2017, Jazz purchased two general types of **In-flight Catering** products and services – **Catering**, and **Galley Handling**. The principal products and services that Jazz procured under each of these work scopes were set out by Jazz in its 2014 RFP, a copy of which is attached and marked as **Exhibit 3**.

17. For Jazz, Catering comprised the preparation of fresh meals for business class passengers on CRJ 705 aircraft. Ovens have yet to be installed in these aircraft, so the business class offering is a cold meal. In addition to fresh meals, Jazz offers a buy-on-board ("**BOB**") option to passengers on many of its flights. Non-perishable BOB snack items (such as chips and chocolate bars, which are sourced by Jazz) are offered on flights with a block time (i.e., the time from when the aircraft leaves the departure gate until it arrives at the destination gate) of 90 minutes or greater. On flights with a block time of three and one quarter hours or greater, perishable BOB items (such as sandwiches), sourced from Caterers, are also offered. Finally, Jazz procured snacks from Caterers for crew to consume onboard.

18. In addition to food, Jazz procured certain ancillary services as part of the Catering work scope. Specifically, for Jazz, Catering also included the cleaning of rotatable equipment (dishes, cutlery, trays, coffee pots, etc.) and linen management. Caterers were also responsible for controlling access to the Catering unit, security supervision and checks during food preparation, and sealing of food and/or bar trolleys and containers.

19. Jazz paid Caterers [redacted].

20. For Jazz, Galley Handling comprised trucking of Catering and **Commissary** products (non-food items and non-perishable food items, sourced by Jazz) and equipment between aircraft and the Galley Handling or Catering facility, loading/unloading of product on/from the aircraft, and transfer of products between various areas of the aircraft (such as lower cargo holds). Galley Handling also consisted of warehousing Commissary product (as well as bonded warehousing of alcohol and duty-free products), interfacing with third-party duty-free provider(s), inventory management of Jazz-supplied products (Commissary, alcohol, duty-free and galley equipment), trolley preparation (including washing), and handheld device management. Galley Handlers were responsible for procuring ice and dairy products for Jazz.

21. Jazz paid Galley Handlers [redacted].

22. Jazz had five different types of **Catering Events**, each of which is associated with a particular aircraft type and level of service:

   a. "CRA Exchange" is the service provided to a CRJ 705 or CRJ 900 aircraft when it makes a "turn" at the gate – that is, upon its arrival from a scheduled flight and prior to its departure later that same day on its next scheduled flight. On this type of service, the Galley Handler trucks to the aircraft Catering, Commissary and ancillary products, "exchanges" those items with used or soiled items, equipment and trolleys from the arriving flight, and returns the used and soiled items to the Galley Handler's facility for cleaning or disposal.

   b. "CRA Orig" is the service provided to a CRJ 705 or CRJ 900 aircraft prior to its first scheduled flight of the day. This service is similar to a "CRA Exchange", but is carried out over two separate trucking events to the aircraft. The Galley Handler removes used and soiled items at the end of the aircraft's service day, and makes a second trip to the aircraft in the morning to load new items prior to the first flight of the day.

c. "CRJ Exchange" is similar to a CRA Exchange, except that it occurs in respect of a smaller CRJ 200 aircraft. In addition, because a CRJ 200 has no business class seats and a limited flying time, no fresh meals or perishable BOB is loaded.

d. "DH4 Exchange" is again similar to a CRA Exchange, except that it occurs in respect of a Q400 aircraft. No fresh meals are carried, as the aircraft has no business class seats, but perishable BOB is carried, depending on block time.

e. "DH Top-Up" is a more limited type of Galley Handling service, provided in respect of Dash 8-100 and Dash 8-300 aircraft. Because these aircraft serve relatively short routes, no fresh meals or perishable BOB is offered. Instead, prior to each flight, a Galley Handling truck approaches the aircraft, whereupon a member of the flight crew provides the Galley Handler with a "pick list" of Commissary items required for the flight. The Galley Handler retrieves the required items from the truck and provides them to the flight crew.

<u>Stations at which Jazz Procured In-flight Catering</u>

23. Jazz flies to more than 50 destinations in Canada (as well as a number of U.S. destinations), with its route network and fleet largely divided on a regional basis between Western and Eastern Canada. Among these destinations, Jazz obtains In-flight Catering (other than ice, dairy and a small amount of other perishable items) at only nine stations: Halifax Stanfield International Airport ("**YHZ**"), Montréal-Pierre Elliott Trudeau International Airport ("**YUL**"), Ottawa Macdonald–Cartier International Airport ("**YOW**"), Toronto Pearson International Airport ("**YYZ**"), Winnipeg James Armstrong Richardson International Airport ("**YWG**"), Regina International Airport ("**YQR**"), Edmonton International Airport ("**YEG**"),

Calgary International Airport (“**YYC**”) and YVR (collectively, the “**Nine Stations**”). In respect of each of the Nine Stations, Jazz procured In-flight Catering from among those firms that held an authorization from the relevant airport authority to provide Catering and/or Galley Handling at the airport.

24. A substantial portion of Jazz’s daily traffic flows through one or more of the Nine Stations. Accordingly, in order to optimize efficiencies, Jazz concentrated its catering infrastructure and activities at the Nine Stations for over 25 years.

25. Until 30 April 2017, to ensure that flights serving airports in Canada which are not among the Nine Stations were properly provisioned with In-flight Catering, Jazz would “double cater” flights departing one of the Nine Stations that were destined for the smaller airports. That is, Jazz would transport extra Catering or Commissary products on a flight departing one of the Nine Stations for use on the second leg of the flight, which typically would be a return flight or a flight to another of the Nine Stations.

26. At YVR, In-flight Catering must be onboarded to Jazz aircraft. YVR is Jazz’s busiest station in Canada by flight volumes and by Catering Events. Accordingly, Jazz maintains significant flight operations and infrastructure at YVR. Many aircraft originate from YVR, conduct flight operations to, from and between smaller airports in the region and return to YVR at the end of the day for maintenance and overnighting. Given Jazz’s route structure (see **Exhibit 2**) it was not practical or efficient (e.g., would present significant logistical complexity and burden Jazz with substantial additional costs) for Jazz to procure In-flight Catering at another of the Nine Stations for flights departing YVR.

**JAZZ’S 2014 IN-FLIGHT CATERING RFP**

Background

27. Until the end of 2014, Jazz was a long-time In-flight Catering customer of Gate Gourmet, having contracted with Gate Gourmet (and its predecessor, Cara Operations Limited) for service at each of the Nine Stations. For many years,

Gate Gourmet was the only option at many of these airports, and so Jazz had little choice but to contract with Gate Gourmet to source In-flight Catering at the Nine Stations.

28. Over time, Jazz became [redacted] with both the level of service and the pricing of Gate Gourmet's In-flight Catering. Gate Gourmet's [redacted] pricing model for In-flight Catering resulted in Jazz being compelled to pay for each flight [redacted]. This [redacted] pricing model made it very challenging for Jazz to predict and manage its In-flight Catering costs and ultimately led to Jazz's In-flight Catering costs [redacted]. Jazz was unable to resolve these issues with Gate Gourmet.

29. In anticipation of Jazz's contract with Gate Gourmet being up for renewal at the end of 2014, Jazz considered its In-flight Catering requirements and surveyed the competitive landscape of firms that might be positioned to satisfy Jazz's needs. Jazz believed that it would be able to realize significant cost savings on In-flight Catering by [redacted].

30. In 2014, Jazz decided to go to the marketplace with a competitive RFP for In-flight Catering, with service commencing in 2015, rather than to renew its contract with Gate Gourmet.

<u>Request for Proposal</u>

31. On 28 February 2014 Jazz invited [redacted] firms to bid on its In-flight Catering RFP. Bidders were required to declare their intent to participate by March 4, and Jazz held a conference call with all potential bidders on March 5 to provide an

overview of the requirements of the RFP. The RFP called for bids to be provided to Jazz by no later than [redacted] 2014.

32. Given that Gate Gourmet is the only firm to offer In-flight Catering at each of the Nine Stations, Jazz designed the RFP to encourage new and alternative service providers to bid. Bidders were asked to provide proposed pricing [redacted]. While the RFP indicated that Jazz would [redacted].

33. Jazz ran the RFP as [redacted] After completing an initial evaluation of the bids, Jazz shortlisted certain bidders, [redacted].

34. Jazz received initial responses [redacted] to the RFP, as follows:

   a. [redacted] bid to provide [redacted] of the Nine Stations;

   b. [redacted] bid to provide [redacted] of the Nine Stations, specifically [redacted];

   c. [redacted] bid to provide [redacted];

   d. [redacted] bid to provide [redacted] of the Nine Stations;

e. [redacted] bid to provide [redacted]; and

f. [redacted] bid to provide [redacted].

35. Gate Gourmet's initial bid, a copy of which is attached and marked as **Exhibit 4**, was not compliant with the requirements of the RFP. [redacted] on 7 April 2014 Gate Gourmet submitted a bid [redacted]. In addition, while Gate Gourmet did [redacted].

36. Jazz had a series of communications with Gate Gourmet after receipt of Gate Gourmet's initial bid. On 15 April 2014, Mr. Trevor Umlah, Strategic Contracts Manger at Jazz, advised Gate Gourmet by e-mail that Gate Gourmet's proposed pricing was [redacted]. On 23 April 2014, Gate Gourmet informed Jazz by e-mail that it would not [redacted]. On 2 June 2014, Mr. Umlah informed Gate Gourmet by e-mail that it stood to lose Jazz's business at all of the Nine Stations if it did not submit [redacted]. On 6 June 2014, Gate Gourmet submitted what it called its "best and final offer", [redacted] the rates from its original proposal of 7 April 2014 ([redacted]), but continuing to maintain that [redacted]. A copy of this e-mail correspondence is attached and marked as **Exhibit 5**.

37. On 4 July 2014, Mr. Umlah informed Gate Gourmet by e-mail that Jazz intended to recommend awarding its business at eight of the Nine Stations to other firms

and requested Gate Gourmet to submit a bid for YVR only. A copy of this e-mail is attached and marked as **Exhibit 6**.

38. On 9 July 2014, and at Jazz's request, Gate Gourmet submitted revised pricing for YVR only, which reflected [redacted]. Gate Gourmet's proposed pricing continued not to [redacted]. Attached and marked as **Exhibit 7** is a copy of Gate Gourmet's 9 July proposal.

39. On 11 August 2014 Gate Gourmet submitted revised pricing for YVR only, indicating that it would increase prices at YVR by [redacted], as proposed on 9 July 2014. On 25 August 2014, Jazz awarded Gate Gourmet a [redacted] contract for YVR only, to commence 1 January 2015, at prices that reflected a [redacted]% increase over the prices Jazz paid to Gate Gourmet at YVR in 2014. This pricing formula continues not to [redacted]. Attached and marked as **Exhibit 8** is a copy of the chain of e-mail correspondence between Mr. Umlah and Gate Gourmet from 11 August to 25 August 2014 and attached and marked as **Exhibit 9** is a copy of the final pricing that Gate Gourmet submitted for YVR.

40. CLS Catering Services Ltd. ("**CLS**"), a firm providing In-flight Catering at YVR and YYZ, [redacted] in response to the RFP, [redacted]. Mr. Umlah advises me that he contacted the Managing Director of CLS, Mr. David Wainman, to discuss the RFP. Mr. Umlah further advises me that Mr. Wainman informed him that CLS was conducting labour negotiations that, once complete, would enable CLS [redacted]. On 11 June 2014, CLS submitted a bid [redacted], which, as discussed below, was not competitive.

2014 RFP Bids – Evaluation

41. In July 2014, Jazz evaluated the bids received in response to the 2014 RFP from a financial perspective based on [redacted]. In analyzing the RFP responses, Jazz estimated the total costs of each bid by [redacted]. Jazz compared the costs of each bid [redacted], and to Jazz's actual 2014 costs, under its then-existing arrangement with Gate Gourmet.

42. The July 2014 bid evaluation suggested that Newrest and Sky Café offered Jazz substantially lower prices than Gate Gourmet for In-flight Catering at the Nine Stations, except [redacted]. In fact, based on the bids that each firm submitted using specifications provided by Jazz ([redacted]), Jazz determined that it could save approximately [redacted] on its costs for In-flight Catering by switching away from Gate Gourmet at eight of the Nine Stations and continuing to use Gate Gourmet at YVR, in comparison to what it had been paying the incumbent, Gate Gourmet, in 2014. A copy of Jazz's 2014 bid evaluation (adjusted to reflect [redacted] (refer to paragraph 39, above)) is attached and marked as **Exhibit 10**.

43. At YVR, Jazz understands that only Gate Gourmet and CLS were authorized by YVR to provide In-flight Catering. Jazz also understands that, in connection with their responses to the 2014 RFP, one or more of the other bidders approached VAA to obtain a similar authorization but were repeatedly refused by the airport authority.

44. With only Gate Gourmet and CLS authorized by VAA to operate at YVR, and [redacted], Jazz had no choice but to contract with Gate Gourmet for In-flight Catering at YVR.

45. Based on the July 2014 RFP bid evaluation (see **Exhibit 10**), Jazz's costs for having to contract with Gate Gourmet for In-flight Catering at YVR were estimated to be approximately [redacted] greater than what Jazz would have expected to pay [redacted], a competitive new-entrant alternative, if only VAA had permitted [redacted] to operate at YVR.

46. It is important to note that Jazz could not "self-supply" its In-flight Catering requirements at YVR, as an alternative to paying the high prices of Gate Gourmet. Jazz's labour agreements are such that [redacted]. Further, Jazz would have incurred substantial up-front capital costs (e.g., equipment, etc.) to set up an In-flight Catering operation at YVR. Overall, the cost to Jazz of self-supplying In-flight Catering would have [redacted]. Moreover, Article [redacted] of the lease between VAA and Jazz, excerpted and attached and marked as **Exhibit 11**, [redacted].

47. As part of the bid evaluation process, Jazz also assessed the ability of bidders to meet Jazz's level of service requirements. Jazz conducted a station-by-station assessment of the capability of Sky Café and Newrest, as new service providers to Jazz, to meet Jazz's needs for Catering and Galley Handling, considering such factors as whether the supplier had an existing facility at a station and the size of its operations. Jazz also considered the proximity of the bidders' facilities to the airside at the Nine Stations. Specifically, Jazz considered whether those bidders whose facilities were located more distant from the airport, on land not owned by the local airport authority, would be capable of meeting Jazz's, and Air Canada's, requirements for on-time performance. Jazz was satisfied that Sky Café and Newrest, after an appropriate transition period, would be able to provide the level of service that Jazz requires, including from facilities located off-airport.

48. To assure Jazz's interests in a high level of service were protected, Jazz [redacted]

[redacted]

2014 RFP Results – Significant Cost Savings

49. After a careful analysis of the bids submitted in response to the RFP, Jazz selected the following firms to provide Catering and Galley Handling at eight of the Nine Stations (collectively, "**Switch Stations**"):

a. Newrest, at YYC, YYZ and YUL; and

b. Sky Café, at YEG, YQR, YWG, YOW and YHZ.

50. Consistent with Jazz's July 2014 bid evaluation, in absolute terms, switching the service provider at the Switch Stations translated into actual savings of $2.9 million or 16% in 2015 alone, as reported publicly in Chorus' 2015 Management's Discussion and Analysis of Results of Operations and Financial Condition, a copy of which is attached and marked as **Exhibit 12**.

51. In contrast to the Switch Stations, Jazz ultimately could not change providers of In-flight Catering at YVR, incurring significant additional costs to remain with Gate Gourmet, whose bid at YVR was not competitive (as described above, at paragraphs 35-39, 42 and 45).

2014 RFP Results – Forgone Cost Savings at YVR as a Result of Inability to Switch

52. As discussed in paragraph 45, Jazz's July 2014 bid evaluation indicated that Gate Gourmet's bid for In-flight Catering at YVR was approximately [redacted] higher than that of [redacted], a more competitive new-entrant alternative at the airport.

53. Since 2015, the deployment of Jazz's fleet has changed materially. Most importantly, at YVR, commencing in April 2016 Jazz increased CRJ 705 flight

activity and reduced Dash 8-100 and Dash 8-300 flight activity. These changes have had, and continue to have, a material impact on the cost of In-flight Catering [redacted].

54. As a result of Jazz's inability to switch to a new-entrant provider at YVR, Jazz's forgone In-flight Catering cost savings increased from 1 January 2015 to 30 April 2017 (after which Jazz assigned its contracts with Sky Café, Newrest and Gate Gourmet to Air Canada). Multiplying Jazz's actual flight volumes at YVR between 1 January 2015 and 31 March 2017 by the 2014 RFP pricing proposed by [redacted], and comparing it with Gate Gourmet's actual pricing for the period, Jazz was forced to pay approximately [redacted], more for In-flight Catering at YVR. A copy of Jazz's pricing analysis in this regard is attached and marked as **Exhibit 13**. ([redacted])

**JAZZ'S ATTEMPTS TO PERSUADE VAA TO PERMIT GREATER COMPETITION**

55. At the time of the 2014 RFP, representatives of Jazz communicated with VAA on many occasions in an attempt to persuade VAA to permit new-entrant firms to provide In-flight Catering at YVR.

56. After launching the RFP, Mr. Umlah advises me that on 24 April 2014 he contacted Mr. Geoff Eccott, Manager, Land Development, Leasing, for VAA. Mr. Umlah advises me that he informed Mr. Eccott that Jazz was serious about supporting the entry of new In-flight Catering firms at YVR and that Jazz would realize significant cost savings as a result. Mr. Umlah further advises me that he indicated to Mr. Eccott that [redacted], and that Gate Gourmet's proposed pricing was not competitive. Attached and marked as **Exhibit 14** is a copy of an internal e-mail that Mr. Umlah sent to colleagues at Jazz on 28 April 2014, in which Mr. Umlah summarizes his call with Mr. Eccott.

57. On 25 April 2014, Mr. Umlah wrote a letter to [redacted] for authorization to access the airside to provide In-flight Catering at YVR. [redacted] A copy of the letter is attached and marked as **Exhibit 15**.

58. On 2 May 2014, Mr. Joseph Randell, then President and CEO of Jazz (and currently CEO of Jazz), sent a letter to Mr. Craig Richmond, President and CEO of VAA. Mr. Randell indicated in his letter that Jazz was interested in competitive proposals [redacted] for Catering and Galley Handling at YVR, [redacted]. A copy of this letter is attached and marked as **Exhibit 16**.

59. On 12 May 2014, Mr. Richmond responded to Mr. Umlah's letter of 25 April 2014, by way of his own letter. Among other things, Mr. Richmond indicated in his letter, a copy of which is attached and marked as **Exhibit 17**, that:

   a. YVR, in VAA's opinion, already has two competitive In-flight Catering providers, presumably a reference to Gate Gourmet and CLS;

   b. Gate Gourmet and CLS provide a competitive, quality product at YVR; and

   c. YVR, in VAA's opinion, is not able to support the addition of a third flight kitchen operation.

60. Jazz does not agree with VAA's assessment of the In-flight Catering marketplace at YVR, as communicated in Mr. Richmond's May 12 letter. Both Mr. Umlah and Mr. Randell had previously communicated to VAA that, in Jazz's view, the marketplace for In-flight Catering is not competitive at YVR, [redacted]. Moreover, given that new-entrant providers of In-flight Catering were seeking authorization from VAA to operate at YVR, and that Jazz

wished to switch to one of these providers, it seems obvious to Jazz that YVR can support additional In-flight Catering competition.

61. I am aware from discussion with Mr. Steve Linthwaite, Vice President, Flight Operations of Jazz, that early in August 2014, Mr. Randell and Mr. Linthwaite each (individually) had telephone discussions with Mr. Richmond and/or Mr. Tony Gugliotta, then Senior Vice President, Business Development of VAA. I have been informed that, during these calls, Jazz informed VAA that it was disappointed with the bids submitted by Gate Gourmet and CLS, and again requested that VAA permit one or more of the new-entrant firms to provide In-flight Catering at YVR. I have been informed that Jazz further indicated to VAA that results from the RFP suggested Jazz would be able to realize significant savings on the cost of In-flight Catering by switching to new-entrant providers, in comparison to what Jazz was then paying Gate Gourmet.

62. On 15 November 2016, Mr. Colin Copp, President of Jazz, sent a letter to Mr. Richmond at VAA. Mr. Copp indicated in his letter Jazz's belief that there is insufficient competition for In-flight Catering services at YVR, and noted that greater competition would provide Jazz with the opportunity to improve the quality and efficiency of its service and to reduce its costs. Mr. Copp in his letter also requested that VAA [redacted]. A copy of Mr. Copp's letter is attached and marked as **Exhibit 18**.

63. To the best of my knowledge, Jazz has not had any further communication with VAA regarding the marketplace for In-flight Catering at YVR.

**CONCLUDING COMMENTS**

64. Jazz operates in a highly competitive marketplace for passenger air transportation services. In this context, Jazz continually evaluates its business and seeks opportunities to operate more efficiently, including by achieving cost

savings wherever possible, such as in respect of In-flight Catering. Being efficient is imperative to Jazz's success.

65. Through its 2014 RFP for In-flight Catering, Jazz discovered it could achieve significant annual cost savings by switching to more competitive providers of In-flight Catering, without sacrificing the quality or service that Jazz and its passengers expect and demand. Jazz seized upon the opportunity where it could, switching away from Gate Gourmet to new-entrant providers at the Switch Stations. Jazz also would have switched at YVR, were it not for its inability to do so as a result of VAA's refusal to authorize new-entrants to operate at the airport. As a result of Jazz's inability to switch to a more competitive new-entrant provider at YVR, Jazz's forgone In-flight Catering cost savings from 1 January 2015 to 31 March 2017 were approximately [redacted] Jazz's inability to switch providers of In-flight Catering at YVR led to increases in Jazz's costs of operations and negatively impacted the cost competitiveness of the rates charged to Air Canada for In-flight Catering under Jazz's CPA with Air Canada.

**SIGNED** this 10th day of November, 2017

RBishop

Rhonda Bishop
Director, Inflight Services and Onboard Product
Jazz Aviation LP

# EXHIBIT
# 1

2015

**ANNUAL INFORMATION FORM**

**February 18, 2016**

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## EXPLANATORY NOTES

The information in this AIF is stated as at December 31, 2015, unless otherwise indicated.

**Chorus** and the **Corporation -** References herein to "Chorus" and references to the "Corporation" 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 exclusively intended to refer to Jazz.

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

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

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

**Forward-looking statements** - Forward-looking statements are included in this AIF. These forward-looking statements are 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 statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements relate 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 statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks relating to Chorus’ relationship with Air Canada, risks relating to the airline industry and including the international operation of airlines in developing countries and areas of unrest, airline leasing, 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), competition, insurance issues and costs, supply issues, war, terrorist attacks, aircraft incidents, epidemic diseases, environmental factors, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, the ability of Chorus to secure financing, the ability of Chorus to renew and/or replace existing contracts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings in countries in which Chorus and its subsidiaries operate or will operate, pending and future litigation and actions by third parties, as well as the factors identified throughout this AIF. The forward-looking statements contained in this discussion represent Chorus' expectations as of February 18, 2016 and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

The forward-looking information is affected by certain risks. For a discussion of those risks, please refer to the Risk Factors section.

## CORPORATE STRUCTURE

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

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

Additional information regarding Chorus' corporate structure is provided in the consolidated financial statements for the year ended December 31, 2015 and the 2015 MD&A dated February 18, 2016, both of which are available on Chorus' website at www.chorusaviation.ca and on SEDAR at www.sedar.com.

**Organizational Structure**

The table below shows Chorus' main and operating subsidiaries, where they are incorporated or registered, and the percentage of shares or units of such subsidiaries that Chorus beneficially owns or directly or indirectly exercises control or direction over. Chorus has other subsidiaries, but they have not been included in the table because each represents 10% or less of each of Chorus' total consolidated assets or total consolidated operating revenues for the year ended December 31, 2015. These other subsidiaries together represented 20% or less of each of Chorus' total consolidated assets or total consolidated operating revenues for the year ended December 31, 2015**.**

| Subsidiary | Jurisdiction of Incorporation or Registration | Percentage of shares or units directly or indirectly held by Chorus at February 18, 2016 |
|---|---|---|
| Jazz Aviation LP | Ontario | 100% |
| Jazz Aircraft Financing Inc. / Jazz Leasing Inc. | Canada | 100% |
| Voyageur Aviation Corp. | Ontario | 100% |

## THE CHORUS BUSINESS

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

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

The second sector Chorus conducts business in is aircraft leasing. Through Jazz Leasing Inc., Chorus' aircraft leasing portfolio includes a fleet of Q400s and related equipment. Voyageur Airways has a small amount of leasing activity.

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

**Three-Year History**

This Three-Year History section contains forward-looking statements. Please refer to caution regarding forward-looking statements included in "Explanatory Notes" on page 1 of this AIF.

**2015** (including subsequent events up to and including February 18, 2016)

On January 30, 2015, Chorus announced that Jazz's pilots, represented by ALPA, had ratified the tentative agreement reached on January 13, 2015. The term of this agreement is 11 years expiring on December 31, 2025. The ratification of the new collective agreement was a condition to establishing an amended CPA with Air Canada.

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

Concurrent with agreeing to the January 1, 2015 Amendment, Chorus exercised its nine remaining options to purchase new Q400s under its purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft ("Bombardier"), and amended that purchase agreement to add firm orders for four additional Q400s and options for up to ten additional Q400s.

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

On May 1, 2015, Chorus acquired all of the outstanding shares of 519222 Ontario Limited, a holding company that owned Voyageur Airways and its related companies. Headquartered in North Bay, Ontario, Voyageur Airways, is a Transport Canada approved air operator, and an integrated provider of specialized aviation services, including contract flying operations both internationally and domestically. Voyageur also provides advanced engineering and maintenance services primarily for regional aircraft.

On June 3, 2015, Chorus announced that Jazz's dispatchers, represented by CALDA, had ratified the tentative agreement reached on May 27, 2015. The agreement expires on December 31, 2025.

On September 23, 2015, Chorus announced that Jazz's flight attendants, represented by CFAU, had ratified the tentative agreement reached on August 27, 2015. The term of the agreement expires on December 31, 2025.

On September 28, 2015, Chorus announced that an agreement had been reached with Air Canada to add ten incremental aircraft to the CPA fleet. These aircraft will be operated under the Air Canada Express brand. On February 18, 2016, Chorus received the first of five 78-seat Q400s. The remaining four 78-seat Q400s and five 75-seat CRJ705s are anticipated to be delivered in 2016 and early 2017, respectively, and will operate as Covered Aircraft until 2025. It is anticipated that the addition of these larger gauge aircraft will reduce Unit Costs and increase Chorus' market competitiveness. Once all the incremental aircraft are received, the annual Fixed Margin per Covered Aircraft and Infrastructure Fee per Covered Aircraft is expected to increase by approximately $2.0 million to $111.7 million until 2020. The five incremental Q400s will be acquired by Air Canada under operating leases and will be subleased to Jazz for CPA operations. Sourcing for the CRJ705 has not yet been finalized.

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

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

On January 1, 2016, 519222 Ontario Limited and its subsidiaries were re-organized into three entities. Voyageur Aviation Corp. became the parent company for the group and provides common support services to its subsidiaries. Voyageur Aviation Corp. 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.

On February 3, 2016, Chorus took delivery of an additional King Air 200. The purchase price was approximately US $1.1 million, with additional spend of approximately $1.0 million expected for modifications to the aircraft.

On February 11, 2016, Chorus took delivery of one Q400 aircraft and drew EDC financing. The term loan is repayable by Chorus to EDC in semi-annual instalments of approximately US$0.9 million, matures in February 2028 and is secured primarily by one Q400 aircraft and two PW150A engines.

**2014**

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

On May 15, 2014, Chorus announced that it would convert to a monthly dividend beginning with the August 2014 dividend payment.

On February 10, 2014, and on June 20, 2014, Chorus completed early redemptions of the Debentures. Following the completion of these early redemptions, there were no remaining Debentures outstanding.

**2013**

On November 25, 2013, Chorus received the final award of the arbitration panel in the binding arbitration process between Chorus and Air Canada related to the 2009 Benchmark under the CPA. As a result of the final award, there were no changes to the 12.5% Controllable Mark-Up in the CPA.

In September 2013, Chorus completed the physical consolidation of its heavy maintenance activities. Chorus consolidated its four heavy maintenance lines (two in London, Ontario and two in Halifax, Nova Scotia) to three lines based in Halifax. To facilitate this consolidation and relocation, Chorus made modifications to its existing Halifax hangar and building at the Halifax Stanfield International Airport, and purchased an office building in Dartmouth, Nova Scotia to accommodate its administrative staff.

Commencing in May 2011 through to March 2013, Chorus took delivery of 21 new Q400s, through its leasing subsidiaries with long-term financing provided by EDC. These Q400s are leased to Jazz.

## THE JAZZ BUSINESS

In Canada, Jazz operates the largest regional airline and the third largest airline, based on passengers carried. Jazz's operations provide a significant part of Air Canada’s domestic and transborder network. Jazz and Air Canada are parties to the CPA under which Air Canada purchases the majority of Jazz’s fleet capacity at pre-determined rates. Under the CPA, Jazz provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada and to and from certain destinations in the United States. As at December 31, 2015, Jazz operated scheduled passenger service on behalf of Air Canada with approximately 711 departures per weekday to 56 destinations in Canada and 18 destinations in the United States, using 116 Covered Aircraft. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and provide valuable traffic feed to Air Canada’s mainline routes.

Jazz operates the CPA flights on behalf of Air Canada under the "Air Canada Express" brand. Air Canada is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft including Cargo Services (refer to Risk Factors for a description of the risks relating to Jazz's relationship with Air Canada).

Jazz is economically and commercially dependent on Air Canada and one of its subsidiaries as, in addition to being Chorus' primary source of revenue, these entities currently provide services and aircraft to Jazz. Jazz is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity (refer to Risk Factors for a description of the risks relating to Jazz's relationship with Air Canada).

**Capacity Purchase Agreement with Air Canada**

Chorus derived 95% of its revenues from Air Canada during 2015 (2014 - 99%, 2013 - 99%). On February 2, 2015, Jazz announced that all terms and conditions had been met to establish an amended and restated CPA with Air Canada effective January 1, 2015 (referred to herein as the "January 1, 2015 Amendment") extending the CPA term to December 31, 2025.

Prior to the January 1, 2015 Amendment, Jazz was paid rates which were negotiated and set every three calendar years based on Jazz's projected Controllable Costs for the relevant three year period, using certain variables including Block Hours, Flight Hours, aircraft, cycles and passengers carried. Jazz was also paid certain variable and fixed aircraft ownership rates and fixed rates. The rates set for each three year period were not guaranteed to be the same as actual Controllable Costs incurred by Jazz in providing the Scheduled Flights during that period. Once set, for CPA billing purposes, Jazz applied a mark-up (and the Compensating Mark-Up when applicable) to the rates. Jazz was also entitled to repayment of certain Pass-Through Costs, including fuel, airport and navigation fees, landing and terminal fees and certain other costs. In addition, Jazz was eligible to receive incentive payments each quarter if it achieved certain performance levels related to controllable on-time performance, controllable flight completion, PAWOBS and overall customer satisfaction.

Jazz incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

Under the January 1, 2015 Amendment, many costs that were formerly Controllable Costs have become Pass-Through Costs, however, Jazz will continue to be entitled to be paid rates, based on Controllable Costs, using the same variables as in prior years such as Block Hours, Flight Hours, cycles and passengers carried as well as certain variable and fixed aircraft ownership rates and fixed rates. With the exception of flight crew costs, aircraft rent, and depreciation and amortization on aircraft and parts, the rates for Controllable Costs are now set annually. Controllable Costs now consist of fewer costs than prior to January 1, 2015 and include costs such as non-crew salaries and wages, general overhead and aircraft maintenance, materials and supplies (for further detail please consult the detailed CPA cost categorization chart found on page 8).

Under the January 1, 2015 Amendment, Air Canada provides Jazz with projected annual Block Hours, Flight Hours, cycles and passengers estimated to be carried in advance of each calendar year during the term. The associated Controllable Costs are determined by Jazz and are paid by Air Canada to Jazz for the Controllable Costs through mutually agreed rates. The rate-setting process is staggered throughout the year and conducted on a rolling basis.

It is expected that annual rate setting related to Controllable Costs will decrease Chorus' cost risk as the annual rate re-set ensures those costs are reviewed in a timely manner and the corresponding rates reflect the realities of the current environment. With such visibility the accuracy of the rates is better assured in the event there are significant changes in the operation and/or the operating environment.

Pilot and flight attendant crew rates have been set for the term of the CPA to December 31, 2025 and reflect projected crew unit costs for this period. Jazz has negotiated collective agreements with its crews for the term of the January 1, 2015 Amendment which support the projected crew unit costs agreed to with Air Canada. The crew rates are adjusted if the number of Block Hours scheduled, the flow of Jazz pilots to Air Canada, and/or if the efficiency of the crew schedules delivered by Air Canada are outside certain agreed thresholds. In addition, regulatory changes that impact crew unit costs result in adjustments to the crew rates.

Pass-Through Costs are passed through to Air Canada and are fully reimbursed. These include costs such as airport and navigation fees and terminal handling fees. Services provided by Air Canada are provided at no cost to Jazz. These include Air Canada ground handling and facilities leased from Air Canada and, effective November 1, 2015, aircraft fuel (for further detail please consult the CPA cost categorization chart found on page 8).

Under the January 1, 2015 Amendment, Jazz's compensation changed from a mark-up on Controllable Costs to fixed fees. The mark-up and Compensating Mark-up concepts have been eliminated. As well, the requirement for benchmarking based on Jazz's costs in 2015 and the margin adjustment provisions contained in the CPA prior to the January 1, 2015 Amendment are no longer applicable.

Jazz is now compensated by the more industry standard approach of fixed fees. There are two fixed fees which establish the minimum level of compensation for the balance of the term of the CPA:

1) Fixed Margin per Covered Aircraft
2) Infrastructure Fee per Covered Aircraft

The Fixed Margin per Covered Aircraft does not vary regardless of network size, complexity or hours flown. The Infrastructure Fee per Covered Aircraft compensates for the additional services Jazz provides in support of Air Canada's regional flying network such as airport operations. The word "rates" for purposes of discussion relating to the January 1, 2015 Amendment does not include the Fixed Margin per Covered Aircraft or the Infrastructure Fee per Covered Aircraft.

Combined, these fixed fees based on the Covered Aircraft were set at approximately $109.7 million for 2015, and once all incremental aircraft are received the fixed fees increase to approximately $111.7 million per year until the year 2020. From the years 2021 to 2025 these fees are also fixed but at a lower annual amount. Jazz anticipates that this decrease will be partially offset by additional margin contribution from aircraft leasing under the CPA.

Jazz Leasing Inc., a subsidiary of Chorus, leases owned Q400s and engines into the Jazz operation under the CPA. Under this arrangement, Jazz earns aircraft leasing revenue under the CPA from Q400s and Q400 engines. For the year ended December 31, 2015, Jazz earned aircraft leasing revenue of $68.8 million. Annually these aircraft and engines currently generate a cash margin (after consideration of debt servicing charges) of approximately 20%.

The new Q400s being added to the Covered Aircraft fleet in 2016 are anticipated to accrue incremental cash margins comparable to those being earned on the current fleet of Q400s. As well, the movement of 19 Dash 8-300s to market lease rates post ESP events, are anticipated to accrue incremental cash margin to Jazz going forward (refer to caution regarding forward-looking statements included in "Explanatory Notes" on page 1 of this AIF).

Performance incentives will continue to be available, under the January 1, 2015 Amendment, for achieving established performance targets for the same categories identified under the CPA prior to the January 1, 2015 Amendment. The maximum annual available incentive for the years 2015 to 2020 is $23.4 million and $12.2 million for the years 2021 to 2025. (Refer to caution regarding forward-looking statements included in "Explanatory Notes" on page 1 of this AIF.)

Management believes that Chorus' risk profile is lower than other air transport operators due to the nature of the CPA. The reduced risk is reflected through:

- No direct exposure to revenue volatility associated with ticket prices and passenger traffic.
- No direct exposure to cost volatility associated with fuel, navigation fees, or airport landing and terminal fees along with certain other costs categorized as Pass-Through Costs.
- Reduced exposure to currency risk as Jazz bills Air Canada in the underlying currency related to the expenditure.
- Guaranteed minimum fleet and activity levels.

The January 1, 2015 Amendment further reduces Chorus' risk profile as it:

- Provides long-term predictable compensation levels that are anticipated to support the current dividend paid to Shareholders.
- Aligns the interests of Jazz and Air Canada and strengthens their relationship.
- Promotes Jazz's market competitiveness through cost reduction initiatives such as the modernization of its fleet and the ability to flow Jazz senior pilots to Air Canada.
- Secures long-term market competitive labour agreements with Jazz pilots, flight attendants and dispatchers.
- Reduces reliance on the Fixed Margin and Infrastructure Fee per Covered Aircraft and replaces it with growth in cash margin from aircraft leasing under the CPA.
- Secures a solid foundation from which to grow and diversify Chorus' group of companies.

The following table summarizes changes between the January 1, 2015 Amendment terms and the CPA terms in effect to the end of 2014 in cost categorizations in Controllable Costs (used to establish rates) and Pass-Through Costs and costs that will be directly borne by Air Canada.

| Changes to the CPA Cost Categorization & Rate Periods by Operating Expense & Detailed Description | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **CPA Cost Categorization** | **CPA Prior to 2015** | | | | **January 1, 2015 Amendment** | | | |
| | Controllable Cost | Pass-Through Cost | Cost no longer billed to Jazz | Rate Periods | Controllable Cost | Pass-Through Cost | Cost no longer billed to Jazz | Rate Periods |
| **Salaries, wages and benefits** | | | | | | | | |
| - Crew wages & benefits | X | | | 3 years | X | | | 11 years[1] |
| - All others | X | | | 3 years | X | | | Annually[2] |
| **Aircraft fuel** | | | | | | | | |
| - All costs | | X | | NA | | | X[5] | NA |
| **Depreciation and amortization** | | | | | | | | |
| - All costs | X | | | 3 years | X | | | 3 years |
| **Food, beverage and supplies** | | | | | | | | |
| - Costs from Air Canada | | | | | | | X[3] | |
| - Costs from third parties | X | | | 3 years | | X[3] | | NA |
| **Aircraft maintenance, materials and supplies** | | | | | | | | |
| - All costs | X | | | 3 years | X | | | Annually |
| **Airport and navigation fees** | | X | | NA | | X | | NA |
| **Aircraft rent** | | | | | | | | |
| - Jazz Q400 leased through CPA | X | | | Lease term | X | | | Lease term |
| - Third party operating leases | X | | | 3 years | X | | | 3 years |
| - Air Canada & subsidiary leases to Jazz | X | | | 3 years | X | | | 3 years |
| **Terminal handling services** | | | | | | | | |
| - Ground handling services from Air Canada | X | | | 3 years | | | X[3] | NA |
| - Ground handling from third parties | X | | | 3 years | | X[3] | | NA |
| - De-icing services from Air Canada | | X | | NA | | | X[3] | NA |
| - All others | X | | | 3 years | X | | | Annually |
| **Other** | | | | | | | | |
| - Aircraft parking | X | | | 3 years | | X[3] | | NA |
| - Interrupted trips & baggage delivery | X | | | 3 years | | X[3] | | NA |
| - Station supplies for processing passengers | X | | | 3 years | | X[3] | | NA |
| -Third party facilities | X | | | 3 years | | X[4] | | NA |
| - Air Canada facilities | X | | | 3 years | | | X[3] | NA |
| - All others | X | | | 3 years | X | | | Annually |

(1) Adjusted for schedule efficiency, Block Hours, regulatory changes and pilot flow.
(2) Reset annually, subject to certain conditions.
(3) These costs transitioned in the first quarter of 2015.
(4) These costs transitioned in the second quarter of 2015.
(5) Fuel transition occurred on November 1, 2015.

*Operating Plans and Scheduling*

During the term of the CPA, Air Canada will 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, ASMs and passenger volume.
- The airports to which Jazz will operate Scheduled Flights.
- Specific dates for the commencement or termination of service to or from new airports, if any.

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

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

*Passenger and Ramp Handling Services*

Airport handling includes both passenger handling and ramp handling services.

As at December 31, 2015, Jazz operated to 56 airports in Canada and Jazz employees provided the passenger handling function at 35 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.
- Any required relocation of Jazz to comparable airport facilities reasonably acceptable to Jazz contiguous to Air Canada leased premises, ramp, gate and office space.

*Return of Aircraft*

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

*Term and Termination of Agreement*

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

When the CPA expires, all leases between Jazz and Air Canada (or any affiliate of Air Canada) in respect of 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, no such leases will be terminated and Jazz will remain liable for its obligations under the Covered Aircraft and Spare Engine leases. 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.

*Code-Sharing*

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

**Other Agreements with Air Canada**

*Master Services Agreement*

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

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

*Air Canada Ground Handling Agreement*

Pursuant to the Air Canada Ground Handling Agreement, Air Canada has agreed to provide certain aircraft related ramp handling services to Jazz, including baggage handling and processing, cargo and mail loading and unloading, and aircraft servicing at 10 airports in Canada.

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

The current term of the Air Canada Ground Handling Agreement expires December 31, 2017, subject to automatic renewal for additional three year periods at the end of this term and each renewal term unless Jazz or Air Canada provides notice of its intention not to renew the agreement at least one year prior to the end of the then current term. No such notice of non-renewal has been given by either party.

**Jazz Ancillary Business**

*Charter*

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

As of February 18, 2016, Jazz operates two Dash 8-100s, two Dash 8-300s and one CRJ200 in Jazz's dedicated charter fleet. Jazz continues to target growth within its charter operation through the pursuit of ongoing and new charter programs.

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

*Airport Handling Operations*

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

*Maintenance, Repair and Overhaul Operations*

Jazz's technical operations team performs regional jet and turboprop line maintenance, heavy maintenance and minor aircraft modifications to support Jazz operations. The technical operations team maintains one of the largest Dash 8-100 and Dash 8-300 fleets in the world. Jazz also has considerable expertise in the repair and overhaul of CRJ100s, CRJ200s, CRJ705s and Q400s.

## THE VOYAGEUR BUSINESS

Voyageur began operations in 1968 and operates out of its head office and maintenance, repair and overhaul facility located in North Bay, Ontario. Voyageur currently provides services to its customers throughout the international and Canadian regional aviation marketplace, and offers a wide range of products and services through single supplier relationships. Voyageur's current operations are structured as follows:

**Voyageur Aviation Corp.**

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

**Voyageur Airways Limited**

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

**Voyageur Aerotech Inc.**

Based out of North Bay, Ontario, Voyageur Aerotech is a maintenance, repair and overhaul provider that offers specialized engineering and maintenance services. As a Transport Canada Approved Maintenance Organization and Design Approval Organization, Voyageur Aerotech provides in-house engineering design and certification services for all levels of aircraft to international and Canadian clients. Voyageur Aerotech is also an Approved Maintenance Organization with the United States Federal Aviation Administration and the European Aviation Safety Agency. Voyageur Aerotech activities are also supported by its Transport Canada Approval for the Maintenance Certification of Aeronautical Products. Its engineering services include general technical support, facilities maintenance activities and custom design solutions including Supplemental Type Certificate approvals. In addition, Voyageur Aerotech operates a parts sales division offering parts for Bombardier regional aircraft.

## RESOURCES

### Fleet

The following table provides the total number of aircraft in Chorus' fleet as at December 31, 2015 and December 31, 2014.

| Aircraft | December 31, 2014 | 2015 Fleet Changes | | December 31, 2015 |
|---|---|---|---|---|
| | | Additions | Removals | |
| **Regional Jets** | | | | |
| CRJ200s | 26 | 7 | (5) | 28 |
| CRJ705s | 16 | — | — | 16 |
| **Turboprop Aircraft** | | | | |
| King Air 100s | — | 2 | — | 2 |
| King Air 200s | — | 1 | — | 1 |
| Dash 7-100s | — | 2 | — | 2 |
| Dash 8-100s | 34 | — | — | 34 |
| Dash 8-300s | 28 | 6 | — | 34 |
| Q400s | 21 | 6 | — | 27 |
| | 125 | 24 | (5) | 144 |

As at December 31, 2015, Chorus' fleet included 116 Covered Aircraft under the CPA (excludes the new Q400 acquired on December 31, 2015 as this aircraft was not in operation as at December 31, 2015), 17 aircraft operated by Voyageur Airways and five aircraft utilized for Jazz charter services.

On January 15, 2016 Chorus returned a CRJ200 to the lessor. A further CRJ200 was returned on January 29, 2016. These two aircraft are included in the table above.

### People

As at December 31, 2015, Chorus had 4,445 FTE employees compared to 4,130 FTE employees for 2014. The 2015 number includes 266 Voyageur FTEs.

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

- Pilots, represented by ALPA, expires on December 31, 2025.
- Flight attendants, represented by CFAU, expires on December 31, 2025.
- Flight dispatch employees represented by CALDA, expires on December 31, 2025.
- Airport services employees represented by Unifor, expires on January 13, 2017.
- Crew schedulers, represented by Unifor, expires on June 30, 2016.

On January 28, 2016, Jazz announced that a new tentative agreement had been reached with its maintenance and engineering employees represented by Unifor. The agreement is subject to a ratification vote by union members.

The CPA established a pilot mobility agreement between Jazz and Air Canada, whereby Jazz pilots are able to access pilot vacancies at Air Canada. In turn, this allows Jazz to transition to a less senior pilot demographic and to hire new pilots at industry competitive terms, thereby reducing operating costs. The pilot mobility agreement provides that the Jazz pilots who have elected to participate in the arrangement have been placed on a pilot mobility list. Air Canada has committed to hire a minimum of 80% of its new pilots from the pilot mobility list and to hire a minimum of 495 of the pilots from this list.

## FACILITIES

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

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

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

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

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

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

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

## FINANCING

### Aircraft and Engine Financing

As at December 31, 2015, Jazz Aircraft Financing Inc. had 31 separate loan agreements with EDC which provided financing for the majority of the purchase price of each of the 27 Q400s and four PW150A engines. The total financing payable at December 31, 2015 for these loans was $573.3 million. Each loan has a maturity of 12 years and bears interest at a fixed rate. At December 31, 2015, the net book value of property and equipment pledged as collateral under EDC financing was $556.1 million.

Under its financing agreement with EDC (for both aircraft and engines), the Jazz Group is required to maintain a maximum adjusted leverage ratio of 2.25:1 and a minimum adjusted interest coverage ratio of 1.66:1. As at December 31, 2015, the Jazz Group was in compliance with these covenants. Failure by the Jazz Group to comply with either such ratio at an applicable time would constitute an event of default under the financing agreement which could have a material adverse effect on Chorus.

The financing agreement with EDC also contains a continuation of business under the CPA covenant which is specific to Jazz as the lessee of the Q400s and engines. As at December 31, 2015, Jazz was in compliance with this covenant.

As additional security under the EDC financing agreements, the aircraft and engine leases between Jazz and Jazz Leasing Inc. have been assigned to EDC. Also, Jazz Leasing Inc. has provided a full recourse guarantee to EDC and Jazz Aircraft Financing Inc. pledged the issued shares of Jazz Leasing Inc. to EDC.

**Capital Commitments**

In connection with the January 1, 2015 Amendment, Chorus exercised its nine remaining options to purchase new Q400s under its purchase agreement with Bombardier, and amended that purchase agreement to add firm orders for four additional Q400s and options for up to ten additional Q400s. Based on the list price for the Q400s, the firm order for a total of 13 Q400s is valued at approximately US$424.0 million, and could increase to US$758.0 million if the options to purchase all additional ten aircraft are exercised. Chorus had purchased six Q400s as of December 31, 2015. Chorus is committed to spend an additional $187.1 million in 2016 related to the remaining seven Q400s (US dollar amounts were converted to Canadian dollars at 1.3840, which was the exchange rate in effect at the end of day closing December 31, 2015). Chorus has received commitments from EDC to finance up to 80% of the net purchase price for all firm 13 orders.

Chorus has also entered into an agreement with Bombardier to be the launch customer for the Dash 8-300 ESP. The ESP is expected to extend the service life of the Dash 8-300s by 50% (or approximately 15 years). This agreement covers a minimum of 19 aircraft and the program is anticipated to begin in early 2017. The cost for each aircraft that undergoes the ESP installation includes the Bombardier service bulletin and parts and anticipated labour costs to complete the service bulletin. The anticipated cost for the years 2016, 2017, 2018 and 2019 is expected to be approximately $1.4 million, $19.9 million, $29.7 million and $14.2 million, respectively (US dollar amounts were converted to Canadian dollars at 1.3840, which was the exchange rate in effect at the end of day closing December 31, 2015). Chorus has received a commitment from Air Canada to finance up to 80% of this anticipated cost.

**Credit Facilities**

Chorus' subsidiaries have a combined total of $36.0 million in undrawn secured revolving credit facilities and an additional US$6.0 million secured facility specifically for letters of credit (US$2.1 million have been issued). A portion of one of the revolving credit facilities can also facilitate the issuance of letters of credit (US$0.6 million has been issued).

**Consideration Payable**

As part of the acquisition of Voyageur, at the time of acquisition, the former owner provided Chorus with a non-interest bearing loan of $31.4 million payable over three years. This consideration payable does not bear interest.

**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 (the "Province") provided Chorus with a $12.0 million, interest-bearing, repayable loan. The Province's financial assistance also consists of an additional $2.5 million forgivable loan (which will be forgiven if certain employment targets are achieved) and a $2.0 million employee grant to recruit, train and develop new employees or to upgrade current employees' skills. At December 31, 2015, the amount drawn on the interest-bearing repayable loan was $12.0 million. As at December 31, 2015, Chorus had received the $2.5 million forgivable loan from the Province of Nova Scotia as well as the $2.0 million of Human Resource Development Funding from the Province of Nova Scotia.

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

## 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 primarily turboprop aircraft, most of which operate aircraft in the 19 to 75 seat range. Many of these regional carriers operate primarily independent services, flying in niche markets. Jazz competes with other Canadian regional airlines for additional capacity purchase flying for Air Canada, including Sky Regional, Air Georgian and Exploit Valley Air Services. Jazz also competes with a number of smaller regional carriers for charter business from other customers.

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

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

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

## LOGOS AND TRADEMARKS

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

Jazz™ is a trademark owned and registered by Air Canada in Canada and the United States.

Under a trademark license agreement, Air Canada 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 United States. If the CPA is terminated or expires, that trademark licence agreement provides for a termination of the license six months later. Under a special trademark licence 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.

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

## REGULATORY ENVIRONMENT

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

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

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

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

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

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

On February 6, 2009, the Government of Canada introduced Bill C-10, the *Budget Implementation Act,* which proposed amendments to the CTA relating to foreign ownership restrictions on domestic air carriers. Bill C-10 received Royal Assent on March 12, 2009, however, the sections amending the CTA are not yet in force. One of these amendments provides the Governor in Council the authority to introduce regulations which set new foreign ownership limits up to a maximum of 49% foreign ownership. The regulations may specify that the new limits apply generally to all non-Canadian investors or, alternatively may specify increased foreign ownership limits available to specific classes of non-Canadians to be identified in the regulations. As of February 18, 2016, no such regulations have been proposed by the Governor in Council.

On August 2, 2015, Bill C-439, *An Act Respecting the Rights of Air Passengers* died on the order paper of the previous session of Parliament. If reintroduced to a future or current session of Parliament, that Bill would impose obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. Such legislation could lead to significant costs for air carriers, including Chorus, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form previously proposed by Bill C-439 or otherwise.

**Transborder Services**

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

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

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

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

**Other International Services**

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

**Charter Services**

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

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

**Official Languages Act**

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

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

**Security and Safety**

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

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

On August 2, 2015, Bill C-51, which included the *Secure Air Travel Act* died on the order paper of the previous session of Parliament. If reintroduced to the current or a future session of Parliament, that Act would provide a new legislative framework for identifying and responding to persons who may engage in an act that poses a threat to transportation security or who may travel by air for the purpose of committing a terrorism offence. It would also authorize the Minister of Public Safety and Emergency Preparedness to establish a list of such persons and to direct air carriers to take any necessary actions to prevent the commission of such acts. Such legislation could lead to increased costs for air carriers, including Jazz and Voyageur Airways, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form previously proposed by Bill C-51 or otherwise.

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

The President of Jazz, Colin Copp has been appointed as Accountable Executive for Jazz and Jazz's Vice President of Safety, Quality & Environment has responsibility for the implementation and ongoing management of the safety management system. Jazz's highly integrated safety management system model is considered to be industry leading and has attracted a degree of international attention through several forums, including the International Aviation Safety Seminar. Jazz is in compliance with or surpasses all regulatory requirements.

The President of Voyageur, Max Shapiro, has been appointed as Accountable Executive for Voyageur Airways and Voyageur Aerotech, and he oversees an independent department called Safety and Risk Management System ("SRMS"), dedicated to the core culture of safety. Employees are focused on incident prevention through critical self-assessment and proactive identification of potential deficiencies. Voyageur Airways and Voyageur Aerotech are in compliance with or surpasses all regulatory requirements.

**Environmental Matters**

In June 2012, the Government of Canada and the Canadian aviation industry released *Canada's Action Plan to Reduce Greenhouse Gas Emissions from Aviation* (the "Action Plan"). The Action Plan superseded the 2005 ATAC agreement 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 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. Chorus is committed to improving fuel efficiency and has a number of fuel efficiency initiatives underway which are monitored closely at an executive level.

In December 2015, the United Nations Climate Change Conference negotiated the Paris Agreement, a global agreement to keep climate change below 2°C. Canada was one of the 195 participating countries that committed to the Paris Agreement. The Paris Agreement will open for signature in April 2016 and will enter into force if ratified by 55 countries that account for at least 55% of global emissions. At this time, it is not known which countries or how many will ratify the agreement. If the Paris Agreement is ratified it is unknown whether this will result in a material adverse effect on Chorus' business or financial condition. This issue will be closely monitored at an executive level in the coming year.

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

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

**Privacy**

Chorus and each of its subsidiaries are subject to a variety of privacy laws regarding the collection, use, disclosure and protection of personal information in their course of commercial activities. The *Personal Information Protection and Electronic Documents Act* ("PIPEDA") governs federally regulated Chorus subsidiaries such as Jazz and Voyageur Airways, and provincial privacy legislation such as Ontario's *Personal Health Information Protection Act, 2004* governs Chorus subsidiaries which are not federally regulated (such as Voyageur companies other than Voyageur Airways). Whether federally or provincially regulated, applicable privacy legislation requires notice to, and informed consent by, the individuals whose personal information is collected, used or disclosed. The personal information may then only be used for the purposes for which it was originally collected and for which consent from individuals has been obtained or for limited other purposes specified in, or allowed by, applicable legislation. Chorus has a privacy policy which is designed to meet or exceed the requirements of such privacy legislation. Management believes that its privacy policy and practices comply with all applicable laws.

## RISK FACTORS

For a detailed description of the possible risk factors associated with the industry, Chorus, Chorus' relationship with Air Canada and the Voyageur business refer to the Section entitled "Risk Factors" in Chorus' 2016 Annual MD&A dated February 18, 2016.

## MARKET FOR SECURITIES

The Class A Variable Voting Shares and the Class B Voting Shares are traded on the TSX under the trading symbols "CHR.A" and "CHR.B" respectively. The following table sets forth the price range and trading volume of the Class A Variable Voting Shares and the Class B Voting Shares as reported by the TSX for the months of January to December 2015 inclusive.

| | Class A Variable Voting Shares | | | | Class B Voting Shares | | | |
|---|---|---|---|---|---|---|---|---|
| 2015 | High $ | Low $ | Average Daily Trading Volume | Total Monthly Volume | High $ | Low $ | Average Daily Trading Volume | Total Monthly Volume |
| January | 5.25 | 4.29 | 13,867 | 291,210 | 5.23 | 4.29 | 520,720 | 10,935,113 |
| February | 6.07 | 4.99 | 16,194 | 307,677 | 6.08 | 4.98 | 572,940 | 10,885,857 |
| March | 6.04 | 5.38 | 61,109 | 1,344,398 | 6.02 | 5.33 | 362,308 | 7,970,779 |
| April | 6.25 | 5.86 | 15,909 | 334,094 | 6.29 | 5.87 | 318,130 | 6,680,724 |
| May | 6.40 | 5.75 | 6,650 | 132,991 | 6.40 | 5.71 | 317,467 | 6,349,330 |
| June | 6.77 | 6.27 | 8,445 | 185,794 | 6.78 | 6.06 | 305,884 | 6,729,452 |
| July | 6.74 | 6.05 | 13,462 | 296,164 | 6.74 | 6.02 | 228,559 | 5,028,306 |
| August | 6.46 | 4.91 | 11,057 | 221,141 | 6.50 | 4.75 | 327,281 | 6,545,611 |
| September | 5.93 | 5.00 | 15,085 | 316,784 | 5.94 | 4.95 | 254,761 | 5,349,983 |
| October | 5.85 | 5.25 | 9,770 | 205,160 | 5.87 | 5.22 | 257,601 | 5,409,624 |
| November | 5.78 | 5.32 | 6,814 | 143,090 | 5.69 | 5.33 | 182,199 | 3,826,178 |
| December | 5.97 | 5.50 | 4,210 | 84,198 | 5.80 | 5.49 | 202,256 | 4,247,377 |

## TRANSFER AGENTS AND REGISTRARS

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

## DIVIDEND RECORD

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

On May 9, 2013, Chorus reduced its quarterly dividend from $0.15 per share to $0.075 per share. On December 10, 2013, Chorus increased its quarterly dividend from $0.075 per share to $0.1125 per share. During the third quarter of 2014, Chorus changed from quarterly dividend payments to monthly dividend payments. Chorus declared monthly dividends of $0.0375 per Share which were paid in August, September, October, November and December of 2014 to Shareholders of record at the close of business on each respective month end date. On February 18, 2015, Chorus announced an increase in the monthly dividend from $0.0375 to $0.04 per Share, effective with the March dividend for Shareholders of record at the close of business on March 31, 2015, and payable on April 17, 2015.

For the year ended December 31, 2015, Chorus paid $57.4 million in dividends to Shareholders (2014 - $63.7 million, 2013 - $55.7 million).

## DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Chorus is comprised of an unlimited number of Variable Voting Shares and Voting Shares. As of February 12, 2016, 8,185,242 Variable Voting Shares and 114,047,155 Voting Shares were issued and outstanding. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares and the Voting Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of Chorus' articles of amalgamation, as amended.

**Variable Voting Shares**

*Voting*

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

The Government of Canada's Bill C-10, the *Budget Implementation Act 2009*, provides that the provisions relating to voting securities in the CTA will be amended to provide the Governor in Council with flexibility to, by regulation, increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These regulations will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Transport. As of February 18, 2016, no such new regulations have been proposed by the Governor in Council.

*Dividends*

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Chorus of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of Chorus properly applicable to the payment of dividends, any dividends declared and payable by Chorus 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 Chorus 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 Chorus ranking prior to the Variable Voting Shares, upon liquidation, dissolution or winding up of Chorus or other distribution of Chorus' 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 Chorus 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 Chorus or of the holder, if (i) such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Qualified Canadian; or (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

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

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

*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 Chorus (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 of Chorus.

*Dividends*

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Chorus 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 Chorus properly applicable to the payment of dividends, any dividends declared and payable by Chorus 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 Chorus 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 Chorus ranking senior to the Voting Shares, upon liquidation, dissolution or winding up of Chorus or other distribution of Chorus' 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 Chorus and shall be entitled to share equally, share for share, in all distributions of such assets.

*Conversion*

Unless the foreign ownership restrictions of the CTA are repealed and not replaced with other similar restrictions, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of Chorus 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 Chorus 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 Chorus articles of amalgamation.

*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*

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

*Repurchase of Shares*

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

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

**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 employees (the "Executive Options"). The options are intended to further incentivize management to drive operating and strategic improvements which result in value creation for Shareholders and to recognize the extraordinary efforts required to achieve the long-term strategy. The options are to vest entirely three years after the relevant grant date and have a five year option term.

## DIRECTORS AND OFFICERS

**Directors of Chorus Aviation Inc.**

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 Chorus Aviation Inc. since the dates set forth opposite their respective names. Each of the directors of Chorus Aviation Inc. has been elected or appointed to serve until the end of the next annual meeting of Shareholders. The directors stand for election annually. Biographies for each of the directors are available on Chorus' website at www.chorusaviation.ca.

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

(1) Chair of the Governance and Nominating Committee and Member of the Audit, Finance and Risk Committee
(2) Verus Partners & Co. Inc. is a strategic investment advisory firm
(3) Chair of the Audit, Finance and Risk Committee and Member of the Governance and Nominating Committee
(4) Chair of the Human Resources and Compensation Committee and Member of the Audit, Finance and Risk Committee
(5) Member of the Audit, Finance and Risk Committee and Member of the Human Resources and Compensation Committee
(6) Member of the Governance and Nominating Committee and of the Human Resources and Compensation Committee
(7) Member of the Governance and Nominating Committee and of the Human Resources and Compensation Committee
(8) Chairman of the Board of Directors
(9) Member of the Governance and Nominating Committee

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

**Executive Officers of Chorus Aviation Inc. and Jazz**

The following table sets out the executive officers of Chorus Aviation Inc., and of Jazz's general partner, Aviation General Partner Inc. For each such executive officer, the table below sets out the executive officer's name, municipality of residence as of February 18, 2016, position(s) with Chorus and/or Jazz and principal occupation. Each of the executive officers named below has been an executive officer with Chorus or one of its affiliates or their predecessors for more than five years. For purposes of the table below, references to Chorus means Chorus Aviation Inc.

| Name and Municipality of Residence | Executive Officer Position(s) | Principal Occupation |
|---|---|---|
| Richard H. McCoy<br>Toronto, Ontario | Chairman, Chorus | Corporate Director |
| Joseph D. Randell<br>Wellington, Nova Scotia | President & Chief Executive Officer, Chorus and Chief Executive Officer, Jazz | President & Chief Executive Officer, Chorus and Chief Executive Officer, Jazz |
| Richard Flynn<br>Dartmouth, Nova Scotia | Executive Vice President & Chief Corporate Development Officer, Chorus and Chief Corporate Development Officer, Jazz | Executive Vice President & Chief Corporate Development Officer, Chorus and Chief Corporate Development Officer, Jazz |
| Jolene Mahody<br>Halifax, Nova Scotia | Executive Vice President & Chief Financial Officer, Chorus and Chief Financial Officer, Jazz | Executive Vice President & Chief Financial Officer, Chorus and Chief Financial Officer, Jazz |
| Colin Copp<br>Halifax, Nova Scotia | President, Jazz | President, Jazz |

As at February 12, 2016, the Directors and Officers mentioned in the above tables, as a group, owned, or had control or direction over, directly or indirectly 2,000 Variable Voting Shares representing approximately 0.02% of the outstanding Variable Voting Shares and 1,312,601 Voting Shares representing approximately 1.15% of the outstanding Voting Shares.

**Audit, Finance and Risk Committee**

The primary purpose of the Audit, Finance and Risk Committee is to assist the Board of Directors of Chorus in fulfilling their responsibilities of oversight and supervision of the accounting and financial reporting practices and procedures, the adequacy of internal accounting controls and procedures, and the quality and integrity of financial statements. 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 approved on May 31, 2011, is set out in Schedule A to this AIF.

*Composition of the Audit, Finance and Risk Committee*

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

*Relevant Education and Experience of the Audit Committee Members*

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

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

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

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

(iv) **R. Stephen Hannahs** is the Founder, Chief Executive Officer, and Managing Director at Wings Capital Partners. Wings Capital Partners makes targeted, non-passive equity investments in commercial aircraft, related assets parts, and aviation companies, with a focus on the mid-life narrow body commercial aircraft sector. In 1989 Mr. Hannahs co-founded Aviation Capital Group ("ACG") and served as its Chief Executive Officer and Group Managing Director until December 31, 2012. When Mr. Hannahs retired from ACG on January 1, 2013, he had built the company into a $7.0 billion enterprise and one of the top five aircraft leasing companies in the world. Between 1982 and 1989, he served as an Executive Vice President at Integrated Resources Inc. and President at Integrated Resources Aircraft Corporation. From 1980 to 1982, Mr. Hannahs was a Vice President and partner in Tanon Leasing Corporation, a partnership with the Hillman Company of Pittsburgh, where he was responsible for all of Tanon's aviation activities. From 1977 to 1980 he was employed by Itel Corporation where he was responsible for airline and aviation financing activities. He is a former officer in the United States 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 Chorus and its affiliates' external auditor prior to the commencement of such work. In this regard, the Audit, Finance and Risk Committee prepares a report for presentation to the Shareholders quarterly or annually, as required, regarding the Audit, Finance and Risk Committee's approval of such non-audit services in the period.

The Audit, Finance and Risk Committee also requires and reviews a report from the external auditor, if deemed appropriate by the Audit, Finance and Risk Committee, of all relationships between the external auditor and its related entities and Chorus 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 Chorus 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, 2015 and December 31, 2014 to PricewaterhouseCoopers LLP and its affiliates were $0.8 million and $0.6 million, respectively, as detailed below:

| | **Year ended December 31,** | |
|---|---|---|
| | **2015**<br>**$** | **2014**<br>**$** |
| Audit fees | 466,500 | 321,097 |
| Audit-related fees | 59,600 | 84,268 |
| Tax fees | 256,966 | 173,724 |
| | 783,066 | 579,089 |

The nature of each category of fees is described below.

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

Audit-related fees. Audit-related fees were paid for professional services related to pension plan audits and accounting consultation.

Tax fees. Tax fees were paid for professional services rendered with respect to income taxes, including tax advice, tax planning and payroll tax consultation.

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

**Penalties or Sanctions**

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

## LEGAL PROCEEDINGS

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

## CONFLICTS OF INTEREST

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

## INTEREST OF EXPERTS

PricewaterhouseCoopers LLP are the auditors of Chorus and have advised that they are independent with respect to Chorus 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 senior officers of Chorus, (ii) Shareholders of Chorus that, to the knowledge of Chorus, beneficially own or control, directly or indirectly, more than 10% of any class of shares of Chorus, or (iii) any associate or affiliate of the persons referred to in (i), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect Chorus or any of their subsidiaries.

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

## MATERIAL CONTRACTS

Except for the CPA (see "The Jazz Business - Capacity Purchase Agreement with Air Canada"), the particulars of each of which are described above in this AIF, all material contracts entered into by Chorus in 2015 and as of the date of this AIF were entered into in the ordinary course of business. No such other material contracts were required to be filed by Chorus under applicable securities legislation.

## ADDITIONAL INFORMATION

Additional information relating to Chorus 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 Chorus' securities and securities authorized for issuance under equity compensation plans will be contained in Chorus' information circular for its annual meeting of Shareholders to be held on May 13, 2016. Additional financial information is provided in the Chorus Consolidated Financial Statements for the year ended December 31, 2015 and in Chorus' 2015 MD&A.

Chorus will, upon the delivery of a written request to the Corporate Secretary of Chorus, 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 Chorus' 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 Chorus 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 Chorus for any period after its most recently completed financial year;
   - iii) one copy of the information circular of Chorus in respect of its most recent annual meeting of Shareholders that involved the election of directors of Chorus 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, Chorus 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 Chorus may require the payment of a reasonable charge if the request is made by a person or company who is not a holder of Chorus' securities.

## GLOSSARY OF TERMS

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

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

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

"**Air Canada Ground Handling Agreement**" means the ground handling services agreement dated September 26, 2005 between Jazz Aviation LP and Air Canada, successor to ACGHS Limited Partnership;

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

"**ATAC**" means the Air Transport Association of Canada;

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

"**Block Hours**" mean the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are returned to the wheels of the aircraft, divided by 60;

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

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

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

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

"**CCAA**" means the *Companies' Creditors Arrangement Act*, as amended;

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

"**Compensating Mark-Up**" has the meaning given in the CPA;

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

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

"**CPA**" means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and Jazz, as amended on January 1, 2015 and as supplemented by the Rate Setting Agreement;

"**CRJ200**" and "**CRJ705**" means Bombardier CRJ 200 and CRJ 705 regional jet aircraft;

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

"**Dash 8-700**", "**Dash 8-100**" and "**Dash 8-300**" means De Havilland Dash 8-100, Dash 8-300 and Dash 7-100 turboprop aircraft;

"**Debentures**" mean the $80.2 million principal amount of 9.50% convertible unsecured subordinated debentures of Chorus fully redeemed during 2014;

"**Departure**" means one take off of an aircraft;

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

"**ESP**" means the agreement entered into by Chorus with Bombardier to be the launch customer for the Dash 8-300 Extended Service Program to extend the service life of the Dash-8-300s;

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

"**FAA**" means the United States Federal Administration Authority;

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

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

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

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

"**GHG**" means green house gas;

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

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

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

"**Jazz**" means Jazz Aviation LP, together with its general partner, Aviation GP;

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

"**Jazz Group**" is currently comprised of the Jazz Aviation LP, Jazz Aircraft Financing Inc. and Jazz Leasing Inc.;

"**Jazz Leasing Inc.**" means Jazz Leasing Inc., a corporation incorporated under the CBCA on November 28, 2013;

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

"**Management**" means management of Chorus;

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

"**MD&A**" means Chorus' management's discussion and analysis of results of operations and financial condition;

"**OLA**" means the *Official Languages Act* (Canada), as amended;

"**Operating Aircraft**" means Covered Aircraft under the CPA plus charter aircraft, less new aircraft deliveries which have not yet entered commercial service;

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

"**PAWOBs**" means passengers arriving without baggage;

"**PIPEDA**" means the *Personal Information Protection and Electronic Documents Act* (Canada);

"**Province**" means the Province of Nova Scotia;

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

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

"**Rate Setting Agreement**" means the agreement between Jazz and Air Canada to set rates effective for 2015;

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

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

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

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

"**Toronto Pearson**" means Toronto Lester B. Pearson International Airport;

"**Trademark License Agreement**" means the trademark license agreement dated September 30, 2004 between Air Canada and Jazz;

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

"**Unit Costs**" mean "Jazz's Unit Costs" as defined in the CPA;

"**Variable Voting Shares**" mean Class A Variable Voting Shares in the capital of Chorus Aviation Inc.;

"**Voting Shares**" mean Class B Voting Shares in the capital of Chorus Aviation Inc.;

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

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

"**Voyageur Airways**" means Voyageur Airways Limited, a corporation incorporated under the Business Corporations Act (Ontario) on January 4, 1968.

**SCHEDULE "A"**

**CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE**

**(the "Committee")**

**OF THE BOARD OF DIRECTORS OF CHORUS AVIATION INC.**

**(the "Corporation")**

## 1. Purpose

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

## 2. Composition and Qualification

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

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

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

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

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

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

## 3. Meetings and Procedure

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

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

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

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

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

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

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

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

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

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

## 4. Objectives

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

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

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

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

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

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

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

## 5. Duties

To achieve its objectives, the Committee shall:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(j) At least once each year:

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

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

(k) Ensure that external auditors are accountable to the Committee and the Board and shall report directly to the Committee and the Committee shall so instruct the external auditors. The

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporation;

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

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

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

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

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

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

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

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

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

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

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

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

**6. Other**

**(a) Pension Plans**

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

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

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

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

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

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

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

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

**(b) Public Disclosure**

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

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

**(c) Risk Identification and Management**

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

**(d) Contingent Liabilities**

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

**(e) Corporate Authorizations Policies**

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

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

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

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

**(f) Performance to Budget, Actuarial Valuation**

(i) Review actual financial performance compared to budget;

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

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

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

**(g) Responsibilities**

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

**(h) Other Responsibilities**

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

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

Revised May 31, 2011

# EXHIBIT
# 2

chorus
aviation inc.

# Investor Presentation

March 2017


# CAUTION REGARDING FORWARD-LOOKING INFORMATION

## CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain information in this presentation may contain 'forward-looking information' as defined under applicable Canadian securities legislation. Forward-looking information typically contains words such as "anticipate", "believe", "could", "should", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar words and phrases, including references to assumptions. Such information may involve but is not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking information relates to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and other uncertain events. Forward-looking information, by its nature, is based on assumptions, including those described in this presentation, and is subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst 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 the actual results, performance or achievements to differ materially from those expressed in forward-looking statements. Factors that may cause results to differ materially from expectations in this presentation include, without limitation: risks relating to Chorus' economic dependence on and relationship with Air Canada; risks relating to the airline industry (including the international operation of aircraft in developing countries and areas of unrest); aircraft leasing (including the financial condition of lessees, availability of aircraft, access to capital, fluctuations in aircraft market values, competition and political risks); energy prices, general industry, market, credit, and economic conditions (including a severe and prolonged economic downturn which could result in reduced payments under the Capacity Purchase Agreement ('CPA') with Air Canada); 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; 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 of Chorus to reduce operating costs and employee counts; the ability of Chorus to secure financing; the ability of Chorus to attract and retain the talent required for its existing operations and future growth; the ability of Chorus to remain in good standing under and to renew and/or replace the CPA and other important contracts; employee relations, labour negotiations or disputes; pension issues, currency exchange and interest rates; leverage and restrictive covenants contained in debt facilities; uncertainty of dividend payments; managing growth; changes in laws, adverse regulatory developments or proceedings in countries in which Chorus and its subsidiaries operate or will operate; pending and future litigation and actions by third parties. For a further discussion of risks, please refer to Section 9 – Risk Factors in the fourth quarter and year-end 2016 MD&A. The statements containing forward-looking information in this presentation represent Chorus' expectations as of March 20, 2017, and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

Examples of forward-looking information in this presentation include: the outlook discussion on slide 10 "Revenue Generation under the CPA – Outlook"; the financing of and expectations for the aircraft leasing business on slide 19 "Chorus Aviation Capital Corp"; the expected aircraft deliveries on slide 20 "Launch Customer – Air Nostrum"; the market opportunity in aircraft leasing on slide 25 "Our Regional Aircraft Leasing Strategic Vision"; the projected growth of the air travel industry on slide 26 "Aviation Leasing is an Attractive Segment"; the statement regarding fleet growth on slide 30 "Regional Aircraft are a Highly Attractive Leased Asset"; and the discussion of the private placement on slide 31 "The Fairfax Investment"; and the fleet plan on slide 36 "Jazz Fleet Modernization Plan".

# CHORUS AT A GLANCE

TSX: CHR
Ticker symbol

~ 122 million
Outstanding shares (1)

~ $913 million
Market capitalization (2)

~ $1.3 billion
Operating revenue - 2016

~ $248 million
Adjusted EBITDA, excluding other items - 2016

Consistently profitable since becoming publicly traded in 2006

Focused on building additional shareholder value

Current monthly dividend of $0.04 per share

(1) Outstanding Chorus shares as of January 31, 2017 was 122,182,168.
(2) Calculated using closing price of Chorus shares of $7.47 on the TSX on March 13, 2017.

# GROWTH STRATEGY – CHORUS LINES OF BUSINESS

- Focused on providing a full suite of regional airline services to customers around the world

chorus aviation inc.

- Contracted flying operations
  - AIR CANADA express Operated by Jazz
  - Jazz charters
  - voyageurairways
- Maintenance, repair and overhaul (MRO)
  - JTS A division of Jazz
  - voyageuraerotech
  - voyageuravparts
- Regional aircraft leasing
  - chorus aviation capital corp.

Focus area of growth and revenue diversification

# CONTRACTED FLYING OPERATIONS

AIR CANADA express

Operated by Jazz

- CPA – foundation of our business
- Operates fleet of 113 regional aircraft on behalf of Air Canada
- CPA in place until 2025
- ~ 94% of Chorus' total revenue[1]

Jazz charters

- Ad hoc flying
- Various customers
  - sport teams
  - corporate clients
- Stand alone fleet of three aircraft

voyageurairways

- Based in North Bay, ON
- Specialized contract flying operations with 18 aircraft for international customers
- Air ambulance service for Ambulance New Brunswick

[1] For the 12-month period ended December 31, 2016

# AIR CANADA EXPRESS - Responsibilities

## Air Canada

- Purchases capacity
- Manages routes
- Sets flight schedules
- Sets ticket pricing
- Conducts marketing
- Assumes commercial risk
- Retains revenue from passenger and cargo sales
- Pays Jazz for aircraft capacity

## Air Canada Express – operated by Jazz

- Provides crews, airframe maintenance, flight operations, some airport operations, and general administration
- Scope of operation
  - Over 690 daily flights
  - 72 destinations in North America
  - Fleet of 113 aircraft
- ~ 65% of Air Canada's regional seat capacity
- Three types of missions
  - Smaller markets with less demand
  - High density markets at off-peak times
  - Point-to-point services on lower density routes
- Safe, reliable and customer-friendly operation

# COST MANAGEMENT UNDER THE CPA

## Controllable Revenue (controllable costs)

| | |
|---|---|
| Type of costs | ▪ General overhead, salaries, wages and benefits<br>▪ Depreciation and amortization on aircraft and parts<br>▪ Aircraft maintenance<br>▪ Materials and supplies |
| Rate setting | ▪ Majority of costs, excluding crew rates, set annually, based on projected annual block hours, flying hours, cycles, passengers carried<br>▪ Associated costs determined by Chorus and resulting rates mutually agreed upon with Air Canada<br>▪ Annual rate setting decreases Chorus' risk profile and increases accuracy of rates |
| Crew rates | ▪ Set for the term of the CPA and reflect projected crew unit costs<br>▪ Underpinned by collective agreements set for same term as CPA<br>▪ Can be adjusted based on certain criteria |

# COST MANAGEMENT UNDER THE CPA

## Pass-through costs – 100% reimbursed

**Pass-through costs**

- Incurred by Chorus under the CPA
- Passed through to Air Canada and 100% reimbursed

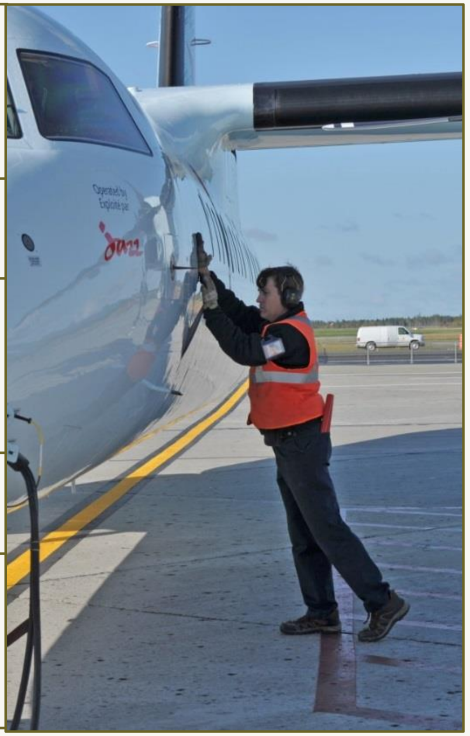
**Type of costs**

- Airport fees
- Navigational fees
- Terminal handling fees

**Exclusions**

Services provided by Air Canada at no cost to Chorus include:

- Aircraft fuel
- Air Canada ground handling



# *REVENUE GENERATION UNDER THE CPA*

## Fixed Fees

- Minimum fleet established for term of CPA
- Fixed margin per covered aircraft
- Fixed infrastructure fee per covered aircraft
- Combined fixed fees minimum of $111.6 million[1] until 2020

+

## Performance Incentives

- Achieving established targets:
  - Controllable on-time performance
  - Controllable flight completion
  - Passengers arriving with luggage
  - Customer service
- Maximum available annually until 2020: $23.4 million[1]

+

## Aircraft Leasing

- Chorus-owned Q400 aircraft leased into Jazz's Air Canada Express operation (5 CRJ900s in Q2 2017)
- FY 2016 earned $99.0 million in CPA leasing revenue on 34 Q400 aircraft and 5 Q400 engines

[1] Refer to next slide for outlook through 2025

# REVENUE GENERATION UNDER THE CPA - OUTLOOK

| Revenue generation under the CPA<br>(unaudited)<br>(expressed in millions of Canadian dollars) | For the calendar year ended December 31, 2015 | For the twelve months ended December 31, 2016 | Average for calendar years 2017-2020 | Average for calendar years 2021-2025 |
|---|---|---|---|---|
| CPA Fixed Fee[(1)] | 109.7 | 110.3 | 111.6 | 64.9 |
| CPA Performance Incentives – Earned[(2)] | 21.7 | 21.7 | TBD | TBD |
| CPA Performance Incentives – Maximum available | 23.3 | 23.6 | 23.4 | 12.2 |
| Total CPA Revenue Earned | 131.4 | 132.0 | TBD | TBD |
| **Total CPA Revenue Available** | **133.0** | **133.8** | **135.0** | **77.1** |
| Aircraft Leasing Revenue Under CPA[(3)] | 68.8 | 99.0 | 121.8 | 120.4 |
| Total CPA & Aircraft Leasing Revenue Earned under CPA | 200.2 | 231.0 | TBD | TBD |
| **Total CPA & Aircraft Leasing revenue available under CPA** | **201.8** | **232.8** | **256.7** | **197.5** |
| # Aircraft Under Lease in CPA | | | | |
| - Bombardier Q400 | 26 | 34 | 34 | 34 |
| - De Havilland Dash 8-300 | — | — | 13 | 19 |
| - CRJ 900 | — | — | 5 | 5 |
| - Engines | 4 | 5 | 5 | 5 |

(1) CPA revenue for 2016-2020 is not contingent upon fleet size while 2021-2025 has a portion adjusted downward as the remaining Dash 8 100 aircraft reach their retirement dates. The revenue amounts shown for 2015-2025 are not impacted by block hours flown and assume no material events of default or force majeure by either party to the CPA.

(2) There can be no assurance given that the 90% historical level of performance under the CPA Performance Incentives Earned will be achieved in the future.

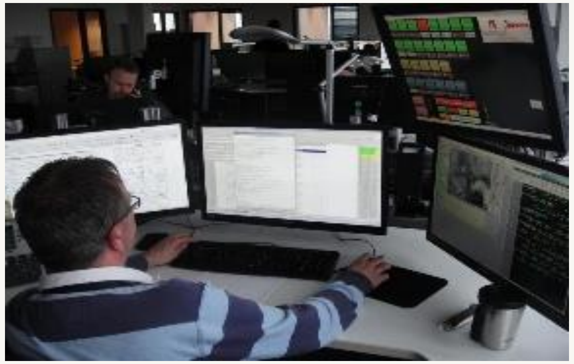
(3) Aircraft Leasing contains forward-looking information based on certain assumptions and estimates including market lease rates post retirement of current 21 Q400 debt financing based on the fleet plan. These projections may differ from actuals numbers if there are material changes in any and all of these assumptions or estimates. Foreign exchange rates used in the calculation of aircraft leasing revenue under CPA were US$:CAD$ 1.31 and US$:CAD$ 1.25 for the years 2016 and 2017-2025, respectively.

*The information above includes forward-looking information (refer to slide 2 – "Caution regarding forward-looking information")*

# JAZZ'S COMPETITIVENESS UNDER THE CPA

**Focused on increasing market competitiveness and growing services provided to Air Canada through a differentiated fleet and service offering**

- Industry-leading collective agreements expire end of 2025
  - Pilots, Flight Attendants, Maintenance, Dispatchers
  - Pilots' DB pension replaced by DC pension (new hires)
  - Agreements expire in 2025 providing strong labour stability and cost visibility
- Ongoing Pilot Mobility Program with Air Canada
  - Enables senior pilots to flow to Air Canada with replacement pilots hired at industry competitive rates
  - Over 300 pilots exited Jazz since January 2015
- Modernization of Jazz fleet
  - Focused on larger, newer technology regional aircraft
  - Majority of fleet changes to be completed by 2020
  - Lower cost per available seat mile
  - Increased network flexibility and competitiveness
  - Investing in Dash 8-300 Extended Service Program



# VOYAGEUR AIRWAYS

- ~ 70% of revenue generated through specialized flight operations
- Fleet of 18 owned aircraft (16 Bombardier manufactured)
- Contract flying services
  - Flight and cabin crew
  - Maintenance personnel
  - On-site manager
- Missions
  - Medical, logistical and humanitarian
  - Canada and Africa
- Flight operations
  - Voyageur’s operating certificate
  - Transport Canada approved licences and personnel

# CONTRACTED FLYING OPERATIONS - SUMMARY

## Long history in flying operations with strong industry relationships – competitive advantage


### Jazz Aviation

- Jazz is Air Canada's primary regional supplier, providing 65% of their regional capacity
- Minimum of 96 aircraft under the CPA in 2025 with the objective to grow
- Larger Q400s and CRJ-900s decrease per-seat costs
- Air Canada's Q400 fleet consolidated into Jazz by early 2017
- Chorus owns majority of CPA aircraft – unique in Canadian regional industry
- Provides Air Canada with flexibility to respond quickly and efficiently to change
- Solidify Air Canada's brand presence at 36 airports across Canada


### Voyageur Airways

- Voyageur provides specialized contracted flying services
- Flying ACMI missions around the world for over 12 years
- Blue-chip customers such as United Nations
- World-renowned reputation for superior safety standards and operational integrity
- Contracted services done with Canadian licenses, certification and designations

# MAINTENANCE REPAIR AND OVERHAUL (MRO) AND PARTS

| | | |
|---|---|---|
| jts A division of Jazz | ▪ New division under Jazz<br>▪ Separate profit centre<br>▪ Focused on traditional heavy maintenance on Bombardier aircraft |  |
| voyageuraerotech | ▪ Operating in North Bay, ON<br>▪ 200,000 square foot facility<br>▪ Highly specialized and custom MRO<br>▪ International clients |  |
| voyageuravparts | ▪ Newly created business<br>▪ Regional aircraft part sales and service<br>▪ Synergies with services provided by Chorus |  |

# JAZZ TECHNICAL SERVICES

- Traditional heavy maintenance on Bombardier regional aircraft
- Five-year contract with another Air Canada Express partner
  - Heavy maintenance checks on 14 regional jets
- Contract to refurbish cabin interior of Dash 8-300 aircraft
- Two-year contract with CommutAir, a United Express® carrier
- Efficiencies gained through economies of scale


United Express® is a registered trade-mark of United Airlines, Inc.

# *VOYAGEUR AEROTECH*

- Transport Canada Design Approved Organization
  - Dedicated engineering team developing Supplemental Type Certificates
- Aircraft modifications
- Maintenance, repair and overhaul (MRO)
  - All models of Bombardier regional aircraft
  - Worldwide customer base
  - Highly specialized MRO work
- ~ 30% of revenue generated from Aerotech with opportunities to grow (includes Avparts)

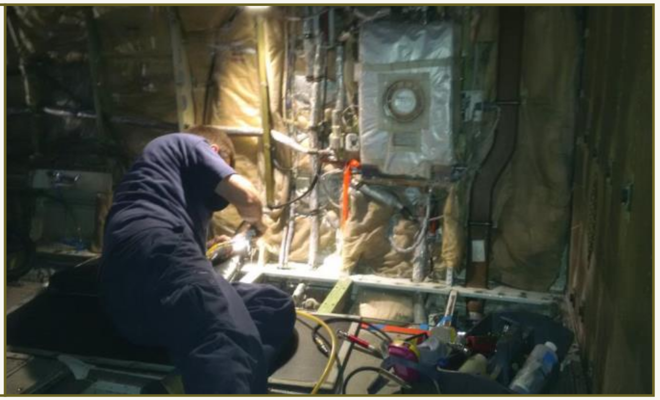
# VOYAGEUR AVPARTS

- Newly created business
- Part sales and service in support of future growth
- Services
  - Consignment inventories
  - Aircraft part-outs
  - Purchase and sale of bulk/surplus inventories from third parties
  - Inventory leasing programs
- Synergies with services provided by the Chorus group of companies

# MAINTENANCE REPAIR AND OVERHAUL (MRO) AND PARTS – SUMMARY

**Jazz Technical Services**

- Jazz Technical Services provides opportunity to grow as separate profit centre
- New, industry-leading maintenance collective agreement
- 24/7 operation enabling quick aircraft turnaround times
- Facility has capacity for additional work
- Air Georgian, CommutAir and D8-300 contracts reduce unit costs and improves cost competitiveness
- Opportunity to generate incremental revenue and strengthen bottom line



**Voyageur Aerotech and Avparts**

- Transport Canada, FAA and European Aviation Safety Agency approved
- Transport Canada certified Canadian Design Approval Organization
- Operating from a 200,000 square foot facility in North Bay, ON
- Supplemental Type Certificates for Dash 8-100/200/300s and Dash 7s
- Capability to conduct MRO work on all Bombardier regional aircraft
- Avparts division provides organic growth and synergies with Chorus companies
- Avparts complements MRO divisions at Voyageur and Jazz

# Chorus Aviation Capital Corp

- Regional aircraft leasing is an emerging business
  - ~20% to 25% regional aircraft manufactured are leased vs. ~40% to 50% for narrow-body aircraft
  - Solid opportunity for growth
- Fairfax Financial investing $200 million in Chorus through a private placement of convertible debt units
- New subsidiary will build a global, regional aircraft leasing platform and further advance Chorus' growth and diversification strategy
- Chorus Aviation Capital led by Steven Ridolfi
- Capable of delivering a full suite of support services to customers worldwide by leveraging the expertise within Chorus' group of companies

The information above includes forward-looking information (refer to slide 2 – 'Caution regarding forward-looking information').

The $200 million private placement of convertible debt units remains subject to satisfaction of certain closing conditions.

# LAUNCH CUSTOMER - AIR NOSTRUM

## Chorus to purchase and lease four new CRJ1000 regional jets to Air Nostrum


- Secured letter of offer from Export Development Canada (EDC) for debt financing
- Two aircraft delivered in November/December 2016; two deliveries expected in June/September 2017
- Air Nostrum is a leading European regional carrier
  - Headquartered in Valencia, Spain
  - Operates fleet of 42 – CRJ1000s, CRJ900s, CRJ200s and ATR 72-600s
  - Network of 54 domestic and international destinations
  - Carried 4 million passengers in 2015 through its franchise with Iberia®
  - Affiliate of the oneworld® airline alliance

Iberia® is a registered trade-mark of Iberia Lineas Aereas De Espana Sociedad Anonima Operadora.

oneworld® is a registered trade-mark of oneworld Alliance LLC.

The information above includes forward-looking information (refer to slide 2 – 'Caution regarding forward-looking information').

The expected aircraft deliveries remain subject to the execution of lease agreements and the satisfaction of certain conditions under the EDC financing.

# CREATING VALUE THROUGH GROWTH AND DIVERSIFICATION

Strengthening
Jazz competitiveness


Growing aircraft
leasing revenues
inside/outside CPA


Pursuing growth
opportunities for
Voyageur in MRO and parts


Advancing business
diversification leveraging
our regional aviation expertise

# CONTACT

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# APPENDICES

- Regional aircraft leasing growth opportunity
- Private placement with Fairfax Financial
- Q4 2016 Income Statement
- Q4 2016 Balance Sheet
- CPA fleet modernization plan by type and year
- Jazz fact sheet
- Jazz's network
- 2016 Jazz industry recognition
- Voyageur fleet

# Regional Aircraft Leasing Growth Opportunity

# OUR REGIONAL AIRCRAFT LEASING STRATEGIC VISION

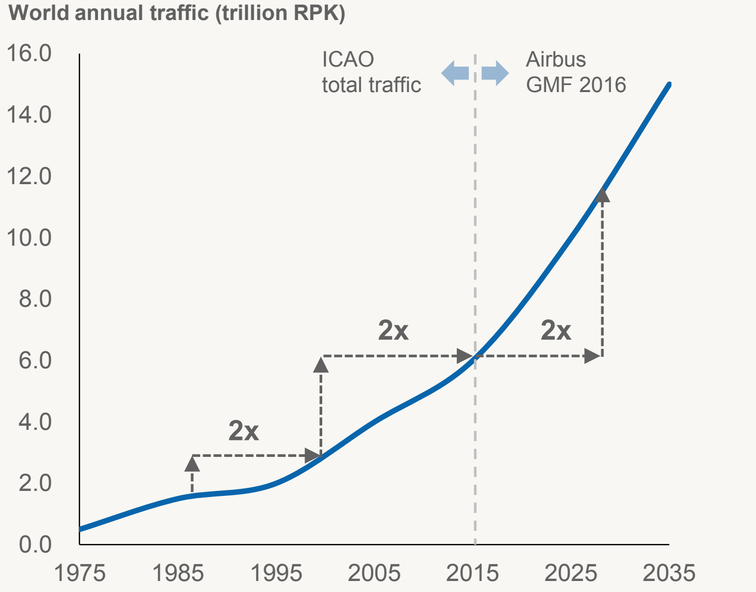
**Chorus believes there is a significant opportunity to develop a large and profitable leasing platform by capitalizing on its unique expertise in the regional aircraft and airline market. Chorus is targeting the regional segment because:**

1. Accelerating global passenger growth and positive airline fundamentals have created strong regional aircraft market demand
2. The regional leasing segment is currently underserved with limited competition and great potential for further penetration
3. The regional aircraft leasing segment enjoys premium yields and sector margins with favourable access to capital
4. The regional aircraft market is characterized by historically stable aircraft deliveries with limited technical obsolescence risk

*The information above includes forward-looking information (refer to Slide 2 – "Caution regarding forward-looking information")*

# AVIATION LEASING IS AN ATTRACTIVE SEGMENT

## Air Travel to Double in the Next 15 Years[1]

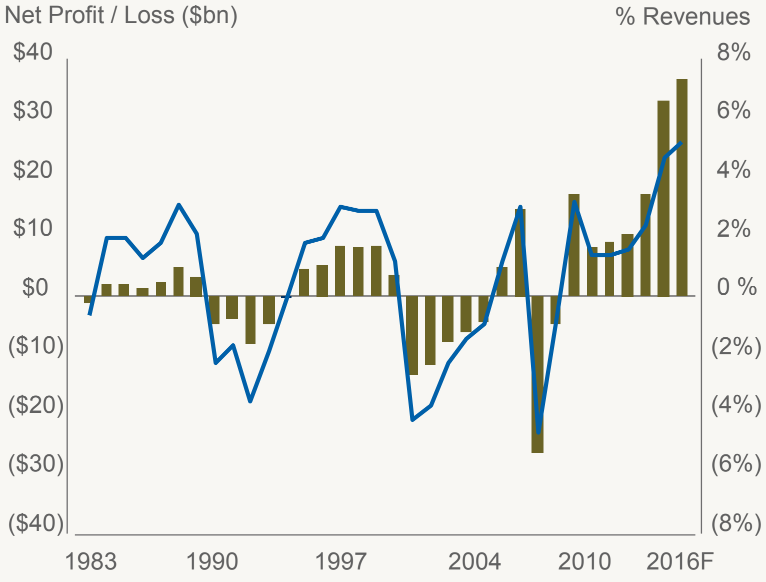



- Strong and resilient passenger traffic growth, with air volume growth having outperformed GDP growth by ~2.0x over the past 10 years[2]
- 20-year world annual traffic growth forecast of 4.5%[1]
- Supports strong growth in aircraft deliveries over the forecast horizon

## Increased Use of Operating Leases[3]


- Positive dynamics in aircraft leasing, driven by increase in global fleet and proportion of leased aircraft

## End Market / Airline Profitability has Recovered[4]

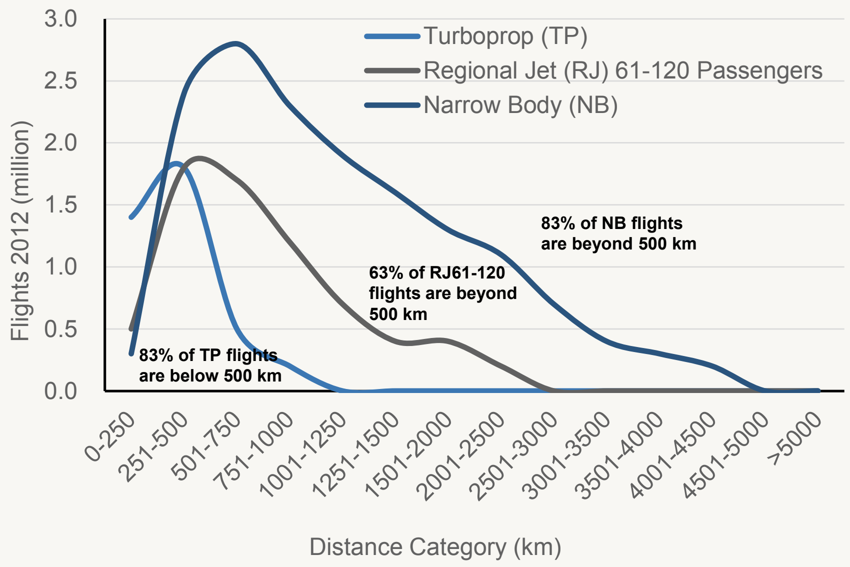



- Airlines have demonstrated increased profitability over recent years

*Sources: (1) Airbus Global Market Forecast (2016), (2) IATA, Oxford Economics, (3) CAPA Fleets, AVITAS Estimates, (4) ICAO (1983 – 2013) and IATA December 2015 (2014-15)*
*The information above includes forward-looking information (refer to Slide 2 - "Caution regarding forward-looking information")*

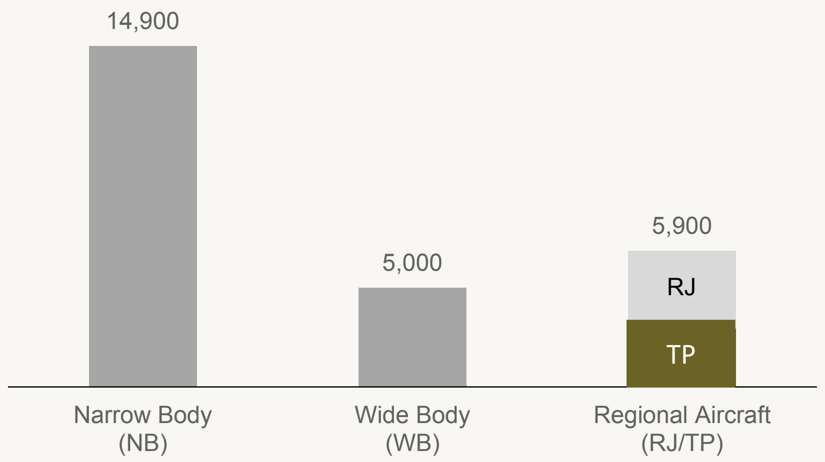
# REGIONAL AIRCRAFT ARE FUNDAMENTAL TO EFFICIENT AIR TRANSPORT NETWORKS

## Worldwide Flight Distribution By Aircraft Type[1]




- 50% of world passengers fly less than 500 miles
- 60% of the world's communities linked with regional aircraft

## Worldwide Distribution of Aircraft by Type[2]




- Regional aircraft fleet is ~23% of total commercial fleet

*Source: (1) OAG 2012, (2) Boeing / Bombardier*

# REGIONAL AIRCRAFT LEASING IS NOT CORE FOR MANY COMMERCIAL AIRCRAFT LESSORS



## Commercial Aircraft Leasing Focus

- Focus on larger aircraft allows for faster deployment of capital
- Core OEM relationships with Airbus and Boeing
- Core customer relationship with mainline airlines
- Regional aircraft portfolios are non-core and were often established to build scale during growth stages

**35+ Competitors**

Note: *This is not a complete list of regional aircraft lessors (for illustrative purposes only).*

**Non-Core Regional Presence**

Transactions / Year: **Approximately 1,500 aircraft; $100bn**

Percent Leases: **Approximately 40+%**

Comments: **NB – Narrow body / WB – Wide body / Passenger Cargo**

## Regional Aircraft Leasing Focus

- Smaller ticket size per aircraft
- Core OEM relationships with ATR, Bombardier and Embraer
- Core customer relationships with regional airlines
- Trading is less prevalent as leases / loans have been historically of longer tenure

**Few Competitors**

Note: *This is not a complete list of regional aircraft lessors (for illustrative purposes only).*

Transactions / Year: **Approximately 300 aircraft; $10bn**

Percent Leases: **Approximately 20% – 25%**

Comments: **TP – Turboprops / RJ – Regional Jets / 61 – 120 seats**

*Source: Company websites, Airfleets, Chorus management estimates*

# *ABILITY TO SOURCE ASSETS FROM MULTIPLE CHANNELS*

**Chorus is building its funnel through several sourcing channels**

| **Direct OEM Orders** | **Sale-Leaseback** | **3rd Party Leasing Companies** |
|---|---|---|
| ▪ Leveraging OEM relationships to source customers in conjunction with OEM order books | ▪ Leveraging trusted peer-operator status to acquire aircraft from airlines | ▪ Taking advantage of regional aircraft's "non-core" status within commercial leasing players' portfolios |

# REGIONAL AIRCRAFT ARE A HIGHLY ATTRACTIVE LEASED ASSET

1 **Resilient Demand Expectations with a Broad User Base**

- The 70-130 seat fleet is expected to grow ~4-5% per year over the next 20 years(1)
- Operational efficiencies from regional aircraft play a key role in hub-and-spoke networks

2 **Attractive Aircraft Type for Shorter Routes**

- Regional aircraft allow airlines to optimize aircraft size and reduce per-seat cost
- ~50% of global passengers fly on trips below 500 miles and ~30% of global passengers fly on trips below 300 miles

3 **Geographically Diverse Demand Dynamics**

- Economic growth in emerging markets is expected to significantly outpace those in advanced economies
- The emergent urban middle classes in these areas present a real opportunity to expand air travel capabilities which will require the use of turboprop and regional jet aircraft

4 **Stable Supply**

- Historical deliveries of regional aircraft have been relatively consistent
- Regional aircraft projected deliveries are stable

5 **Ability to Hold Values Over Time Due to No Significant Changes to Regional Aircraft Technology**

- Values of regional jets and turboprops have proved less volatile relative to most narrow body aircraft

*(1) Embraer Market Outlook 2016-2035*

*The information above includes forward-looking information (refer to Slide 2 – "Caution regarding forward-looking information")*

# THE FAIRFAX INVESTMENT

- $200 million investment in Chorus (200,000 convertible debt units at $1,000/unit)
  - $1,000 secured debenture
  - 121.21212121 warrants
- Debentures
  - Interest rate of 6.00% per annum
  - Secured by Dash 8-100 and Dash 8-300 aircraft, plus real estate; security released if Fairfax disposes of any of its debentures
  - Mature on December 31, 2024; redeemable at par any time after December 31, 2021
  - Customary repurchase obligations upon a change of control
- Warrants
  - Exercise price equal to $8.25 per share
  - Exercisable after December 31, 2019 and in the event of a Chorus change of control
  - Subject to adjustment pursuant to anti-dilution provisions
- Chorus to issue convertible debt units between January 1 and March 31, 2017
- Fairfax ownership on a post-exercise basis expected to be ~16.5% based on current Chorus shares issued and outstanding
- Fairfax commits not to dispose of convertible debt units until after December 31, 2019
- Chorus to use proceeds of Fairfax investment primarily to fund its regional aircraft leasing business

The information above includes forward-looking information (refer to slide 2 – 'Caution regarding forward-looking information').

The investment remains subject to satisfaction of certain closing conditions, including receipt of certain conditional listing approvals from the TSX. For more information, refer to Chorus' Material Change Report dated December 22, 2016 and the documents filed in connection therewith available on SEDAR at www.sedar.com.

# INCOME STATEMENT – Q4 2016

| (expressed in thousands of Canadian dollars, except earnings per share) | As at December 31, 2016 | 2015 |
|---|---|---|
| | $ | $ |
| **Operating revenue** | | |
| Passenger | 1,251,856 | 1,517,365 |
| Other | 24,998 | 27,316 |
| | 1,276,854 | 1,544,681 |
| **Operating expenses** | | |
| Salaries, wages and benefits | 432,921 | 435,521 |
| Aircraft fuel | 3,122 | 228,557 |
| Depreciation and amortization | 81,334 | 59,745 |
| Food, beverage and supplies | 13,075 | 12,082 |
| Aircraft maintenance materials, supplies and services | 167,547 | 197,258 |
| Airport and navigation fees | 160,612 | 174,371 |
| Aircraft rent | 91,047 | 103,308 |
| Terminal handling services | 39,319 | 57,018 |
| Other | 136,399 | 127,324 |

# INCOME STATEMENT – Q4 2016 (cont'd)

| (expressed in thousands of Canadian dollars, except earnings per share) | As at December 31, 2016 $ | 2015 $ |
|---|---|---|
| **Operating income** | 151,478 | 149,497 |
| **Non-operating income (expenses)** | | |
| Interest revenue | 578 | 2,443 |
| Interest expense | (22,667) | (17,457) |
| Gain on disposal of property and equipment | 394 | 186 |
| Foreign exchange gain (loss) | 14,331 | (74,336) |
| Other | 313 | 758 |
| | (7,051) | (88,406) |
| **Income before income taxes** | 144,427 | 61,091 |
| **Income tax expense** | | |
| Current income tax | 50 | (8,509) |
| Deferred income tax | (32,711) | (27,095) |
| | (32,661) | (35,604) |
| **Net income** | 111,766 | 25,487 |
| **Earnings per share, basic** | 0.91 | 0.21 |
| **Earnings per share, diluted** | 0.89 | 0.20 |

# BALANCE SHEET – Q4 2016

| | As at | |
|---|---|---|
| | 31-Dec-16 | 31-Dec-15 |
| | $ | $ |
| **Assets** | | |
| **Current assets** | | |
| Cash | 23,491 | 32,677 |
| Restricted cash | 5,671 | 1,829 |
| Accounts receivable – trade and other | 75,058 | 81,357 |
| Inventories | 49,657 | 45,942 |
| Prepaid expenses and deposits | 10,591 | 15,718 |
| Income tax receivable | 4,602 | --- |
| **Total current assets** | 169,070 | 177,523 |
| **Property and equipment** | 1,221,487 | 863,992 |
| **Intangibles** | 2,698 | 3,004 |
| **Goodwill** | 7,150 | 7,150 |
| **Deferred income tax asset** | 19,844 | 19,644 |
| **Other long-term assets** | 42,113 | 36,026 |
| | **1,462,362** | **1,107,339** |

# BALANCE SHEET – Q4 2016 (cont'd)

| | As at | |
|---|---|---|
| | 31-Dec-16 | 31-Dec-15 |
| | $ | $ |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 173,656 | 177,313 |
| Current portion of obligations under finance leases | 5,099 | 5,432 |
| Current portion of long-term incentive plan | 6,567 | 5,159 |
| Current portion of long-term debt (note 6) | 84,543 | 54,867 |
| Current portion of consideration payable | 12,626 | 11,319 |
| Dividends payable | 4,889 | 4,889 |
| Income tax payable | 2,743 | 7,270 |
| **Total current liabilities** | 290,123 | 266,249 |
| **Obligations under finance leases** | 8,534 | 14,052 |
| **Long-term debt** | 803,954 | 530,390 |
| **Consideration payable** | 5,907 | 18,849 |
| **Deferred income tax liability** | 126,099 | 103,202 |
| **Other long-term liabilities** | 88,782 | 63,801 |
| | 1,323,399 | 996,543 |
| **Equity** | 138,963 | 110,796 |
| | 1,462,362 | 1,107,339 |

# *JAZZ FLEET MODERNIZATION PLAN*

## The Chorus fleet will transition to more efficient, larger aircraft with significant fleet simplification

- Jazz will transition to a mix of larger, newer technology regional jets (CRJ900s) and turboprops (Q400s)

| Aircraft Type | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Q400** | 27 | 39 | 44 | 44 | 44 | 49 | 49 | 49 | 49 | 49 | 49 |
| **CRJ-200** | 16 | 13 | 10 | 10 | 10 | 0 | 0 | 0 | 0 | 0 | 0 |
| **CRJ-900** | 16 | 16 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 | 21 |
| **Total** | **59** | **68** | **75** | **75** | **75** | **70** | **70** | **70** | **70** | **70** | **70** |

- The addition of Q400s will replace older, less efficient Dash 8-100s that have a higher value in alternative uses

| Aircraft Type | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Dash 8-100** | 28 | 19 | 16 | 15 | 15 | 15 | 12 | 12 | 4 | 1 | 0 |
| **Dash 8-300** | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 | 26 |
| **Total** | **54** | **45** | **42** | **41** | **41** | **41** | **38** | **38** | **30** | **27** | **26** |

The information above includes forward-looking information (refer to slide 2 – 'Caution regarding forward-looking information').

# JAZZ FACT SHEET

| Corporate Fact Sheet | |
|---|---|
| Head office: | Halifax |
| Regional offices: | Vancouver<br>Calgary<br>Toronto<br>Montreal<br>Halifax (Operations Centre) |
| Destinations served | 72 destinations across Canada and the U.S. |
| Number of employees | 4,200 total employees |
| Daily flights operated | 660 (approx., based on weekday operation) |
| Daily passengers carried | 30,000 (based on weekday operation) |
| Annual passengers carried | 10.5 million (based on 2016 figures) |

| Aircraft type | Number | Capacity |
|---|---|---|
|  Bombardier Q400 NextGen | 40 | 74 |
|  Bombardier CRJ-705 | 16 | 75 |
|  Bombardier CRJ-200 | 13 | 50 |
|  Bombardier Dash 8-300 | 26 | 50 |
|  Bombardier Dash 8-100 | 16 | 37 |

# JAZZ – CANADA’S REGIONAL AIRLINE

# 2016 JAZZ INDUSTRY RECOGNITION

- Jazz received top Airline Reliability Performance Awards for dispatch reliability:
  - Q400 Aircraft Programs for North America
  - CRJ100/200 Aircraft Programs for North America
  - CRJ700/900/1000 Aircraft Programs for North America
- Recognized in 2016 as one of North America's top five on-time performing regional airlines
- Canada's Top Employers for Young People 2016
- Canada's Best Diversity Employers 2016
- Atlantic Canada's Top 25 Employers 2016
- Nova Scotia's Top 15 Employers 2016
- APEX award for "Excellence in Publication" recognizing "Focus on Safety"

# VOYAGEUR FLEET

| Aircraft | Number | Aircraft Type |
|---|---|---|
|  Bombardier CRJ-200LR | 7 | Passenger charter |
|  Bombardier Dash 8-300 | 6 | Passenger charter |
|  Bombardier Dash 8-100 | 2 | Passenger charter |
|  De Havilland Dash 7 | 1 | Passenger charter |
|  Beechcraft King Air 200 | 2 | Air ambulance |

# EXHIBIT

# 3

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 4

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 5

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 6

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# 7

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# 9

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# EXHIBIT

# 10

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 11

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 12

chorus
aviation inc.

# 2015
# Management's Discussion and Analysis of Results of Operations and Financial Condition

February 18, 2016

# TABLE OF CONTENTS

## 1 OVERVIEW

The financial and operating highlights for Chorus are as follows:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2015(1) | 2014 | Change | 2015(1) | 2014 | Change |
| Operating revenue ($000) | 357,368 | 401,298 | (43,930) | 1,544,681 | 1,666,291 | (121,610) |
| Operating expenses ($000) | 310,907 | 368,314 | (57,407) | 1,395,184 | 1,528,390 | (133,206) |
| Operating income ($000) | 46,461 | 32,984 | 13,477 | 149,497 | 137,901 | 11,596 |
| Net income for the period ($000) | 12,512 | 11,338 | 1,174 | 25,487 | 64,710 | (39,223) |
| Adjusted EBITDA(2) ($000) | 64,108 | 49,823 | 14,285 | 209,242 | 203,958 | 5,284 |
| Adjusted EBITDA,(2) excluding other items ($000) | 65,686 | 51,148 | 14,538 | 228,275 | 215,900 | 12,375 |
| Adjusted net income(2) ($000) | 32,137 | 23,697 | 8,440 | 96,335 | 95,232 | 1,103 |
| Adjusted net income,(2) excluding other items ($000) | 33,715 | 25,022 | 8,693 | 115,368 | 107,174 | 8,194 |
| Net income per Share, basic ($) | 0.10 | 0.09 | 0.01 | 0.21 | 0.53 | (0.32) |
| Adjusted net income per Share, basic(2) ($) | 0.26 | 0.20 | 0.06 | 0.79 | 0.78 | 0.01 |
| Adjusted net income,(2) excluding other items per Share - basic ($) | 0.28 | 0.21 | 0.07 | 0.95 | 0.88 | 0.07 |

1) As Chorus acquired Voyageur on May 1, 2015, the results of operations include revenue and expenses of Voyageur since that date (refer to Section 4 - The Chorus Business).
2) This is a non-GAAP measurement. Refer to Section 20 – Non-GAAP Financial Measures.

Chorus achieved significant milestones in 2015.

Highlights:

- Established an amended and restated CPA with Air Canada effective January 1, 2015 extending the CPA term to December 31, 2025.
- Reached collective agreements with Jazz pilots, flight attendants and dispatchers until the end of the CPA term.
- Acquired all of the outstanding shares of 519222 Ontario Limited, a holding company that owned Voyageur Airways Limited and its related companies.
- Announced that an agreement had been reached with Air Canada to add ten incremental aircraft to the CPA fleet.
- Acquired six new Q400s using EDC financing for each.
- Increased Chorus' monthly dividend payment effective with the March 2015 dividend.

Operating income for the three months ended December 31, 2015, compared to the same period 2014, increased by $13.5 million. This increase was driven by a $6.3 million contribution from the Voyageur operation while aircraft leasing operations under the CPA contributed an additional $5.2 million as a result of the addition of new Q400s in the fourth quarter and a change in the US dollar exchange rate. The remaining net increase of $2.0 million in operating income was primarily attributable to more labour and maintenance costs being capitalized on owned aircraft for major maintenance overhauls and other reductions. These increases in operating income were offset by higher stock-based compensation and the absence in this quarter of the Compensating Mark-Up.

The $14.3 million increase in Adjusted EBITDA resulted from the operating income increase previously described and a quarter-over-quarter net $0.8 million increase in depreciation and amortization expense. The increase in depreciation and amortization expense was primarily related to the purchase of additional aircraft during 2015 which accounted for $1.0 million, a $3.3 million increase in depreciation and amortization attributable to Voyageur, new finance leases accounted for a $0.3 million increase and major maintenance overhauls accounted for $0.5 million. These increases were offset by a change in the estimated economic useful lives and residual values of certain owned aircraft and flight equipment made in the first quarter of 2015 which accounted for $4.3 million.

Operating income for the year ended December 31, 2015, compared to the year ended December 2014, increased by $11.6 million. The addition of Voyageur contributed $8.5 million, while aircraft leasing operations under the CPA contributed an additional $11.8 million mainly due to a change in the US dollar exchange rate. The remaining offsetting net decrease of $8.6 million in operating income was mostly attributable to a $13.5 million one-time payment as part of the newly ratified collective agreements with ALPA and CFAU, the absence in 2015 of the Compensating Mark-Up and higher stock-based compensation. These increases in operating income were offset by lower employee separation program costs and more labour and maintenance costs being capitalized on owned aircraft for major maintenance overhauls.

The $5.3 million increase in Adjusted EBITDA resulted from the operating income increase previously described and a year-over-year net $6.3 million decrease in depreciation and amortization expense. The decrease in depreciation and amortization expense was mostly related to a change in the estimated economic useful lives and residual values of certain owned aircraft and flight equipment made in the first quarter of 2015 of $15.5 million and other depreciation reductions of $1.2 million. These decreases were offset by increased depreciation and amortization expense related to the purchase of additional aircraft during 2015 for $1.0 million, increased major maintenance overhauls of $0.4 million, new finance leases accounted for a $0.3 million increase and a $8.7 million increase was attributable to Voyageur.

## 2 CAPACITY PURCHASE AGREEMENT

On February 2, 2015, Chorus announced that all terms and conditions had been met to establish an amended and restated CPA with Air Canada effective January 1, 2015 (referred to herein as the "January 1, 2015 Amendment") extending the CPA term to December 31, 2025.

Prior to the January 1, 2015 Amendment, Chorus was paid rates which were negotiated and set every three calendar years based on Chorus' projected Controllable Costs for the relevant three-year period, using certain variables including Block Hours, Flight Hours, aircraft, cycles and passengers carried. Chorus was also paid certain variable and fixed aircraft ownership rates and fixed rates. The rates set for each three-year period were not guaranteed to be the same as actual Controllable Costs incurred by Chorus in providing the Scheduled Flights during that period. Once set, for CPA billing purposes, Chorus applied a mark-up (and the Compensating Mark-Up when applicable) to the rates. Chorus was also entitled to repayment of certain Pass-Through Costs, including fuel, airport and navigation fees, landing and terminal fees and certain other costs. In addition, Chorus was eligible to receive incentive payments each quarter if it achieved certain performance levels related to controllable on-time performance, controllable flight completion, PAWOBS and overall customer satisfaction.

Chorus incurs two types of costs under the CPA:

1) Controllable Costs
2) Pass-Through Costs

Under the January 1, 2015 Amendment, many costs that were formerly Controllable Costs have become Pass-Through Costs; however, Chorus will continue to be entitled to be paid rates, based on Controllable Costs, using the same variables as in prior years such as Block Hours, Flight Hours, cycles and passengers carried as well as certain variable and fixed aircraft ownership rates and fixed rates. With the exception of flight crew costs, aircraft rent, and depreciation and amortization on aircraft and parts, the rates for Controllable Costs are now set annually. Controllable Costs now consist of fewer costs than prior to January 1, 2015 and include costs such as non-crew salaries and wages, general overhead and aircraft maintenance, materials and supplies (for further detail please consult the detailed CPA cost categorization chart found below).

Under the January 1, 2015 Amendment, Air Canada provides Chorus with projected annual Block Hours, Flight Hours, cycles and passengers estimated to be carried in advance of each calendar year during the term. The associated Controllable Costs are determined by Chorus and are paid by Air Canada to Chorus for the Controllable Costs through mutually agreed rates. The rate-setting process is staggered throughout the year and conducted on a rolling basis.

It is expected that annual rate setting related to Controllable Costs will decrease Chorus' cost risk as the annual rate re-set ensures those costs are reviewed in a timely manner and the corresponding rates reflect the realities of the current environment. With such visibility the accuracy of the rates is better assured in the event there are significant changes in the operation and/or the operating environment.

Pilot and flight attendant crew rates have been set for the term of the CPA to December 31, 2025 and reflect projected crew unit costs for this period. Chorus has negotiated collective agreements with its crews for the term of the January 1, 2015 Amendment which support the projected crew unit costs agreed to with Air Canada. The crew rates are adjusted if the number of Block Hours scheduled, the flow of Jazz pilots to Air Canada, and/or if the efficiency of the crew schedules delivered by Air Canada are outside certain agreed thresholds. In addition, regulatory changes that impact crew unit costs result in adjustments to the crew rates.

Pass-Through Costs are passed through to Air Canada and are fully reimbursed. These include costs such as airport and navigation fees and terminal handling fees. Services provided by Air Canada are provided at no cost to Chorus. These include Air Canada ground handling and facilities leased from Air Canada and, effective November 1, 2015, aircraft fuel (for further detail please consult the CPA cost categorization chart found below).

Under the January 1, 2015 Amendment, Chorus' compensation changed from a mark-up on Controllable Costs to fixed fees. The mark-up and Compensating Mark-up concepts have been eliminated. As well, the requirement for benchmarking based on Chorus' costs in 2015 and the margin adjustment provisions contained in the CPA prior to the January 1, 2015 Amendment are no longer applicable.

Chorus is now compensated by the more industry standard approach of fixed fees. There are two fixed fees which establish the minimum level of compensation for the balance of the term of the CPA:

1) Fixed Margin per Covered Aircraft
2) Infrastructure Fee per Covered Aircraft

The Fixed Margin per Covered Aircraft does not vary regardless of network size, complexity or hours flown. The Infrastructure Fee per Covered Aircraft compensates for the additional services Chorus provides in support of Air Canada's regional flying network such as airport operations. The word "rates" for purposes of discussion relating to the January 1, 2015 Amendment does not include the Fixed Margin per Covered Aircraft or the Infrastructure Fee per Covered Aircraft.

Combined, these fixed fees based on the Covered Aircraft were set at approximately $109.7 million for 2015, and once all incremental aircraft (refer to discussion in Section 4 - The Chorus Business) are received the fixed fees increase to approximately $111.7 million per year until the year 2020. From the years 2021 to 2025 these fees are also fixed but at a lower annual amount. Chorus anticipates that this decrease will be partially offset by additional margin contribution from aircraft leasing under the CPA.

Jazz Leasing Inc., a subsidiary of Chorus, leases owned Q400s and engines into the Jazz operation under the CPA. Under this arrangement, Chorus earns aircraft leasing revenue under the CPA from Q400s and Q400 engines. For the year ended December 31, 2015, Chorus earned aircraft leasing revenue of $68.8 million. Annually these aircraft and engines currently generate a cash margin (after consideration of debt servicing charges) of approximately 20%.

The new Q400s being added to the Covered Aircraft fleet in 2016 are anticipated to accrue incremental cash margins comparable to those being earned on Chorus' current fleet of Q400s. As well, the movement of 19 Dash 8-300s to market lease rates post ESP events, are anticipated to accrue incremental cash margin to Chorus going forward (refer to Section 3 - Introduction, "Caution regarding forward-looking information").

Performance incentives will continue to be available, under the January 1, 2015 Amendment, for achieving established performance targets for the same categories identified under the CPA prior to the January 1, 2015 Amendment. The maximum annual available incentive for the years 2015 to 2020 is $23.4 million and $12.2 million for the years 2021 to 2025.

In addition to lowering Chorus' risk profile, Chorus believes that the January 1, 2015 Amendment:

- Provides long-term predictable compensation levels that are anticipated to support the current dividend paid to Shareholders.
- Aligns the interests of Chorus and Air Canada and strengthens their relationship.
- Promotes Chorus' market competitiveness through cost reduction initiatives such as the modernization of its fleet and the ability to flow Jazz senior pilots to Air Canada.
- Secures long-term market competitive labour agreements with Jazz pilots, flight attendants and dispatchers.
- Reduces reliance on the Fixed Margin and Infrastructure Fee per Covered Aircraft and replaces it with growth in cash margin from aircraft leasing under the CPA.
- Secures a solid foundation from which to grow and diversify Chorus' group of companies.

The following table summarizes changes between the January 1, 2015 Amendment terms and the CPA terms in effect to the end of 2014 in cost categorizations in Controllable Costs (used to establish rates) and Pass-Through Costs and costs that will be directly borne by Air Canada.

| Changes to the CPA Cost Categorization & Rate Periods by Operating Expense & Detailed Description | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **CPA Cost Categorization** | **CPA Prior to 2015** | | | | **January 1, 2015 Amendment** | | | |
| | Controllable Cost | Pass-Through Cost | Cost no longer billed to Chorus | Rate Periods | Controllable Cost | Pass-Through Cost | Cost no longer billed to Chorus | Rate Periods |
| **Salaries, wages and benefits** | | | | | | | | |
| - Crew wages & benefits | X | | | 3 years | X | | | 11 years[1] |
| - All others | X | | | 3 years | X | | | Annually[2] |
| **Aircraft fuel** | | | | | | | | |
| - All costs | | X | | NA | | | X[5] | NA |
| **Depreciation and amortization** | | | | | | | | |
| - All costs | X | | | 3 years | X | | | 3 years |
| **Food, beverage and supplies** | | | | | | | | |
| - Costs from Air Canada | | | | | | | X[3] | |
| - Costs from third parties | X | | | 3 years | | X[3] | | NA |
| **Aircraft maintenance, materials and supplies** | | | | | | | | |
| - All costs | X | | | 3 years | X | | | Annually |
| **Airport and navigation fees** | | X | | NA | | X | | NA |
| **Aircraft rent** | | | | | | | | |
| - Chorus Q400 leased through CPA | X | | | Lease term | X | | | Lease term |
| - Third party operating leases | X | | | 3 years | X | | | 3 years |
| - Air Canada & subsidiary leases to Chorus | X | | | 3 years | X | | | 3 years |
| **Terminal handling services** | | | | | | | | |
| - Ground handling services from Air Canada | X | | | 3 years | | | X[3] | NA |
| - Ground handling from third parties | X | | | 3 years | | X[3] | | NA |
| - De-icing services from Air Canada | | X | | NA | | | X[3] | NA |
| - All others | X | | | 3 years | X | | | Annually |
| **Other** | | | | | | | | |
| - Aircraft parking | X | | | 3 years | | X[3] | | NA |
| - Interrupted trips & baggage delivery | X | | | 3 years | | X[3] | | NA |
| - Station supplies for processing passengers | X | | | 3 years | | X[3] | | NA |
| - Third party facilities | X | | | 3 years | | X[4] | | NA |
| - Air Canada facilities | X | | | 3 years | | | X[3] | NA |
| - All others | X | | | 3 years | X | | | Annually |

(1) Adjusted for schedule efficiency, Block Hours, regulatory changes and pilot flow.
(2) Reset annually, subject to certain conditions.
(3) These costs transitioned in the first quarter of 2015.
(4) These costs transitioned in the second quarter of 2015.
(5) Fuel transition occurred on November 1, 2015.

The following table outlines the impact of these contractual changes in the different operating expense line items.

| (expressed in thousands of Canadian dollars) | Three months ended Dec, 31, 2015 Contractual variances $ | = | Contractual variance: 2014 Controllable Costs no longer billed $ | Contractual variance: 2014 Pass-Through Costs no longer billed $ | Contractual variance: 2014 Controllable Costs moved to Pass-Through Costs $ | Year ended Dec. 31, 2015 Contractual variances $ | = | Contractual variance: 2014 Controllable Costs no longer billed $ | Contractual variance: 2014 Pass-Through Costs no longer billed $ | Contractual variance: 2014 Controllable Costs moved to Pass-Through Costs $ |
|---|---|---|---|---|---|---|---|---|---|---|
| **Expenses** | | | | | | | | | | |
| Aircraft fuel | (49,921) | | — | (49,921) | — | (49,921) | | — | (49,921) | — |
| Food, beverage and supplies | (472) | | (472) | — | — | (1,688) | | (1,688) | — | — |
| Terminal handling services | (13,889) | | (10,959) | (2,930) | — | (55,594) | | (45,939) | (9,655) | — |
| Other | (2,669) | | (1,960) | (709) | — | (10,599) | | (7,740) | (2,859) | — |
| **Total contractual variances** | (66,951) | | (13,391) | (53,560) | — | (117,802) | | (55,367) | (62,435) | — |
| **Summary** | | | | | | | | | | |
| Controllable Costs | (24,330) | | (13,391) | — | (10,939) | (100,876) | | (55,367) | — | (45,509) |
| Pass-Through Costs | (42,621) | | — | (53,560) | 10,939 | (16,926) | | — | (62,435) | 45,509 |
| **Total contractual variances** | (66,951) | | (13,391) | (53,560) | — | (117,802) | | (55,367) | (62,435) | — |

## 3 INTRODUCTION

In this MD&A, references to Chorus or the Company refer, as the context may require, to one or more of Chorus Aviation Inc. and its current and former subsidiaries. Where this MD&A discusses the CPA, references to Chorus are exclusively intended to refer to Jazz Aviation LP ("Jazz").

This MD&A, which presents a discussion of the financial condition and results of operations for Chorus, should be read in conjunction with the accompanying audited consolidated financial statements of Chorus and the notes therein for the years ended December 31, 2015 and 2014. All financial information has been prepared in accordance with GAAP, as set out in the CPA Canada Handbook, except for any financial information specifically denoted otherwise. Except as otherwise noted or where the context may otherwise require, this MD&A is prepared as of February 18, 2016.

The earnings and cash flows of Chorus are affected by certain risks. For a description of those risks, please refer to Section 21 – Risk Factors.

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

### Caution regarding forward-looking information

Certain information in this MD&A may contain statements which are forward-looking statements. These forward-looking statements are 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 statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements relate 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 statements, by their nature, are based on assumptions, including those described below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks relating to Chorus’ relationship with Air Canada, risks relating to the airline industry and including the international operation of airlines in developing countries and areas of unrest, airline leasing, 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), competition, insurance issues and costs, supply issues, war, terrorist attacks, aircraft incidents, epidemic diseases, environmental factors, acts of God, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, the ability of Chorus to secure financing, the ability of Chorus to renew and/or replace existing contracts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, leverage and restructure covenants in future indebtedness, uncertainty of dividend payments, managing growth, changes in laws, adverse regulatory developments or proceedings in countries in which Chorus and its subsidiaries operate or will operate, pending and future litigation and actions by third parties. For a discussion of certain risks, please refer to Section 21 - Risk Factors. Examples of forward-looking information in this MD&A include the description of incremental cash margins anticipated to accrue with respect to the additional Q400s and 19 Dash 8-300s in Section 2 - Capacity Purchase Agreement, the description of deferred cash payments to be made in connection with the acquisition of Voyageur in Section 4 - The Chorus Business, projections for Chorus' pension funding obligations from 2016 to 2020 in Section 10 - Pension Plans, projection contraction obligations and other commitments in Section 11 - Liquidity and Capital Resources, the discussion of the rates payable pursuant to the CPA in Section 15 - Critical Accounting Estimates, and the 2016 outlook discussion in Section 18 - 2016 Outlook. The forward-looking statements contained in this discussion represent Chorus’ expectations as of February 18, 2016 and are subject to change after such date. However, Chorus disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

## 4 THE CHORUS BUSINESS

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

- Cost control (cost savings initiatives) and sustainable cost reduction and efficiencies under the CPA with Air Canada.
- Diversification and growth of Adjusted EBITDA by leveraging Chorus’ aviation expertise.
- Enhance Shareholder value through improved liquidity and payment of dividends.

In Canada, Jazz operates the largest regional airline and the third largest airline, based on passengers carried. Through Jazz's operations, Chorus provides a significant part of Air Canada’s domestic and transborder regional network. Jazz and Air Canada are parties to the CPA under which Air Canada purchases the majority of Jazz’s fleet capacity at pre-determined rates. Under the CPA, Jazz provides service to and from lower density markets, along with higher density markets at off-peak times, throughout Canada and to and from certain destinations in the United States. As at December 31, 2015, Jazz operated scheduled passenger service on behalf of Air Canada with approximately 711 departures per weekday to 56 destinations in Canada and 18 destinations in the United States, using 116 Covered

Aircraft. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and provide valuable traffic feed to Air Canada's mainline routes.

Jazz operates the CPA flights on behalf of Air Canada under the "Air Canada Express" brand. Air Canada is responsible for scheduling, pricing, product distribution, seat inventories, marketing and advertising, and customer service at certain airports staffed or administered directly by Air Canada. Air Canada is entitled to all revenues associated with the operation of the Covered Aircraft (refer to Section 21 - Risk Factors).

Jazz is economically and commercially dependent on Air Canada and one of its subsidiaries as, in addition to being Chorus' primary source of revenue, these entities currently provide services and aircraft to Jazz (refer to Section 14 - Economic Dependence). Jazz is directly affected by the financial and operational strength of Air Canada, its competitive position, and its ability to maintain sufficient liquidity (refer to Section 21 - Risk Factors).

On January 30, 2015, Chorus announced that Jazz's pilots, represented by ALPA, had ratified the tentative agreement reached on January 13, 2015. The term of this collective agreement is 11 years expiring on December 31, 2025. The ratification of this new collective agreement was a condition to establishing the January 1, 2015 Amendment.

In connection with the January 1, 2015 Amendment, Chorus exercised its nine remaining options to purchase new Q400s under its purchase agreement with Bombardier Inc., as represented by Bombardier Aerospace Commercial Aircraft ("Bombardier"), and amended that purchase agreement to add firm orders for four additional Q400s and options for up to ten additional Q400s.

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

On May 1, 2015, Chorus acquired all of the outstanding shares of 519222 Ontario Limited, a holding company that owned Voyageur Airways and its related companies. Headquartered in North Bay, Ontario, Voyageur Airways is a Transport Canada approved air operator, and an integrated provider of specialized aviation services, including contract flying operations both internationally and domestically. Voyageur also provides specialized engineering and maintenance services primarily for regional aircraft. The total consideration for the acquisition is expected to approximate $85.3 million consisting of cash in the amount of $47.0 million paid at closing, and cash of $31.4 million payable over three years which has been recorded at the fair value on the date of acquisition of $29.5 million and 1,457,194 Voting Shares of Chorus valued at $8.8 million, being the fair value of the shares on the date of acquisition issued at closing to the vendor. The portion of the purchase price payable over three years includes contingent consideration in the gross amount of $2.0 million, provided certain performance targets are met in the 24 months following closing and a gross working capital adjustment estimated to be $4.4 million. The remainder of the gross consideration is payable over 36 months from closing and does not bear interest. As a result an amount of $2.0 million, determined to represent the fair value of the interest savings has been recorded as a reduction to the purchase price, calculated as imputed interest. Transaction costs totaling approximately $3.0 million have been incurred during 2014 and 2015 in connection with the acquisition and are included in other expenses. Chorus uses the acquisition method to account for business combinations. As such, the results of operations include revenue and expenses of Voyageur since May 1, 2015.

On June 3, 2015, Chorus announced that Jazz's dispatchers, represented by CALDA, had ratified the tentative agreement reached on May 27, 2015. The term of the agreement expires on December 31, 2025.

On September 23, 2015, Chorus announced that Jazz's flight attendants, represented by CFAU, had ratified the tentative agreement reached on August 27, 2015. The term of the agreement expires on December 31, 2025.

On September 28, 2015, Chorus announced that an agreement had been reached with Air Canada to add ten incremental aircraft to the CPA fleet. These aircraft will be operated under the Air Canada Express brand. On February 18, 2016, Chorus received the first of five 78-seat Q400s. The remaining four 78-seat Q400s and five 75-seat CRJ705s are anticipated to be delivered in 2016 and early 2017, respectively, and will operate as Covered Aircraft until 2025. It is anticipated that the addition of these larger gauge aircraft will reduce Unit Costs and increase Chorus' market competitiveness. The five incremental Q400s will be acquired by Air Canada under operating leases and will be subleased to Jazz for CPA operations. Sourcing for the CRJ705s has not yet been finalized.

During 2015 pursuant to its purchase agreement with Bombardier Inc. for Q400s, Chorus took delivery of six new Q400s and financed each of those acquisitions with EDC Financing (refer to Section 11 - Liquidity and Capital Resources).

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

On January 1, 2016, 519222 Ontario Limited and its subsidiaries were re-organized into three entities. Voyageur Aviation Corp. became the parent company for the group and provides common support services to its subsidiaries. Voyageur Aviation Corp. 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.

On January 28, 2016, Chorus announced that a new tentative agreement had been reached with its maintenance and engineering employees represented by Unifor. The agreement is subject to a ratification vote by union members.

## 5 FOURTH QUARTER ANALYSIS

**Revenue**

| | Three months ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **Change** |
| (expressed in thousands of Canadian dollars) | **$** | **$** | **$** |
| Controllable Revenue | 201,957 | 215,191 | (13,234) |
| Aircraft leasing revenue under the CPA | 19,881 | 14,649 | 5,232 |
| Fixed Margin and Infrastructure Fee per Covered Aircraft | 27,417 | — | 27,417 |
| Mark-up, including Compensating Mark-Up | — | 28,390 | (28,390) |
| Incentive revenue | 5,642 | 5,746 | (104) |
| CPA Pass-Through Revenue | 84,688 | 133,413 | (48,725) |
| Charter and other contract flying revenue | 9,970 | 1,227 | 8,743 |
| Passenger revenue | 349,555 | 398,616 | (49,061) |
| Other revenue | 7,813 | 2,682 | 5,131 |
| | 357,368 | 401,298 | (43,930) |

Operating revenue decreased from $401.3 million to $357.4 million, representing a decrease of $43.9 million or 10.9%. For CPA contractual variances refer to the table in Section 2- Capacity Purchase Agreement

### Controllable Revenue

Controllable Revenue decreased by $13.2 million or 6.1%. Certain items provided to Chorus by Air Canada, such as ground handling at major hubs and facilities have been removed from Controllable Revenue. Other items, such as third party ground handling services and catering and commissary, have been re-classified as Pass-Through Costs and removed from Controllable Revenue. The Controllable Revenue reduction related to these changes was $24.3 million. As well, rate decreases under the CPA resulted in a $1.3 million decrease in the quarter and decreased CPA Billable Block Hours accounted for a $0.1 million decline in Controllable Revenue. These decreases were offset by a change in the US dollar exchange rate which resulted in a $12.5 million increase in the quarter.

### Aircraft leasing revenue under the CPA

Aircraft leasing revenue under the CPA increased by $5.2 million. The increase was related to a change in the US dollar exchange rate of $2.6 million and additional Q400s added in the fourth quarter of 2015 of $2.6 million. Aircraft leasing revenue under the CPA is generated from the Q400s and Q400 engines owned by Jazz Leasing Inc. and leased to Jazz. The Q400s leasing revenue under the CPA is reflected in revenue, and is designed to provide compensation to Chorus based on market lease rates.

### Fixed Margin and Infrastructure Fee per Covered Aircraft and mark-up, including Compensating Mark-Up

Under the CPA, as amended by the January 1, 2015 Amendment, Chorus' compensation changed from a mark-up on Controllable Cost rates to a fixed fee arrangement. The mark-up and Compensating Mark-Up concepts have been eliminated. Based on the fleet plan agreed to as of the January 1, 2015 Amendment, compensation for 2015 was contractually set at $109.7 million annually, or $27.4 million quarterly.

In 2014, the Compensating Mark-Up formula contained in the CPA was applied and the Controllable Mark-Up was increased to compensate Chorus for reduced operating margin and increased Unit Costs resulting from the reduced Block Hours. As a result, Chorus recorded $1.2 million in Compensating Mark-Up in the fourth quarter of 2014 as an increase in operating revenue.

### Incentive revenue

Incentives earned under the CPA decreased $0.1 million or 1.8%. For the three months ended December 31, 2015, Chorus earned $5.6 million (2014 - $5.7 million) in performance incentives, or 96.7% (2014 - 96.5%) of the maximum available under the CPA as amended by the January 1, 2015 Amendment.

### CPA Pass-Through Revenue

Pass-Through Revenue decreased by $48.7 million or 36.5%, from $133.4 million to $84.7 million. Compensation for aircraft fuel (effective November 1, 2015), deicing and certain other costs provided to Chorus by Air Canada are no longer billed. Other costs, such as third party ground handling services and catering and commissary, have been re-classified to Pass-Through Costs and removed from Controllable Costs. These changes decreased Pass-Through Revenue by $42.6 million. In addition a decline in jet fuel prices prior to the transition on November 1, 2015 decreased Pass-Through Revenue by $7.9 million. These decreases were offset by a change in the US dollar exchange rate which resulted in a $1.5 million increase in the quarter.

### Charter and other contract flying revenue

Charter and other contract flying revenue increased by $8.7 million. New contract revenue from the Voyageur operation accounted for $9.4 million; offset by decreased Jazz charter revenue of $0.7 million.

### Other revenue

Other revenue increased by $5.1 million primarily related to new revenue from the Voyageur operation, which includes leasing and maintenance repair and overhaul.

### Expenses

| (expressed in thousands of Canadian dollars) | Three months ended December 31, 2015 $ | 2014 $ | Change $ |
|---|---|---|---|
| Operating expenses | | | |
| Salaries, wages and benefits | 107,199 | 99,231 | 7,968 |
| Aircraft fuel | 22,782 | 79,945 | (57,163) |
| Depreciation and amortization | 17,647 | 16,839 | 808 |
| Food, beverage and supplies | 2,977 | 4,249 | (1,272) |
| Aircraft maintenance materials, supplies and services | 43,420 | 45,023 | (1,603) |
| Airport and navigation fees | 43,543 | 41,490 | 2,053 |
| Aircraft rent | 25,391 | 23,816 | 1,575 |
| Terminal handling services | 14,045 | 28,984 | (14,939) |
| Other | 33,903 | 28,737 | 5,166 |
| | 310,907 | 368,314 | (57,407) |

Operating expenses decreased from $368.3 million to $310.9 million, a decrease of $57.4 million. Under the CPA as amended by the January 1, 2015 Amendment, certain items provided to Chorus by Air Canada, such as ground handling services, facilities, deicing and effective November 1, 2015 aircraft fuel are no longer billed. These costs were $nil in the period compared to $67.0 million for the same period last year. Additional information regarding operating expenses is provided below. For CPA contractual variances refer to the table in Section 2 - Capacity Purchase Agreement

### Salaries, wages and benefits

| (expressed in thousands of Canadian dollars) | Three months ended December 31, 2015 $ | 2014 $ | Change $ |
|---|---|---|---|
| Adjusted salaries, wages and benefits | 105,766 | 96,712 | 9,054 |
| Stock-based compensation | 2,777 | 2,468 | 309 |
| Employee separation program costs | 1,578 | 1,325 | 253 |
| Capitalized major maintenance overhaul labour | (2,922) | (1,274) | (1,648) |
| | 107,199 | 99,231 | 7,968 |

Salaries, wages and benefits increased by $8.0 million from $99.2 million to $107.2 million. Adjusted salaries, wages and benefits increased $9.1 million primarily as a result of the Voyageur operation and increased pension costs. Stock-based compensation increased primarily as a result of fluctuations in Chorus' share price. Employee separation program costs paid during the quarter were $1.6 million compared to $1.3 million in the same period of 2014. Salaries and wages were also affected by more labour costs being capitalized on owned aircraft for major maintenance overhauls of $1.6 million, on a period-over-period comparison.

### Aircraft fuel

Aircraft fuel cost decreased by $57.2 million from $79.9 million to $22.8 million. Costs for aircraft fuel provided to Chorus by Air Canada are no longer billed effective November 1, 2015. These Air Canada costs were $nil in November and December compared to $49.9 million for the same period in 2014. The remaining decrease was primarily attributable to a decline in jet fuel prices for the month of October which accounted for approximately $7.9 million. These decreases were offset by increases related to the Voyageur operation of $0.6 million.

### Depreciation and amortization

Depreciation and amortization expense increased by $0.8 million from $16.8 million to $17.6 million. Depreciation expenses related to Voyageur were $3.3 million and the purchase of additional aircraft during 2015 accounted for $1.0 million. As well, depreciation associated with capitalized major maintenance overhauls increased depreciation expense by $0.5 million and new finance leases accounted for $0.3 million. During the three months ended March 31, 2015, Chorus reviewed the estimated useful economic lives and residual values of certain owned aircraft and flight equipment. As a result, the expected estimated useful lives of these assets have been extended. The change in estimate reduced depreciation expense by approximately $4.3 million in the quarter.

### Food, beverage and supplies

Food, beverage and supplies decreased by $1.3 million from $4.2 million to $3.0 million. Costs for certain services provided to Chorus by Air Canada are no longer billed. These Air Canada costs were $nil in the period compared to $0.5 million for the same period last year. Chorus negotiated new contracts in late 2014 for catering and commissary services which resulted in decreased costs of $0.5 million. The remaining difference resulted from decreased activity.

### Aircraft maintenance materials, supplies and services

Aircraft maintenance expense decreased by $1.6 million from $45.0 million to $43.4 million. The Voyageur operation accounted for a $3.3 million decrease (includes $6.1 million related to the return of previously expensed maintenance reserve deposits associated with the purchase of five CRJ200s which were previously under operating lease by Voyageur). In addition, other maintenance costs decreased by $4.3 million and more maintenance costs being capitalized as a result of increased major maintenance overhauls accounted for a $1.1 million decrease. These decreases were offset by a change in the US dollar exchange rate on certain maintenance material purchases which accounted for a $5.5 million increase and increased engine overhauls which accounted for $1.6 million.

### Airport and navigation fees

Airport and navigation fees increased by $2.1 million from $41.5 million to $43.5 million. The increase related to rate changes as a result of changes in aircraft deployment and rate increases at certain airports.

### Aircraft rent

Aircraft rent increased by $1.6 million from $23.8 million to $25.4 million. The increase was mainly due to a change in the US dollar exchange rate and the Voyageur operation. These increases were offset by the return of four CRJ200s in the quarter.

### Terminal handling services

Terminal handling costs decreased by $14.9 million from $29.0 million to $14.0 million. Costs for certain services provided to Chorus by Air Canada, such as ground handling and deicing at major hubs are no longer billed. These Air Canada costs were $nil in the period compared to $13.9 million for the same period last year. In addition, deicing costs decreased by $0.6 million and decreased flying activity accounted for $0.4 million.

### Other

Other expenses increased by $5.2 million from $28.7 million to $33.9 million. The increase was due to increased costs from the Voyageur operation of $3.5 million, increased crew costs related to training and travel of $2.4 million, and general overhead increases of $2.0 million. Costs for certain services provided to Chorus by Air Canada, such as facilities at major hubs are no longer billed. These Air Canada costs were $nil in the period compared to $2.7 million for the same period last year.

### Non-operating income (expenses)

| | Three months ended December 31, | | |
|---|---|---|---|
| (expressed in thousands of Canadian dollars) | 2015<br>$ | 2014<br>$ | Change<br>$ |
| Non-operating income (expenses) | | | |
| Net interest expense | (4,442) | (3,058) | (1,384) |
| Gain on disposal of property and equipment | 4 | 42 | (38) |
| Foreign exchange loss | (18,617) | (10,564) | (8,053) |
| Other | 258 | — | 258 |
| | (22,797) | (13,580) | (9,217) |

Non-operating expenses increased by $9.2 million from $13.6 million to $22.8 million.

Net interest expense increased by $1.4 million. Interest expense related to long-term debt increased by $0.9 million due to a change in the US dollar exchange rate and $0.3 million related to interest on consideration payable.

The weakening of the Canadian dollar for the three months ended December 31, 2015 contributed to a foreign exchange loss of $18.6 million, compared to a foreign exchange loss of $10.6 million in the previous year. The US dollar exchange rate at December 31, 2015 was $1.3840 while the US dollar exchange rate at September 30, 2015 was $1.3345. The US dollar exchange rate at December 31, 2014 was $1.1601 while the US dollar exchange rate at September 30, 2014 was $1.1200. These rates are based on the closing day rate from the Bank of Canada.

## 6 YEAR-TO-DATE ANALYSIS

**Revenue**

| (expressed in thousands of Canadian dollars) | Year ended December 31, 2015 $ | 2014 $ | Change $ |
|---|---|---|---|
| Controllable Revenue | 805,886 | 867,149 | (61,263) |
| Aircraft leasing under the CPA | 68,750 | 56,944 | 11,806 |
| Fixed Margin and Infrastructure Fee per Covered Aircraft | 109,657 | — | 109,657 |
| Mark-up, including Compensating Mark-Up | — | 116,958 | (116,958) |
| Incentive revenue | 21,704 | 22,583 | (879) |
| CPA Pass-Through Revenue | 476,666 | 582,121 | (105,455) |
| Charter and other contract flying revenue | 34,702 | 7,961 | 26,741 |
| Passenger revenue | 1,517,365 | 1,653,716 | (136,351) |
| Other revenue | 27,316 | 12,575 | 14,741 |
| | 1,544,681 | 1,666,291 | (121,610) |

Operating revenue decreased from $1,666.3 million to $1,544.7 million, representing a decrease of $121.6 million or 7.3%. For CPA contractual variances, refer to the table in Section 2 - Capacity Purchase Agreement

**Controllable Revenue**

Controllable Revenue decreased by $61.3 million or 7.1%. Certain items provided to Chorus by Air Canada, such as ground handling at major hubs and facilities, have been removed from Controllable Revenue. Other items, such as third party ground handling services and catering and commissary, have been re-classified as Pass-Through Costs. The Controllable Revenue reduction related to these changes was $100.9 million. In addition, decreased Billable Block Hours accounted for a $5.4 million reduction in Controllable Revenue. These decreases were offset by a change in the US dollar exchange rate which resulted in a $43.8 million increase in the year and rate increases under the CPA accounted for approximately $1.2 million.

**Aircraft leasing revenue under the CPA**

Aircraft leasing revenue under the CPA increased by $11.8 million. This increase was related to a change in the US dollar exchange rate of $9.2 million and additional Q400s added in the fourth quarter of 2015 of $2.6 million. Aircraft leasing revenue under the CPA is generated from the Q400s and Q400 engines owned by Jazz Leasing Inc. and leased to Jazz. The Q400s leasing revenue under the CPA is reflected in revenue, and is designed to provide compensation to Chorus based on market lease rates.

**Fixed Margin and Infrastructure Fee per Covered Aircraft and mark-up, including Compensating Mark-Up**

Under the CPA, as amended by the January 1, 2015 Amendment, Chorus' compensation changed from a mark-up on Controllable Cost rates to a fixed fee arrangement. The mark-up and Compensating Mark-Up concepts have been eliminated. Based on the fleet plan agreed to as of the January 1, 2015 Amendment, compensation for 2015 was contractually set at $109.7 million annually, or $27.4 million quarterly.

In 2014, the Compensating Mark-Up formula contained in the CPA was applied and the Controllable Mark-Up was increased to compensate Chorus for reduced operating margin and increased Unit Costs resulting from the reduced

Block Hours. As a result, Chorus recorded $5.0 million in Compensating Mark-Up in 2014 as an increase in operating revenue.

**Incentive revenue**

Incentives earned under the CPA decreased $0.9 million or 3.9%. For the year ended December 31, 2015, Chorus earned $21.7 million (2014 - $22.6 million) in performance incentives, or 93.0% (2014 - 92.9%) of the maximum available under the CPA as amended by the January 1, 2015 Amendment.

**CPA Pass-Through Revenue**

Pass-Through Revenue decreased by $105.5 million or 18.1%, from $582.1 million to $476.7 million. Compensation for aircraft fuel (effective November 1, 2015), deicing and certain other costs provided to Chorus by Air Canada are no longer billed. Other costs, such as third party ground handling services and catering and commissary, have been re-classified to Pass-Through Costs and removed from Controllable Costs. These changes decreased Pass-Through Revenue by $16.9 million. In addition, a decline in jet fuel prices, prior to the transition on November 1, 2015, decreased Pass-Through Revenue by $92.1 million. These decreases were offset by a change in the US dollar exchange which rate resulted in a $7.9 million increase in the year.

**Charter and other contract flying revenue**

Charter and other contract flying revenue increased $26.7 million. New contract flying revenue from the Voyageur operation accounted for $29.6 million; offset by decreased Jazz charter revenue of $2.8 million.

**Other revenue**

Other revenue increased by $14.7 million primarily related to new revenue from the Voyageur operation which includes leasing and maintenance repair and overhaul.

**Expenses**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | Change |
| (expressed in thousands of Canadian dollars) | $ | $ | $ |
| Operating expenses | | | |
| Salaries, wages and benefits | 435,521 | 410,401 | 25,120 |
| Aircraft fuel | 228,557 | 372,345 | (143,788) |
| Depreciation and amortization | 59,745 | 66,057 | (6,312) |
| Food, beverage and supplies | 12,082 | 17,692 | (5,610) |
| Aircraft maintenance materials, supplies and services | 197,258 | 169,288 | 27,970 |
| Airport and navigation fees | 174,371 | 168,550 | 5,821 |
| Aircraft rent | 103,308 | 93,350 | 9,958 |
| Terminal handling services | 57,018 | 109,184 | (52,166) |
| Other | 127,324 | 121,523 | 5,801 |
| | 1,395,184 | 1,528,390 | (133,206) |

Operating expenses decreased from $1,528.4 million to $1,395.2 million, a decrease of $133.2 million or 8.7%. Under the CPA, as amended by the January 1, 2015 Amendment, certain items provided to Chorus by Air Canada, such as ground handling services, facilities, deicing and effective November 1, 2015 aircraft fuel are no longer billed. These

Air Canada costs were $nil in the period compared to $117.8 million for the same period last year. Additional information regarding operating expenses is provided below. For CPA contractual variances, refer to the table in Section 2 - Capacity Purchase Agreement

**Salaries, wages and benefits**

| (expressed in thousands of Canadian dollars) | Year ended December 31, 2015 $ | 2014 $ | Change $ |
|---|---|---|---|
| Adjusted salaries, wages and benefits | 417,121 | 397,165 | 19,956 |
| One-time signing bonuses | 13,500 | — | 13,500 |
| Stock-based compensation | 12,368 | 8,929 | 3,439 |
| Employee separation program costs | 3,454 | 11,942 | (8,488) |
| Capitalized major maintenance overhaul labour | (10,922) | (7,635) | (3,287) |
| | 435,521 | 410,401 | 25,120 |

Salaries, wages and benefits increased by $25.1 million from $410.4 million to $435.5 million. Adjusted salaries, wages and benefits increased by $20.0 million as a result of the Voyageur operation and increased pension costs. As part of the newly ratified collective agreements with ALPA and CFAU, Chorus incurred a $13.5 million one-time payment in 2015. Stock-based compensation increased primarily as a result of Chorus' increased share price. Employee separation program costs paid during the year were $3.5 million compared to $11.9 million from the same period of 2014. Salaries and wages were also affected by more labour costs being capitalized on owned aircraft for major maintenance overhauls of $3.3 million on a year-over-year comparison.

**Aircraft fuel**

Aircraft fuel costs decreased by $143.8 million from $372.3 million to $228.6 million. Effective November 1, 2015, costs for aircraft fuel provided to Chorus by Air Canada are no longer billed. These Air Canada costs were $nil in November and December compared to $49.9 million for the same period last year. The remaining decrease was primarily attributable to a decline in jet fuel prices which accounted for approximately $92.1 million, and a decrease in the volume of fuel consumed due to decreased CPA Block Hours, which accounted for $3.4 million. These decreases were offset by increases related to the Voyageur operation of $1.6 million.

**Depreciation and amortization**

Depreciation and amortization expense decreased by $6.3 million from $66.1 million to $59.7 million. During the three months ended March 31, 2015, Chorus reviewed the estimated useful economic lives and residual values of certain owned aircraft and flight equipment. As a result, the expected estimated useful lives of these assets have been extended. The change in estimate reduced depreciation expense for the year ended December 31, 2015 by approximately $15.5 million, compared to 2014. In addition, other depreciation reductions accounted for $1.2 million. These decreases were offset by increased depreciation related to the Voyageur operation of $8.7 million, the purchase of additional aircraft in 2015 for $1.0 million and new finance leases of $0.3 million. Also, depreciation associated with capitalized major maintenance overhauls increased depreciation expense by $0.4 million.

**Food, beverage and supplies**

Food, beverage and supplies decreased by $5.6 million from $17.7 million to $12.1 million. Certain food services provided to Chorus by Air Canada are no longer billed. These Air Canada costs were $nil for the year ended December 31, 2015 compared to $1.7 million in 2014. Chorus negotiated new contracts in late 2014 for catering and commissary services which resulted in decreased costs of $2.9 million. The remaining difference resulted from decreased activity.

**Aircraft maintenance materials, supplies and services**

Aircraft maintenance expense increased by $28.0 million from $169.3 million to $197.3 million. A change in the US dollar exchange rate on certain maintenance material purchases accounted for a $22.7 million increase, increased engine overhauls accounted for $6.9 million and the Voyageur operation accounted for $3.5 million (includes $6.1 million related to the return of previously expensed maintenance reserve deposits associated with the purchase of five CRJ200s which were previously under operating lease by Voyageur). These increases were offset by decreased Block Hours which accounted for $1.2 million, more maintenance costs being capitalized as a result of increased major maintenance overhauls accounted for a $3.1 million decrease and other maintenance costs accounted for $0.8 million.

**Airport and navigation fees**

Airport and navigation fees increased by $5.8 million from $168.6 million to $174.4 million. The increase related to rate changes as a result of changes in aircraft deployment and rate increases at certain airports.

**Aircraft rent**

Aircraft rent increased by $10.0 million from $93.4 million to $103.3 million. The increase was mainly due to a change in the US dollar exchange rate and increased costs related to the Voyageur operation. These increases were offset by the return of five CRJ200s in 2015.

**Terminal handling services**

Terminal handling costs decreased by $52.2 million from $109.2 million to $57.0 million. Ground handling and deicing provided to Chorus by Air Canada at the major hubs, are no longer billed. These Air Canada costs were $nil for the year ended December 31, 2015 compared to $55.6 million in 2014. Also, decreased flying activity accounted for $1.3 million. These decreases were offset by increased deicing costs of $0.7 million and increased rates as a result of changes in aircraft deployment of $1.1 million. In addition, the outsourcing of passenger handling services resulted in an increase of $2.9 million.

**Other**

Other expenses increased by $5.8 million from $121.5 million to $127.3 million. The increase was due to increased costs from the Voyageur operation of $9.6 million and increased crew costs related to training and travel of $5.5 million, and general overhead increases of $1.3 million. Offsetting these increases were costs for certain services provided to Chorus by Air Canada that are no longer billed. These Air Canada costs were $nil for the year ended December 31, 2015 compared to $10.6 million in 2014.

**Non-operating income (expenses)**

| | Year ended December 31, | | |
|---|---|---|---|
| (expressed in thousands of Canadian dollars) | 2015<br>$ | 2014<br>$ | Change<br>$ |
| Non-operating income (expenses) | | | |
| Net interest expense | (15,014) | (15,748) | 734 |
| Gain on disposal of property and equipment | 186 | 249 | (63) |
| Foreign exchange loss | (74,336) | (28,384) | (45,952) |
| Other | 758 | 500 | 258 |
| | (88,406) | (43,383) | (45,023) |

Non-operating expense increased by $45.0 million from $43.4 million to $88.4 million.

In 2014, Chorus redeemed all of the Debentures, which accounted for a decrease in interest expense of $3.2 million for the year ended December 31, 2015. Interest expense related to long-term debt increased by $1.4 million related to a change in the US dollar exchange rate for the year ended December 31, 2015. In addition, interest expense increased by $0.7 million related to interest on consideration payable.

The weakening of the Canadian dollar for the year ended December 31, 2015 contributed to a foreign exchange loss of $74.3 million, compared to a foreign exchange loss of $28.4 million in the previous year. The US dollar exchange rate at December 31, 2015 was $1.3840 while the US dollar exchange rate at December 31, 2014 was $1.1601. The US dollar exchange rate at December 31, 2014 was $1.1601 while the US dollar exchange rate at December 31, 2013 was $1.0636. These rates are based on the closing day rate from the Bank of Canada.

## 7 FLEET

The following table provides the total number of aircraft in Chorus' fleet as at December 31, 2015 and December 31, 2014.

| Aircraft | December 31, 2014 | 2015 Fleet Changes | | December 31, 2015 |
|---|---|---|---|---|
| | | Additions | Removals | |
| **Regional Jets** | | | | |
| CRJ200s | 26 | 7 | (5) | 28 |
| CRJ705s | 16 | — | — | 16 |
| **Turboprop Aircraft** | | | | |
| King Air 100s | — | 2 | — | 2 |
| King Air 200s | — | 1 | — | 1 |
| Dash 7-100s | — | 2 | — | 2 |
| Dash 8-100s | 34 | — | — | 34 |
| Dash 8-300s | 28 | 6 | — | 34 |
| Q400s | 21 | 6 | — | 27 |
| | 125 | 24 | (5) | 144 |

As at December 31, 2015, Chorus' fleet included 116 Covered Aircraft under the CPA (excludes the new Q400 acquired on December 31, 2015 as this aircraft was not in operation as at December 31, 2015), 17 aircraft operated by Voyageur Airways and five aircraft utilized for Jazz charter services.

On January 15, 2016, Chorus returned a CRJ200 to the lessor. A further CRJ200 was returned on January 29, 2016. These two aircraft are included in the table above.

## 8 SUMMARY OF FINANCIAL RESULTS

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

| | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 |
|---|---|---|---|---|---|---|---|---|
| **Chorus** | | | | | | | | |
| Total revenue ($000) | 357,368 | 412,157 | 400,055 | 375,101 | 401,298 | 432,576 | 417,836 | 414,581 |
| Net income (loss) ($000) | 12,512 | 6,320 | 31,411 | (24,756) | 11,338 | 11,252 | 36,498 | 5,622 |
| Adjusted net income(1) ($000) | 32,137 | 31,443 | 23,834 | 8,921 | 23,697 | 29,004 | 22,197 | 20,334 |
| Adjusted net income(1), excluding other items ($000) | 33,715 | 35,199 | 25,454 | 21,000 | 25,022 | 32,281 | 26,698 | 23,173 |
| Adjusted EBITDA(1) ($000) | 64,108 | 65,079 | 52,064 | 27,991 | 49,823 | 56,153 | 50,663 | 47,319 |
| Adjusted EBITDA(1), excluding other items ($000) | 65,686 | 68,835 | 53,684 | 40,070 | 51,148 | 59,430 | 55,164 | 50,158 |
| Net income (loss) per Share, basic ($) | 0.10 | 0.05 | 0.26 | (0.21) | 0.09 | 0.09 | 0.30 | 0.05 |
| Net income (loss) per Share, diluted ($) | 0.10 | 0.05 | 0.25 | (0.21) | 0.09 | 0.09 | 0.29 | 0.05 |
| Adjusted net income(1) per Share, basic ($) | 0.26 | 0.26 | 0.20 | 0.07 | 0.20 | 0.24 | 0.18 | 0.17 |
| Adjusted net income(1), excluding other items per Share - basic ($) | 0.28 | 0.29 | 0.21 | 0.17 | 0.21 | 0.27 | 0.22 | 0.19 |
| FTE employees (end of period)(2) | 4,445 | 4,473 | 4,467 | 4,132 | 4,130 | 4,216 | 4,320 | 4,344 |
| Number of Aircraft (end of period)(3) | 144 | 143 | 141 | 125 | 125 | 125 | 125 | 125 |
| **Jazz** | | | | | | | | |
| Departures | 61,650 | 68,842 | 65,190 | 59,983 | 62,535 | 68,532 | 65,539 | 61,912 |
| Block Hours | 87,617 | 97,135 | 90,362 | 85,691 | 87,957 | 96,168 | 91,032 | 89,088 |
| Billable Block Hours | 89,365 | 98,209 | 91,559 | 89,104 | 89,674 | 96,776 | 91,770 | 92,643 |
| Number of Covered Aircraft (end of period) | 116 | 120 | 120 | 122 | 122 | 122 | 122 | 122 |

(1) This is a non-GAAP measurement. Refer to Section 20 – Non-GAAP Financial Measures.
(2) Includes FTEs for Voyageur Airways as follows: Q4 2015 - 266; Q3 2015 - 273 and Q2 2015 - 283.
(3) In Q4, Q3 and Q2 2015, number includes 17 aircraft for Voyageur Airways and five aircraft for Jazz charter.

Under the CPA, Chorus 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. The operations of Voyageur are not generally affected by seasonality. Seasonality also has little effect on the other lines of business operated by Chorus. The Company has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Chorus' revenues do not fluctuate significantly with passenger load factors.

## 9 SELECTED ANNUAL INFORMATION

The following table provides selected annual information for Chorus for the years 2013 through to 2015.

| | Year ended December 31, | | |
|---|---|---|---|
| (expressed in thousands of Canadian dollars, except per Share amounts) | 2015<br>$ | 2014<br>$ | 2013<br>$ |
| **Revenue** | 1,544,681 | 1,666,291 | 1,672,060 |
| **Operating income** | 149,497 | 137,901 | 124,262 |
| **Net income** | 25,487 | 64,710 | 61,866 |
| **Cash** | 32,677 | 114,578 | 159,901 |
| **Total assets** | 1,107,339 | 903,343 | 976,925 |
| **Total long-term liabilities** | 730,294 | 508,363 | 454,842 |
| **Dividends declared** | 57,814 | 54,454 | 50,880 |
| **Cash provided by operating activities** | 138,914 | 202,769 | 160,617 |
| **Per Share** | | | |
| Operating income | 1.23 | 1.14 | 1.01 |
| Net income, basic | 0.21 | 0.53 | 0.50 |
| Net income, diluted | 0.20 | 0.52 | 0.50 |
| Dividends declared | 0.48 | 0.45 | 0.41 |

**2015 Compared to 2014**

The 2015 results compared to the 2014 results are discussed throughout this MD&A.

Revenue decreased mainly as a result of changes related to the January 1, 2015 Amendment. Certain items provided to Chorus by Air Canada, such as ground handling at major hubs, facilities and effective November 1, 2015 aircraft fuel, are no longer billed and as such, they have been removed from revenue. As well, a reduction in Billable Block Hours contributed to a decrease. These decreases were partially offset by increased revenue related to the Voyageur operation.

Operating income increased mainly as a result of the Voyageur operation and increased leasing revenue under the CPA primarily related to a change in the foreign exchange rate. These increases were offset by a one-time payment as part of the newly ratified collective agreements with ALPA and CFAU.

Net income decreased primarily related to a foreign exchange loss due to a change in the foreign exchange rate.

Cash decreased primarily as a result of the acquisition of Voyageur on May 1, 2015, the purchase of aircraft (see next paragraph for further detail) and deposits made for new Q400s and the ESP.

Total assets increased as a result of the Voyageur acquisition as well as the purchase of aircraft (which consisted of five Dash 8-100s, two Dash 8-300s, one King Air 200, five CRJ200s and six Q400s). This increase was offset by decreased cash as discussed above.

Total long-term liabilities increased as a result of the Voyageur acquisition, new long-term borrowing related to the acquisition of Q400s, new finance leases and a change in the foreign exchange rate on long-term debt.

**2014 Compared to 2013**

Revenue decreased as a result of a reduction in Billable Block Hours and Pass-Through Revenue. These decreases were offset by rate increases pursuant to the CPA, a change in the US dollar exchange rate, increased aircraft leasing under the CPA, and increased CPA compensation.  These increases in revenue were the main factors contributing to the rise in operating income and net income.

Cash decreased as a result of the redemption of the Debentures, deposits made for additional Q400s, and the repurchase of Shares under the normal course issuer bid ("NCIB").  These decreases were offset by positive cash flows from operations.

At December 31, 2014, the pilot defined benefit pension plan was in a liability position versus an asset position at December 31, 2013.  This was primarily as a result of a decrease in the applicable discount rate.

Total assets decreased as a result of decreased cash, decreased accounts receivable and decreased other assets, which reflects the change in the pilot defined benefit pension plan.

Total long-term liabilities increased as a result of the change mentioned above regarding the pilot defined benefit pension plan.

## 10 PENSION PLANS

**Projected pension funding obligations**

The table below provides projections for Chorus' pension funding obligations from 2016 to 2020:

| (expressed in thousands of Canadian dollars) | 2016<br>$ | 2017<br>$ | 2018<br>$ | 2019<br>$ | 2020<br>$ |
|---|---|---|---|---|---|
| Defined benefit pension plans, current service | 27,000 | 24,300 | 21,000 | 18,000 | 16,900 |
| Defined benefit pension plan, past service | 9,200 | 9,200 | 9,200 | 9,200 | 9,200 |
| Defined contribution pension plans | 12,300 | 12,000 | 13,200 | 14,100 | 14,800 |
| Projected pension funding obligations | 48,500 | 45,500 | 43,400 | 41,300 | 40,900 |

The estimated pension funding obligations shown in the above table are in respect of the defined benefit and defined contribution pension plans sponsored by Chorus.  Defined benefit pension plans include the Jazz pilots' registered defined benefit pension plan ("Pilot DB Plan") as well as an unregistered defined benefit supplemental executive retirement plan ("SERP DB Plan") that Chorus sponsors for eligible employees. Defined contribution pension plans include a number of defined contribution pension arrangements that Chorus contributes to for its eligible employees.

The funding requirements for the Pilot DB Plan are based on the January 1, 2015 financial position of the plan for funding purposes and an estimate of the pilot payroll over the projection period. The estimated funding requirements for the SERP DB Plan are based on a funding policy adopted by Chorus and the January 1, 2015 financial position of the plan for funding purposes.

The solvency deficiency for the Pilot DB Plan as at January 1, 2015 was $50.3 million. The January 1, 2015 financial position of the Pilot DB Plan for funding purposes applies an average of the solvency ratio over a three year period. The actual funding obligation for 2016 will be determined based on the January 1, 2016 valuation which will be completed in the first half of 2016. Several factors may impact required contributions, including regulatory developments, assumptions and methods used and changes in the economic conditions, the return on fund assets and changes in interest rates. There can be no assurance that required contributions will be in line with preliminary estimates provided. These funding projections are updated annually.

The foregoing contains forward-looking information and actual pension funding obligations may vary. These projections are based on certain assumptions including actuarial determinations, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees, and are subject to certain risks including changes in economic conditions, investment returns generated by the plan assets and interest rates, each of which may impact the financial position of the pension plans sponsored by Chorus and future required contributions. Please refer to Section 3 - Introduction, “Caution regarding forward-looking information”, Section 15 - Critical Accounting Estimates, and Section 21 - Risk Factors for further risks related to this forward-looking information. The current estimated pension funding obligations differ from previous estimates as a result of, among other things, the factors listed above.

## 11 LIQUIDITY AND CAPITAL RESOURCES

Chorus continues to generate positive operating income and cash flows from operations. At December 31, 2015, Chorus had $32.7 million in cash and $1.8 million of restricted cash (letters of credit), for a total of $34.5 million, a decrease of $83.3 million from December 31, 2014. This decrease is primarily attributable to the net cash consideration of $45.5 million ($47.0 million used at closing, net of $1.5 million available at Voyageur covering the performance obligation assumed on acquisition related to the deferred revenue recognized on certain contracts) used in connection with the acquisition of Voyageur on May 1, 2015, deposits made for additional Q400s and the ESP of $26.2 million, and the purchase of additional aircraft of $40.6 million.

Chorus' current liquidity needs are primarily related to meeting obligations associated with the following: planned capital expenditures, including acquisitions for purposes of business diversification, ongoing operations, covenants in aircraft and engine financing agreements, repayment and interest costs related to long-term debt and generating sufficient cash flow to fund dividends (which are declared at the discretion of the Board of Directors).

The airline business is capital intensive and highly sensitive to uncertain external circumstances (refer to Section 3 - Introduction, "Caution regarding forward-looking information" and Section 21 - Risk Factors). As a result, Chorus' main objectives when managing capital are to provide a strong capital base to maintain Shareholder, creditor and market confidence and to sustain future development of the business. Chorus manages its capital structure and makes adjustments to it in light of changes in economic conditions and Chorus' risk profile.

Cash balances are monitored daily and fluctuations are primarily tied to the CPA payment schedule. The CPA payment schedule allows for a gradual draw-down of cash throughout the month and funds are refreshed in two payment tranches. The January 1, 2015 Amendment resulted in some expenses moving to Pass-Through Costs that were previously Controllable Costs and some costs now being borne by Air Canada. As a result, there was an impact on timing of payments by Air Canada. Controllable Revenue is still paid in advance on the first business day of the month. Pass-Through Revenue is now paid on the 23rd of the month or the business day prior, if the 23rd is a non-business day. Revenue associated with fuel has been eliminated with Air Canada now paying for all CPA fuel directly. The reconciliation of Controllable Revenue continues to be paid on the 30th of the month or the business day prior, if the 30th is a non-business day. This payment timing means that Chorus typically has its highest cash balances at the beginning of the month and the lowest cash balance is the end of the month. Fuel was transitioned to Air Canada on November 1, 2015. This change does not adversely impact Chorus' cash flow and minimum cash positions.

**Sources and uses of cash**

The following table provides information on Chorus' cash flows for the three months and year ended December 31, 2015 and December 31, 2014.

| (expressed in thousands of Canadian dollars) | Three months ended December 31, 2015 $ | 2014 $ | Change $ | Year ended December 31, 2015 $ | 2014 $ | Change $ |
|---|---|---|---|---|---|---|
| **Sources of Cash:** | | | | | | |
| Cash provided by operating activities before net changes in non-cash balances related to operations | 57,711 | 49,161 | 8,550 | 183,744 | 196,259 | (12,515) |
| Net changes in non-cash balances related to operations | — | — | — | — | 6,510 | (6,510) |
| Restricted cash related to aircraft financing | — | — | — | 7,192 | — | 7,192 |
| Long-term borrowings | 119,054 | — | 119,054 | 142,779 | — | 142,779 |
| Other | 1,255 | 85 | 1,170 | 1,634 | 292 | 1,342 |
| **Total sources** | **178,020** | **49,246** | **128,774** | **335,349** | **203,061** | **132,288** |
| **Uses of Cash:** | | | | | | |
| Net changes in non-cash balances related to operations | (25,212) | (1,239) | (23,973) | (44,830) | — | (44,830) |
| Repayment of long-term debt and obligations under finance leases | (12,186) | (8,860) | (3,326) | (43,635) | (33,100) | (10,535) |
| Redemption of convertible debentures | — | — | — | — | (80,201) | 80,201 |
| Repurchase of Shares under normal course issuer bid | — | (1,015) | 1,015 | — | (9,372) | 9,372 |
| Dividends | (14,667) | (13,537) | (1,130) | (57,432) | (63,731) | 6,299 |
| Business acquisition, net of cash acquired | — | — | — | (45,474) | — | (45,474) |
| Additions to property and equipment | (144,997) | (45,823) | (99,174) | (230,941) | (65,545) | (165,396) |
| **Total usage** | **(197,062)** | **(70,474)** | **(126,588)** | **(422,312)** | **(251,949)** | **(170,363)** |
| **Effect of foreign exchange on cash** | **1,314** | **295** | **1,019** | **5,062** | **3,565** | **1,497** |
| **Net change in cash during the periods** | **(17,728)** | **(20,933)** | **3,205** | **(81,901)** | **(45,323)** | **(36,578)** |
| **Cash – Beginning of periods** | **50,405** | **135,511** | **(85,106)** | **114,578** | **159,901** | **(45,323)** |
| **Cash – End of periods** | **32,677** | **114,578** | **(81,901)** | **32,677** | **114,578** | **(81,901)** |

### Sources of cash

Sources of cash for the three months ended December 31, 2015 were $178.0 million, an increase of $128.8 million. The increase was mainly the result of long-term borrowings related to the acquisition of Q400s and a higher cash flow from operating activities.

Sources of cash for the year ended December 31, 2015 were $335.3 million, an increase of $132.3 million. The increase was mainly the result of long-term borrowings related to the acquisition of Q400s and the return of restricted cash for the release of security related to Q400 financing.

### Uses of cash

Uses of cash for the three months ended December 31, 2015 was $197.1 million, an increase of $126.6 million. Capital expenditures were $145.0 million, compared to $45.8 million in the same period of 2014. The increase related to the purchase of aircraft (which consisted of four Dash 8-100s, five CRJ 200s and five Q400s), increased major maintenance overhauls and increased expenditures for ongoing spare part replacements for the fleet, equipment and leasehold improvements. Refer to the table below, entitled capital expenditures, for further detail. Additional uses of cash consisted of negative changes in non-cash working capital and increased payments of $3.3 million related to long-term debt and obligations under finance leases. In the fourth quarter of 2014, Chorus repurchased Shares under the NCIB in the amount of $1.0 million. There was no active NCIB as at December 31, 2015.

Uses of cash for the year ended December 31, 2015 was $422.3 million, an increase of $170.4 million. On May 1, 2015, Chorus acquired Voyageur for net cash consideration of $45.5 million. For the year ended December 31, 2015 there were capital expenditures of $230.9 million, compared to $65.5 million in 2014. The increase was related to the purchase of aircraft (which consisted of five Dash 8-100s, two Dash 8-300s, one King Air 200, five CRJ200s and six Q400s), deposits made for additional aircraft, increased major maintenance overhauls and increased expenditures for ongoing spare part replacements for the fleet, equipment and leasehold improvements. Refer to the table below, entitled capital expenditures, for further details. Additional uses of cash consisted of negative changes in non-cash working capital and increased payments of $10.5 million related to long-term debt and obligations under finance leases. In 2014, Chorus redeemed Debentures in the amount of $80.2 million and repurchased Shares under the NCIB of $9.4 million. Neither of these occurred during the year ended December 31, 2015.

**Contractual obligations and other commitments**

The table below summarizes Chorus' principal and interest cash debt repayments, consideration payable payments and future minimum lease payments under operating leases for flight equipment and base facilities for the years 2016 through to 2020 and thereafter.

| (expressed in thousands of Canadian dollars) | Payments Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Total $** | **2016 $** | **2017 $** | **2018 $** | **2019 $** | **2020 $** | **After 5 years $** |
| **Long-term debt** | 689,075 | 74,190 | 74,157 | 74,124 | 74,091 | 74,057 | 318,456 |
| **Finance leases**(1) | 21,015 | 6,062 | 5,681 | 3,322 | 3,322 | 2,628 | — |
| **Consideration payable** | 31,439 | 12,439 | 13,000 | 6,000 | — | — | — |
| **Operating leases**(1) | | | | | | | |
| Air Canada and its subsidiary(2) | 532,791 | 84,982 | 75,428 | 71,504 | 71,504 | 71,504 | 157,869 |
| Other | 62,279 | 12,295 | 10,362 | 9,868 | 9,334 | 8,008 | 12,412 |
| | 1,336,599 | 189,968 | 178,628 | 164,818 | 158,251 | 156,197 | 488,737 |

(1) A significant portion of lease payments are payable in US dollars and have been converted using a foreign exchange rate of $1.3840.

(2) Certain of the aircraft lease agreements have been entered into by Air Canada Capital Ltd., or Air Canada with head lessors, and subleased to Chorus. These leases are included in the above table under the heading "Air Canada and its subsidiary". For further discussion, refer to Section 14 - Economic Dependence.

The foregoing contains forward-looking information and actual contractual obligations and other commitments may vary. These projections are based on certain assumptions including foreign exchange rates and current contractual terms. Please refer to Section 3 - Introduction "Caution regarding forward-looking information" and Section 21 - Risk Factors for risks related to this forward-looking information. The current projections differ from previous projections as a result of new borrowing or leasing, the acquisition of Voyageur, and a change in the foreign exchange rate, among other things.

## Long-term debt

Long-term debt consists of the following:

| (expressed in thousands of Canadian dollars) | December 31, 2015 $ | December 31, 2014 $ |
|---|---|---|
| Term loans - purchased aircraft[(1)] | 564,222 | 383,872 |
| Term loans - purchased engines[(2)] | 9,035 | 8,186 |
| Term loan - Halifax facility[(3)] | 12,000 | 12,000 |
| | 585,257 | 404,058 |
| Less: Current portion | 54,867 | 35,376 |
| | 530,390 | 368,682 |

(1) 27 individual term loans, repayable in semi-annual instalments, ranging from $1.1 million to $1.4 million, bearing fixed interest at a weighted average rate of 3.371%, maturing between May 2023 and December 2027, each secured primarily by one Q400 and two PW150A engines. At December 31, 2015, the total Q400 financing payable in US dollars was US$407.7 million (December 31, 2014 - US$330.9 million), and the net book value of property and equipment pledged as collateral under Q400 financing was $548.2 million (December 31, 2014 - $406.5 million).

(2) Four individual term loans, repayable in quarterly instalments of approximately $0.1 million, including fixed interest at a weighted average rate of 4.867%, maturing between December 2024 and October 2025, each secured primarily by one PW150A engine. At December 31, 2015, the total Q400 engine financing payable in US dollars was US$6.5 million (December 31, 2014 - US$7.1 million) and the net book value of property and equipment pledged as collateral under Q400 engine financing was $7.9 million (December 31, 2014 - $8.2 million).

(3) Nova Scotia Jobs Fund loan, with a maximum contribution of $12.0 million, bearing interest at a fixed rate of 3.33% annually. Principal repayments of $1.0 million are payable annually commencing on August 31, 2016. Maturing on August 31, 2027, the loan may be repaid in full or in part at any time without bonus or penalty and is secured by a first security interest in the land and office building located at 3 Spectacle Lake Drive, Dartmouth, Nova Scotia and the assignment of the building tenant leases.

Under its financing agreement with EDC (for both aircraft and engines), the Jazz Group is required to maintain a maximum adjusted leverage ratio of 2.25:1 and a minimum adjusted interest coverage ratio of 1.66:1. As at December 31, 2015, the Jazz Group was in compliance with these covenants. Failure by the Jazz Group to comply with either such ratio at an applicable time would constitute an event of default under the financing agreement which could have a material adverse effect on Chorus.

The financing agreement with EDC also contains a continuation of business under the CPA covenant which is specific to Jazz as the lessee of the Q400s and engines. As at December 31, 2015, Jazz was in compliance with this covenant.

As additional security under the EDC financing agreements, the aircraft and engine leases between Jazz and Jazz Leasing Inc. have been assigned to EDC. Also, Jazz Leasing Inc. has provided a full recourse guarantee to EDC and Jazz Aircraft Financing Inc. pledged the issued shares of Jazz Leasing Inc. to EDC.

### Consideration payable

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

### Off balance sheet arrangements and guarantees

Chorus enters into real estate leases, or operating agreements, which grant a license to Chorus to use certain premises and/or operate at certain airports in the majority of the cities that it serves. It is common in such commercial lease transactions for Chorus, as the lessee, to agree to indemnify the lessor and other related third parties for tort liabilities arising out of or relating to Chorus' use or occupancy of the leased or licensed premises. In certain cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties, but generally excludes any liabilities caused by their gross negligence or wilful misconduct. Chorus also typically indemnifies such parties for any environmental liability arising out of or relating to its use or occupancy of the leased or licensed premises.

In aircraft financing or leasing agreements, Chorus typically indemnifies the financing parties, trustees acting on behalf of such financing parties and other related parties and/or lessors against liabilities that arise from the manufacture, design, ownership, financing, use, operation and maintenance of the aircraft and for tort liability, whether or not these liabilities arise out of or relate to the negligence of these indemnified parties, except for their gross negligence or wilful misconduct. In addition, in aircraft financing or leasing transactions, including those structured as leveraged leases, Chorus typically provides indemnities in respect of certain tax consequences.

When Chorus, as a customer, enters into technical service agreements with service providers, primarily service providers who operate an airline as their main business, Chorus from time to time agrees to indemnify the service provider against liabilities that arise from third party claims, whether or not these liabilities arise out of or relate to the negligence of the service provider, but excluding liabilities that arise from the service provider's gross negligence or wilful misconduct.

Chorus has indemnification obligations to its directors and officers. Pursuant to such obligations, Chorus indemnifies these individuals, to the extent permitted by law, against any and all claims or losses (including amounts paid in settlement of claims) incurred as a result of their service to Chorus.

The maximum amount payable under the foregoing 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). Chorus expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities described above.

### Capital commitments

In connection with the January 1, 2015 Amendment, Chorus exercised its nine remaining options to purchase new Q400s under its purchase agreement with Bombardier, and amended that purchase agreement to add firm orders for four additional Q400s and options for up to ten additional Q400s. Based on the list price for the Q400s, the firm order for a total of 13 Q400s is valued at approximately US$424.0 million, and could increase to US$758.0 million if the options to purchase all additional ten aircraft are exercised. Chorus had purchased six Q400s as of December 31, 2015. Chorus is committed to spend an additional $187.1 million in 2016 related to the remaining seven Q400s (US dollar amounts were converted to Canadian dollars at 1.3840, which was the exchange rate in effect at the end of day closing December 31, 2015). Chorus has received commitments from EDC to finance up to 80% of the net purchase price for all firm 13 orders.

On February 11, 2016, Chorus took delivery of one Q400 aircraft and drew EDC financing. The term loan is repayable by Chorus to EDC in semi-annual instalments of approximately US$0.9 million, matures in February 2028 and is secured primarily by one Q400 aircraft and two PW150A engines.

Chorus has also entered into an agreement with Bombardier to be the launch customer for the Dash 8-300 ESP. The ESP is expected to extend the service life of the Dash 8-300s by 50% (or approximately 15 years). This agreement covers a minimum of 19 aircraft and the program is anticipated to begin in early 2017. The cost for each aircraft that undergoes the ESP installation includes the Bombardier service bulletin and parts and anticipated labour costs to complete the service bulletin. The anticipated cost for the years 2016, 2017, 2018 and 2019 is expected to be approximately $1.4 million, $19.9 million, $29.7 million and $14.2 million, respectively (US dollar amounts were converted to Canadian dollars at 1.3840, which was the exchange rate in effect at the end of day closing December 31, 2015). Chorus has received a commitment from Air Canada to finance up to 80% of this anticipated cost.

On February 3, 2016 Chorus took delivery of an additional King Air 200. The purchase price was approximately US $1.1 million, with additional spend of approximately $1.0 million expected for modifications to the aircraft.

**Credit facilities**

Chorus' subsidiaries have a combined total of $36.0 million in undrawn secured revolving credit facilities and an additional US$6.0 million secured facility specifically for letters of credit (US$2.1 million have been issued). A portion of one of the revolving credit facilities can also facilitate the issuance of letters of credit (US$0.6 million has been issued).

**Capital expenditures**

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

| (expressed in thousands of Canadian dollars) | Three months ended December 31, 2015 $ | 2014 $ | Change $ | Year ended December 31, 2015 $ | 2014 $ | Change $ |
|---|---|---|---|---|---|---|
| Capital expenditures, excluding finance leases, aircraft acquisitions and ESP | 4,389 | 3,800 | 589 | 13,035 | 12,693 | 342 |
| Capitalized major maintenance overhauls | 7,443 | 2,028 | 5,415 | 24,029 | 12,857 | 11,172 |
| Finance leases | 12,288 | — | 12,288 | 19,479 | — | 19,479 |
| Aircraft acquisitions and ESP | 137,965 | 40,343 | 97,622 | 199,877 | 40,343 | 159,534 |
| Total capital expenditures[(1)] | 162,085 | 46,171 | 115,914 | 256,420 | 65,893 | 190,527 |

(1) Includes non-cash transactions of $12.3 million and $19.5 million for finance leases and $4.8 million and $6.0 million for other aircraft purchases for the three months and year ended December 31, 2015, respectively.

The 2015 actual capital expenditures of $256.4 million was in line with the guidance previously provided for anticipated capital expenditures of $257.0 million to $269.0 million.

### Shares

At February 12, 2016, the issued and outstanding Shares of Chorus were as follows:

| | February 12, 2016 | December 31, 2015 |
|---|---|---|
| **Issued and outstanding Shares** | | |
| Class A Variable Voting Shares | 8,185,242 | 8,228,804 |
| Class B Voting Shares | 114,047,155 | 114,003,593 |
| **Total issued and outstanding Shares** | 122,232,397 | 122,232,397 |
| **Shares potentially issuable** | | |
| **Stock-based compensation plans** | 3,317,406 | 3,317,406 |
| **Total outstanding and potentially dilutive shares** | 125,549,803 | 125,549,803 |

### Dividends

For the three months and year ended December 31, 2015, Chorus declared dividends of $14.7 million and $57.8 million respectively (2014 - $13.5 million and $54.5 million respectively). For the three months and year ended December 31, 2015, Chorus paid dividends of $14.7 million and $57.4 million respectively (2014 - $13.5 million and $63.7 million respectively).

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. Chorus' Board of Directors evaluates the dividend on a regular basis and dividends are declared at the discretion of the Board.

## 12 RELATED PARTY TRANSACTIONS

As at December 31, 2015, Chorus had no transactions with related parties as defined in the CPA Canada Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements.

## 13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Chorus' financial instruments consist of cash, restricted cash, accounts receivable, ABCP, accounts payable and accrued liabilities, dividends payable, obligations under finance leases, consideration payable and long-term debt.

Chorus has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk.

### Interest rate risk

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

The 31 term loans with EDC and the Nova Scotia Jobs Fund loan bear fixed interest rates and the consideration payable does not bear interest. The debt is therefore not subject to interest rate volatility.

A 1% change in the interest rate would not have a significant impact on the net income of Chorus.

**Credit risk**

Credit risk arises from cash, restricted cash, deposits, as well as credit exposure to customers, including outstanding receivables. Chorus manages the credit risk on cash by ensuring that the counter-parties are governments, banks and corporations with high credit-ratings assigned by international credit-rating agencies. In accordance with its investment policy, Chorus invests excess cash in Government of Canada treasury bills, short-term Canadian and provincial government debt, bankers' acceptance notes, term deposits of Schedule 1 Banks and Schedule 2 Banks rated R-1 high, and commercial paper rated R-1 high.

The maximum exposure to credit risk for cash, restricted cash, deposits and trade and other receivables approximate the amount recorded on the statement of financial position.

With the exception of trade receivables, Chorus has no financial assets past due. As at December 31, 2015, the total amount of trade receivables was $56.6 million (2014 - $52.6 million), net of allowances for doubtful accounts, which has been estimated by management based on prior experience and its assessment of the current economic environment and the specific debtor. The amount of this allowance was $0.8 million (2014 - $nil). At December 31, 2015, trade receivables of $52.3 million (2014 - $52.3 million) were not past due or impaired; $5.1 million (2014 - $0.3 million) were past due, but not impaired, and $nil (2014 - $nil) were impaired. Chorus continues to work with the entities from which it holds past due receivables to recover the full amount outstanding. Approximately $42.9 million (2014 - $51.3 million) of the total receivables are with one company, Air Canada. Accordingly, Chorus is directly affected by the financial and operational strength of Air Canada. Chorus does not believe it is subject to any significant concentration of credit risk other than with Air Canada.

**Liquidity risk**

Chorus' objective is to maintain sufficient liquidity to meet liabilities when due. Chorus monitors its cash balances and cash flows generated from operations to meet its liquidity requirements. Cash flow forecasting is performed in respect of each operating entity of Chorus and then aggregated. Chorus monitors rolling forecasts of Chorus' liquidity requirements. Such forecasts take into consideration Chorus' operational cash flow requirements, debt financing plans and compliance with internal balance sheet ratio targets.

**Currency risk**

Chorus receives revenue and incurs expenses in US and Canadian currency, and as a result, is subject to fluctuations as foreign exchange rates fluctuate. Chorus manages its exposure to currency risk by billing for services in the underlying currency related to the expenditure. Accordingly, the primary exposure results from balance sheet fluctuations of US denominated cash, accounts receivable, accounts payable, and, in particular, obligations under finance leases, and long-term debt, which are long-term and subject to larger unrealized gains or losses. Chorus mitigates this currency risk by maintaining a balance of US dollars which is used to pay down US denominated liabilities and replenishes the balance through US denominated revenues. The amount of US denominated assets was $40.4 million and US denominated liabilities was $475.8 million at December 31, 2015. A 1¢ change in the US exchange rate would result in a change in the unrealized gain or loss of approximately $4.4 million.

**Fair value of financial instruments**

The carrying amounts reported in the statement of financial position for cash, restricted cash, accounts receivable, accounts payable and accrued liabilities and dividends payable approximate fair values based on the immediate or short-term maturities of these financial instruments. Assets and liabilities, such as commodity taxes and deferred lease inducements, that are not contractual and that arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are therefore excluded. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- ABCP

  The ABCP is a financial security that currently has no active trading market. Valuation is done based on limited available market information, maturity dates and expected return of capital on a discounted basis. During the year ended December 31, 2015, a valuation gain of $0.3 million (2014 - $nil) was recorded.

- Long-term debt

  At December 31, 2015, the fixed rate term loans had a fair value of $587.6 million. The fair values were calculated by discounting the future cash flow of the respective long-term debt at the estimated yield to maturity of similar debt instruments.

- Finance leases

  The repayment terms that Chorus is committed to make have been discounted at the relevant market interest rates applicable at year-end. Interest rates used to calculate fair value are based on the change in the risk-free rate at December 31, 2015, compared to the risk-free rates at the inception of the leases. Chorus determined there was no difference between carrying value and fair value as the leases were recently entered into and the interest rates used at the inception of the leases was, on average, not materially different from the year-end interest rate.

- Consideration payable

  At December 31, 2015, consideration payable had a fair value of $30.2 million. The fair value was calculated by discounting the payable at the relevant market interest rates applicable at year-end.

## 14 ECONOMIC DEPENDENCE

**The CPA**

Chorus provides capacity for a significant portion of Air Canada’s domestic and transborder regional network. Chorus is economically and commercially dependent upon Air Canada and certain of its subsidiaries, as, in addition to being Chorus’ primary source of revenue, these entities currently provide significant services to Chorus. Chorus and Air Canada are parties to the CPA under which Air Canada currently purchases the greater part of Chorus’ fleet capacity on Covered Aircraft at predetermined rates.

On February 2, 2015, Chorus announced that it had reached a long-term agreement for an amended and restated CPA with Air Canada. The agreement was retroactively effective January 1, 2015 and is in effect until December 31, 2025. (Refer to Section 2 - Capacity Purchase Agreement with Air Canada for further discussion).

Chorus has a significant amount of transactions with Air Canada and its subsidiary. Air Canada and its subsidiary represented 95.4% of Chorus' operating revenues for the year ended December 31, 2015 (98.6% for the year ended December 31, 2014). Approximately 6.8% and 10.2% of Chorus' operating expenses for the years ended December 31, 2015 and 2014 respectively were incurred with Air Canada and one of its subsidiaries.

## 15 CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, estimates and judgments may change in light of new facts and circumstances in the internal and external environment and actual results can differ from those estimates (refer to Section 3 – Introduction, "Caution regarding forward-looking information"). The significant accounting policies of Chorus are described in note 3 of the audited consolidated financial statements of Chorus for the year ended December 31, 2015.

**Other Future Employee Benefits**

Chorus' significant policies related to the Pilot DB Plan, and the SERP DB Plan (collectively referred to as "Pension Benefits"), and the Other Future Employee Benefits are as follows:

- The cost of Pension Benefits earned by employees is actuarially determined using the projected benefit method prorated on service, market interest rates, management's best estimate of salary escalation and retirement ages and life expectancy of employees. Obligations are attributed to the period beginning on the date the employee joins the plan and ending on the earlier of the date of termination, death or retirement. Actuarial gains and losses on the pension benefits are recognized in full in the period in which they occur in other comprehensive income and retained earnings without recycling to the statement of income in subsequent periods. Current service cost, the recognized element of any past service cost, the interest income on plan assets and the interest arising on the pension liability are included in salaries, wages and benefits in the statement of income.
- Other Employee Benefits consist of two categories of benefits:
  - Medical and dental benefits provided to employees while on long-term disability, and Worker's Compensation and Workers Safety Insurance Board benefits in respect of Ontario employees, are collectively referred to as other long-term benefits. The actuarial gains and losses for this component of Other Employee Benefits are charged to operating expense in the year they occur.
  - Sick leave benefits are paid to certain employees upon or just prior to retirement. The actuarial gains and losses on this component of other employee benefits are charged to other comprehensive income in the year they occur.
- The cost of the Other Employee Benefits is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation, as applicable to each of the categories of benefits.
- Past service costs arising from plan amendments of the defined benefit pension plan and the supplemental executive retirement plan and other employee benefit plans are recognized immediately in income.
- The registered pension plan is subject to certain minimum funding requirements. The liability, where applicable, in respect of the minimum funding requirement is determined using the projected minimum funding requirements based on actuarial forecasts. The liability in respect of the minimum funding requirement and any subsequent re-measurement of that liability is recognized in other comprehensive income without subsequent reclassification to income.
- The measurement date of each of the plans' assets and obligations is December 31. Pension obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the

date of termination, death or retirement. The obligations relating to other employee benefits plans are attributed to the period beginning on the employee's date of joining the plan or disablement (whichever applicable) and ending on the earlier of retirement or end of disablement or age 65 (whichever applicable).

- Chorus also maintains several defined contribution pension plans. The cost of defined contribution pension plans is charged to expense as the contributions become payable.

The following assumptions were used in valuing the benefit obligations under the plans and the employer's net periodic pension or benefit cost:

- The discount rate used to determine the pension and benefit obligation and the interest income on assets was determined by reference to market interest rates, as of the measurement date, on high quality debt instruments with cash flows that approximately match the timing and amount of expected benefit payments. It is reasonably possible that these rates may change in the future as a result of changes in market interest rates.
- The health care inflation used to determine cost of Other Future Employee Benefits costs is based on recent industry experience and long-term expectations. The weighted average health care inflation assumption used for the health care plans is 6.1% per annum for 2015 and 4.5% per annum for 2029 and later years.
- Actual experience that differs from assumptions made by management will result in a net actuarial gain or loss, which is recognized each period through other comprehensive income.

The following table contains assumptions used in valuing the benefit obligations under this plan and the employer's net periodic pension or benefit cost:

| | **Fiscal year ended December 31,** | |
|---|---|---|
| | **2015** | **2014** |
| Weighted average assumptions used to determine accrued benefit obligation | | |
| - Discount rate | 3.4% - 3.9% | 3.5% - 4.1% |
| - Rate of compensation increase | 2.0% - 4.5% | 2.0% - 4.5% |
| - Health care inflation - Select | 6.0% | 6.1% |
| - Health care inflation - Ultimate | 4.5% | 4.5% |
| - Year ultimate trend reached | 2029 | 2029 |
| Weighted average assumptions used to determine pension and benefit costs | | |
| - Discount rate | 3.5% - 3.8% | 4.4% - 5.0% |
| - Rate of compensation increase | 2.0% - 4.5% | 2.3% - 4.5% |
| - Health care inflation - Select | 6.1% | 6.3% |
| - Health care inflation - Ultimate | 4.5% | 4.5% |
| - Year ultimate trend reached | 2029 | 2029 |

**Depreciation of long-lived assets**

Management makes estimates and judgements about the expected useful life and the expected residual value of long-lived assets. Depreciation methods for long-lived assets are based on management's judgment of the most appropriate method to reflect the pattern of an asset's future economic benefit. Useful life and residual values are based on estimates of future fair values and can vary significantly from actual. Management revises depreciation estimates and patterns regularly and makes any changes on a prospective basis. A 25% reduction to the residual values of aircraft would result in an increase of $5.6 million to annual depreciation expense.

In the first quarter of 2015, Chorus reviewed the estimated useful economic lives of its owned aircraft and flight equipment. As a result, the expected estimated useful economic lives of certain of these assets have been extended and there was no significant impact related to the residual values. The effect of these changes was a reduction to depreciation expense for the three months and year ended December 31, 2015 of approximately $9.8 million and $27.6 million respectively. The impact of this change was offset by flight equipment acquired in 2014 and 2015 for a net reduction in depreciation period-over-period and year-over-year of approximately $4.3 million and $15.5 million respectively.

**Operating revenue**

In accordance with the terms of the CPA, Chorus and Air Canada agreed on detailed rates applicable to the period commencing on January 1, 2015 and ending on December 31, 2015. The new rates are retroactive to January 1, 2015. Chorus and Air Canada have reconciled amounts already recorded in 2015 to these new rates. As a result, Chorus recorded a reduction in CPA operating revenue of $0.8 million related to the year 2015 in the fourth quarter of 2015.

**Business combination**

Chorus applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of an entity is equal to the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. Under the acquisition method, the acquiring company adds to its statement of financial position the estimated fair value of the acquired company's assets and assumed liabilities. There are various assumptions made when determining the fair value of the acquired company's assets and assumed liabilities. The most significant assumptions and those requiring the most judgment involve the estimated fair values of intangible assets.

Consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Any contingent consideration to be transferred by Chorus is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognized in profit or loss.

The initial recognition of intangible assets acquired that require critical accounting estimates are customer relationships and trade name. To determine the fair value of these customer based intangible assets, significant assumptions were made, which include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates.

## 16 ACCOUNTING POLICIES

The significant accounting policies of Chorus are described in note 3 of the December 31, 2015 consolidated financial statements of Chorus.

**Accounting standards issued but not yet applied**

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

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. Chorus is currently evaluating the impact of the new standard on its consolidated financial statements.

The IASB issued IFRS 16, "Leases" ("IFRS 16") effective for annual periods beginning on or after January 1, 2019 with early adoption permitted for entities that have also adopted IFRS 15. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17, "Leases". This will impact Chorus' statement of financial position and statement of income. Qualifying leases will be recorded on the balance sheet as an asset under property and equipment, and will have a corresponding liability with both current and long-term portions. Chorus is currently evaluating the financial impact of these amendments on its consolidated financial statements.

The IASB issued amendments to IAS 12, "Income Taxes" regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. Chorus has no debt instruments measured at fair value at December 31, 2015. Chorus is currently evaluating the impact of these amendments on its consolidated financial statements.

## 17 CONTROLS AND PROCEDURES

**Disclosure controls and procedures and internal control over financial reporting**

Chorus' disclosure controls and procedures ("DC&P") have been designed to provide reasonable assurance that information required to be disclosed in any public filings is recorded, processed, summarized and reported on a timely basis. Chorus' internal controls over financial reporting ("ICFR") have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. They were both designed based on the framework established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

In accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, our certifying officers have limited the scope of their design of DC&P, and our Company's ICFR to exclude controls, policies and procedures relating to the acquisition of Voyageur (as it was acquired in the second quarter of 2015) and they have not yet performed sufficient procedures to include it in our certifications. National Instrument 52-109 permits a business that an issuer acquires not more than 365 days before the issuer's financial year-end be excluded from the scope of the certifications to allow it sufficient time to perform adequate procedures to ensure controls, policies and procedures are effective. Voyageur will be included in Chorus's certification processes in 2016. Summary financial information for Voyageur includes revenue of $15.5 million and $46.8 million and Adjusted EBITDA of $9.6 million and $17.2 million for the three months ended December 31, 2015 and the period May 1, 2015 to December 31, 2015 respectively. Information concerning assets and liabilities acquired is provided in note 5 of the audited consolidated financial statements of Chorus for the year ended December 31, 2015.

An evaluation of the design and effectiveness of Chorus' DC&P and ICFR has been conducted by management, under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2015, Chorus' disclosure controls and procedures and internal control over financial reporting, as defined by National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, are operating effectively.

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

There has been no change in Chorus' internal control over financial reporting that occurred during the year ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, Chorus' ICFR.

The Audit, Finance and Risk Committee of the Board of Directors of Chorus reviewed this MD&A, and the consolidated financial statements of Chorus for December 31, 2015, and Chorus' Board of Directors approved these documents prior to their release.

## 18 2016 OUTLOOK

The discussion that follows represents forward-looking information (refer to Section 3 - Introduction, "Caution regarding forward-looking information"). This outlook is provided for the purpose of providing information about current expectations for 2016 and includes Voyageur. This information may not be appropriate for other purposes.

Effective January 1, 2015, Billable Block Hours no longer directly affect CPA compensation, but remain relevant for rate setting on Controllable Costs. Based on the 2015 - 2016 winter schedule, the summer 2016 schedule and updated planning assumptions received from Air Canada, Billable Block Hours are expected to be between 349,000 and 359,000 based on 116 Covered Aircraft as at December 31, 2016. The actual number of Billable Block Hours for 2016 may vary from this anticipated range due to a number of factors. See Section 21 - Risk Factors.

Capital expenditures for 2016, excluding those for the acquisition of finance leases, aircraft and the ESP, and including capitalized major maintenance overhauls, are expected to be between $35.0 million and $41.0 million. The increase in 2016 reflects additional spend for Voyageur and lower anticipated major maintenance overhauls.

| | | Actual | |
|---|---|---|---|
| (expressed in thousands of Canadian dollars) | **Planned 2016 $** | **Year ended December 31, 2015[1] $** | **Year ended December 31, 2014 $** |
| Capital expenditures, excluding finance leases, aircraft acquisitions and ESP | 19,000 to 22,000 | 13,035 | 12,693 |
| Capitalized major maintenance overhauls | 16,000 to 19,000 | 24,029 | 12,857 |
| Finance leases | — | 19,479 | — |
| Aircraft acquisitions and ESP[2] | 185,000 to 195,000 | 199,877 | 40,343 |
| | 220,000 to 236,000 | 256,420 | 65,893 |

(1) Includes non-cash transactions of $12.3 million and $19.5 million for finance leases and $4.8 million and $6.0 million for other aircraft purchases for the three months and year ended December 31, 2015 respectively.
(2) Includes the acquisition of one King Air 200, seven Q400s and ongoing deposits for the Q400s and ESP. All amounts have been converted using a foreign exchange rate of $1.3840.

## 19 ADDITIONAL INFORMATION

Additional information relating to Chorus, including Chorus' Annual Information Form, is available on SEDAR at www.sedar.com or on Chorus' website at www.chorusaviation.ca, under Reports.

## 20 NON-GAAP FINANCIAL MEASURES

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

**EBITDA and Adjusted EBITDA**

EBITDA is defined as earnings before net interest expense, income taxes, and depreciation and amortization and is a non-GAAP financial measure. Adjusted EBITDA (net income before net interest expense, income taxes, depreciation and amortization and other items such as asset impairment and foreign exchange gains or losses) is a non-GAAP financial measure used by Chorus, and commonly by other regional airlines in the industry, as a supplemental financial measure of operational performance. Management believes Adjusted EBITDA assists investors in comparing Chorus' performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and factors such as historical cost. Adjusted EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows, forming part of Chorus' financial statements. While the one-time signing bonuses, CPA advisory fees and employee separation program costs have been included within our definition of adjusted EBITDA, it is shown separately below to facilitate transparency and comparability.

| | **Three months ended December 31,** | | | **Year ended December 31,** | | |
|---|---|---|---|---|---|---|
| | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| (expressed in thousands of Canadian dollars) | **$** | **$** | **$** | **$** | **$** | **$** |
| Net income | 12,512 | 11,338 | 1,174 | 25,487 | 64,710 | (39,223) |
| Add: | | | | | | |
| Net interest expense | 4,442 | 3,058 | 1,384 | 15,014 | 15,748 | (734) |
| Income tax expense | 11,152 | 8,066 | 3,086 | 35,604 | 29,808 | 5,796 |
| Depreciation and amortization | 17,647 | 16,839 | 808 | 59,745 | 66,057 | (6,312) |
| **EBITDA** | **45,753** | **39,301** | **6,452** | **135,850** | **176,323** | **(40,473)** |
| Gain on disposal of property and equipment | (4) | (42) | 38 | (186) | (249) | 63 |
| Foreign exchange loss | 18,617 | 10,564 | 8,053 | 74,336 | 28,384 | 45,952 |
| Other | (258) | — | (258) | (758) | (500) | (258) |
| **Adjusted EBITDA** | **64,108** | **49,823** | **14,285** | **209,242** | **203,958** | **5,284** |
| *Other items:* | | | | | | |
| One-time signing bonuses | — | — | — | 13,500 | — | 13,500 |
| CPA advisory fees | — | — | — | 2,079 | — | 2,079 |
| Employee separation program | 1,578 | 1,325 | 253 | 3,454 | 11,942 | (8,488) |
| *Adjusted EBITDA, excluding other items* | *65,686* | *51,148* | *14,538* | *228,275* | *215,900* | *12,375* |

## Adjusted Net Income

Adjusted net income and Adjusted net income per Share are used by Chorus to assess performance without the effects of unrealized foreign exchange gains or losses on long-term debt and finance leases related to aircraft. Chorus manages its exposure to currency risk on such long-term debt by billing the lease payments within the CPA in the underlying currency (US dollars) related to the aircraft debt. These items are excluded because they affect the comparability of our financial results, period-over-period, and could potentially distort the analysis of trends in business performance. Excluding these items does not imply they are non-recurring due to ongoing currency fluctuations between the Canadian and US dollar. While the one-time signing bonuses, CPA advisory fees and employee separation program costs have been included within our definition of adjusted net income, it is shown separately to facilitate transparency and comparability.

| (expressed in thousands of Canadian dollars, except per Share amounts) | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2015<br>$ | 2014<br>$ | Change<br>$ | 2015<br>$ | 2014<br>$ | Change<br>$ |
| Net income for the periods | 12,512 | 11,338 | 1,174 | 25,487 | 64,710 | (39,223) |
| Unrealized foreign exchange loss | 19,625 | 12,359 | 7,266 | 70,848 | 30,522 | 40,326 |
| **Adjusted net income** | **32,137** | **23,697** | **8,440** | **96,335** | **95,232** | **1,103** |
| **Adjusted net income per Share - basic** | **0.26** | **0.20** | **0.06** | **0.79** | **0.78** | **0.01** |
| *Other items:* | | | | | | |
| One-time signing bonuses | — | — | — | 13,500 | — | 13,500 |
| CPA advisory fees | — | — | — | 2,079 | — | 2,079 |
| Employee separation program | 1,578 | 1,325 | 253 | 3,454 | 11,942 | (8,488) |
| *Adjusted net income, excluding other items* | *33,715* | *25,022* | *8,693* | *115,368* | *107,174* | *8,194* |
| *Adjusted net income, excluding other items per Share - basic* | *0.28* | *0.21* | *0.07* | *0.95* | *0.88* | *0.07* |

## Return on Invested Capital

Return on Invested Capital is a non-GAAP measure commonly used to assess the efficiency with which a company allocates its capital to generate returns. Return is calculated based on Chorus' earnings before tax, excluding special items, finance costs and implied interest on off-balance sheet aircraft leases for aircraft for which Chorus holds the head lease. Invested capital includes average long-term debt, average finance lease obligations, average Shareholders' equity and off-balance sheet aircraft operating leases for aircraft for which Chorus holds the head lease.

| | Trailing twelve months ended | | |
|---|---|---|---|
| (expressed in thousands of Canadian dollars) | December 31, 2015 $ | December 31, 2014 $ | Change $ |
| **Income before income taxes** | 61,091 | 94,518 | (33,427) |
| **Unrealized foreign exchange loss** | 70,848 | 30,522 | 40,326 |
| **Income before income taxes (and unrealized foreign exchange loss)** | 131,939 | 125,040 | 6,899 |
| Add: | | | |
| Finance costs | 17,457 | 16,895 | 562 |
| Implicit interest in operating leases(1) | 4,657 | 3,816 | 841 |
| | 154,053 | 145,751 | 8,302 |
| **Invested capital:** | | | |
| Average long-term debt(2) | 494,658 | 442,696 | 51,962 |
| Average obligations under finance leases(3) | 11,418 | 4,891 | 6,527 |
| Average consideration payable(4) | 15,084 | — | 15,084 |
| Average Shareholders' equity | 120,428 | 158,021 | (37,593) |
| Off-balance sheet aircraft leases(5) | 66,529 | 54,514 | 12,015 |
| | 708,117 | 660,122 | 47,995 |
| **Return on invested capital(6)** | 21.8% | 22.1% | (0.3)% |

(1) Interest implicit in operating leases is equal to 7.0 percent of 7.5 times the trailing 12 months of aircraft lease expense. 7.0 percent is a proxy and does not necessarily represent actual for any given period.
(2) Average long-term debt includes the current portion and long-term portion.
(3) Average obligations under finance leases include the current portion and long-term portion.
(4) Average obligations under consideration payable include the current portion and long-term portion.
(5) Off-balance sheet aircraft leases are calculated by multiplying the annual aircraft leasing expense by 7.5 only for aircraft which Chorus holds the head lease. For the trailing twelve months ended December 31, 2015 and December 31, 2014, these aircraft lease expenses totaled $8.9 million and $7.3 million respectively.
(6) Aircraft rent was $103.3 million and $93.4 million for the trailing twelve months ended December 31, 2015 and December 31, 2014 respectively. The majority of Chorus' aircraft under operating leases are subleased from Air Canada, or its subsidiary, who hold the head lease or own the aircraft. Aircraft rent related to these aircraft of $94.5 million and $86.1 million for the trailing twelve months ended December 31, 2015 and December 31, 2014 respectively, have been removed from the calculation due to Air Canada's offsetting liability under the CPA for rental payments and return condition obligations. If these Air Canada operating leases were included, return on invested capital would be 14.1% and 14.6% respectively.

## Adjusted net debt

The following table reflects Chorus' adjusted net debt balances as at December 31, 2015 and as at December 31, 2014:

| (expressed in thousands of Canadian dollars) | December 31, 2015<br>$ | December 31, 2014<br>$ | Change<br>$ |
|---|---|---|---|
| Long-term debt, finance leases | 604,741 | 407,410 | 197,331 |
| Consideration payable | 30,168 | — | 30,168 |
| Total long-term debt and finance leases (including current portion) | 634,909 | 407,410 | 227,499 |
| Less: Cash | (32,677) | (114,578) | 81,901 |
| Net debt | 602,232 | 292,832 | 309,400 |
| Capitalized operating leases | 66,529 | 54,514 | 12,015 |
| Adjusted net debt | 668,761 | 347,346 | 321,415 |

Adjusted net debt is a non-GAAP financial measure used by Chorus and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of capital management by Chorus and provides management with a measure of its net indebtedness. Chorus includes capitalized operating leases which is a measure commonly used in the airline industry to ascribe a value to obligations under operating leases. Common industry practice is to multiply annualized aircraft rent by 7.5. This definition of capitalized operating leases is used by Chorus and may not be comparable to similar measures presented by other public companies. Aircraft rent was $103.3 million and $93.4 million for the trailing twelve months ended December 31, 2015 and December 31, 2014 respectively. The majority of Chorus' aircraft under operating leases are subleased from Air Canada, or its subsidiary, which hold the head lease or own the aircraft. Aircraft rent related to these aircraft of $94.5 million and $86.1 million for the trailing twelve months ended December 31, 2015 and December 31, 2014 respectively, have been removed from the calculation due to Air Canada's offsetting liability under the CPA for rental payments and return condition obligations. If these Air Canada operating leases were included in the above definition, adjusted net debt would be $1,377.0 million and $993.0 million respectively.

As at December 31, 2015, adjusted net debt increased from $347.3 million to $668.8 million, representing an increase of $321.4 million or 92.5% from December 31, 2014. This increase was a result of a higher US dollar exchange rate which increased long-term debt by approximately $69.1 million, new debt and finance leases of $162.3 million, consideration payable related to the Voyageur acquisition of $30.2 million, net cash used for the Voyageur acquisition of $45.5 million, cash to make the $13.5 million one-time signing bonuses in 2015, $2.1 million related to advisory fees for the January 1, 2015 Amendment and deposits made on additional Q400s and the ESP of $26.2 million. These increases were offset by debt repayments of $39.2 million.

## 21 RISK FACTORS

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

**Risks Relating to the 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 in North America could have the effect of reducing demand for air travel. Any such event could have a material adverse effect on Chorus' business, results from operations and financial condition.

*Competition in the regional airline industry*

Chorus' ability to provide regional air service is limited by existing relationships that network airlines have with other regional operators. In addition, many of the network airlines are subject to scope clause restrictions under their collective bargaining agreements with employees that restrict their ability to add new regional jet capacity. New competitors may also enter the regional airline industry. Such new or existing competitors may enter into capacity purchase agreements with airlines, including Air Canada, in respect of routes currently operated by Chorus. Capacity growth by other regional airlines in the regional jet market would lead to significantly greater competition and may result in lower rates of return in the regional airline industry. Further, many of the network airlines are focused on reducing costs, which may also result in lower operating margins in the regional airline industry. Aggressive competition among tour operators and carriers providing flying services can limit Chorus' ability to expand in those markets. Any of the foregoing events could have a material adverse effect on Chorus' business, results from operations and financial condition.

*Interruptions or disruptions in airport facilities*

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

*Cyber-attacks and dependence on technology*

Chorus relies in part on technology, including computer and telecommunications equipment and software to increase revenues, reduce costs and operate its business. Proper implementation and operation of technology initiatives is fundamental to Chorus' ability to operate a profitable business. Chorus continuously invests in new technology initiatives to remain competitive, and its continued ability to invest sufficient amounts to enhance technology will affect Chorus' ability to operate successfully. An inability to invest in technological initiatives would have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus' technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of natural disasters, cyber-attacks, telecommunications failures, computer viruses, hackers and other security issues. While Chorus maintains and continues to invest in technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any failure in technology employed by Chorus could materially and adversely affect Chorus' operations and could have a material adverse effect on Chorus' business, results from operations and financial condition.

*Epidemic diseases*

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

*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 the restrictions on the content of carry-on baggage, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Chorus' flights. Geopolitical instability in various areas of the world could have the effect of reducing demand for air travel. Any such negative effect on demand could have a material adverse effect on Chorus' business, results from operations and financial condition.

*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 has announced that it will not continue to provide the indemnity after that date. As a result, effective January 1, 2016, Jazz has acquired replacement coverage for this risk to the extent coverage is currently available in commercial insurance markets, and which coverage satisfies Jazz's obligations to its aircraft lessors and lenders.

*Casualty losses*

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

*Regulation and potential legislative changes*

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, licensing, competition, the environment (including noise levels) and, in some measure, pricing. Additional laws and regulations may be proposed, and decisions rendered, from time to time which could impose additional requirements or restrictions on airline operations. The implementation of additional regulations or decisions by Transport Canada, the Competition Bureau and/or Competition Tribunal, the Canadian Transportation Agency or other local, domestic or foreign governmental entities may have a material adverse effect on Chorus' business, results from operations and financial condition. Chorus cannot give any assurances that new regulations or revisions to the existing legislation, or decisions, will not be adopted or rendered. The adoption of such new laws and regulations or revisions, or the rendering of such decisions, could have a material adverse effect on Chorus' business, results from operations and financial condition.

Chorus is also subject to domestic and foreign laws regarding privacy of passenger and employee data, and compensation for tarmac delays. Compliance with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on Chorus' business, results from operations and financial condition.

As a participant in the airline industry, Chorus is exposed to any future regulations concerning greenhouse gas emissions by its aircraft. Chorus would be faced with additional costs necessary to comply with any such regulations, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

On August 2, 2015, Bill C-439, *An Act Respecting the Rights of Air Passengers*, died on the order paper of the previous session of Parliament. If reintroduced to the current or a future session of Parliament, the Bill would impose obligations on air carriers in the event of certain flight delays, flight cancellations, denied boarding to passengers or ground delays of aircraft with passengers on board. Such legislation could lead to significant costs for air carriers, including Chorus, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form currently proposed by Bill C-439 or otherwise.

Also on August 2, 2015, Bill C-51, which included the *Secure Air Travel Act* died on the order paper of the previous session of Parliament. If reintroduced to the current or a future session of Parliament, that Act would provide a new legislative framework for identifying and responding to persons who may engage in an act that poses a threat to transportation security or who may travel by air for the purpose of committing a terrorism offence. It would also authorize the Minister of Public Safety and Emergency Preparedness to establish a list of such persons and to direct air carriers to take any necessary actions to prevent the commission of such acts. Such legislation could lead to increased costs for air carriers, including Jazz and Voyageur Airways, which could have a material adverse effect on Chorus' business, results from operations and financial condition. Management cannot predict whether such proposed legislation will be enacted, if at all, or if enacted whether its provisions will be in the form previously proposed by Bill C-51 or otherwise.

**Risks Relating to Chorus**

*Employees*

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

*Labour costs and labour relations*

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

The majority of Chorus employees are unionized. Jazz's current agreements with its pilots, represented by ALPA, its flight attendants, represented by CFAU, and its flight dispatch employees, represented by CALDA, do not expire until the end of the CPA in 2025 and contain no-strike clauses. On January 28, 2016, Chorus announced that a new tentative agreement had been reached with Jazz maintenance and engineering employees represented by Unifor. The agreement is subject to a ratification vote by union members. Jazz crew schedulers and airports customer service employees, also represented by Unifor, have Collective Agreements in place until June 30, 2016 and January 13, 2017 respectively.

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

*Leverage and restrictive covenants in current and future indebtedness*

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

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

*Dilution of Shareholders*

Chorus is authorized to issue an unlimited number of Class A Variable Voting Shares and an unlimited number of Class B Voting Shares for consideration, and on terms and conditions, as shall be established by the Board. The Shareholders have no pre-emptive rights in connection with such further issues. Chorus may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Chorus which may be dilutive, and materially adverse to current Shareholders.

*Uncertainty of dividend payments*

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

*Level of indebtedness - refinancing risk*

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

*Diversification and growth*

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

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

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

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

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

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

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

*Reliance on key personnel*

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

*Risks relating to financial instruments*

For a description of the interest rate risk, credit risk, liquidity risk and currency risk associated with Chorus' financial instruments, see the discussion in Section 13 - Financial Instruments and Risk Management.

*Off balance sheet arrangements and guarantees*

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

*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.

Chorus is dependent on Bombardier as the supplier of new Q400s and the planned Dash 8 300 ESP. If Chorus is unable to acquire additional aircraft from Bombardier, complete the ESP, or if Bombardier were unable or unwilling to provide adequate support for their products, Chorus' business, operating results and financial condition could be adversely affected.

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

*Legal Proceedings*

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

**Risks Relating to Chorus' Relationship with Air Canada**

*Dependence on Air Canada*

Chorus is directly affected by the financial and operational strength of Air Canada and its competitive position. Air Canada has, like other network carriers, sustained significant operating losses in the past and may sustain significant losses in the future. Air Canada's business, results from operations and financial condition are subject to a number of risks, including:

- Air Canada has substantial commitments for capital expenditures, including for the acquisition of new aircraft.
- Fuel costs, despite recent lows, continues to constitute a significant portion of Air Canada's operating expenses.
- Labour conflicts or disruptions.
- The airline industry is highly competitive and subject to price discounting.
- The risk factors described under "Risks Relating to the 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 Chorus under the CPA or other defaults by Air Canada of its obligations under the CPA or other contracts with Chorus, which would have a material adverse effect on Chorus' business, results from operations and financial condition.

*Liquidity*

Air Canada has significant ongoing capital and liquidity requirements and from time to time issues new equity, enters into or amends credit facilities and seeks cost cutting or containment changes to its arrangements with its workforce, suppliers and other stakeholders in order to improve its liquidity position. There can be no assurance that these measures will provide Air Canada with sufficient liquidity to continue operations in the longer term. The failure of Air Canada to satisfy its liquidity requirements could have a material adverse effect on Chorus' business, results from operations and financial condition. Such material adverse effect could arise as a result of any inability of Air Canada to pay all amounts owing to Chorus under the CPA or other defaults by Air Canada of its obligations under the CPA or other contracts with Chorus.

*Termination of the CPA*

Substantially all of Chorus' current revenues are received pursuant to the CPA, which currently covers the Covered Aircraft. During the term of the CPA, which expires December 31, 2025, the non-defaulting party is entitled to terminate the CPA at any time upon the occurrence of an event of default by the other party. Events of default include, without limitation:

- Bankruptcy or insolvency of the other party.
- Suspension or revocation of any of Chorus' regulatory authorizations and licenses required for Chorus to perform the air services required by the CPA.
- Failure by Air Canada or Chorus to pay amounts when due where such default continues for a period of 30 days after notice.
- Failure by Air Canada or Chorus 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 Aircraft do not operate any Scheduled Flights for more than seven consecutive days or 25% of the 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.
- Failure by Chorus to maintain adequate insurance.
- Failure of Chorus to maintain specified critical service levels for four consecutive quarters or five of the prior eight quarters.
- Failure by Chorus to comply with Air Canada's audit and inspection rights.

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

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

If the CPA is 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 will not be automatically terminated. In such event, Chorus would remain liable for its obligations under such leases with no corresponding ability to earn income under the CPA to cover its lease obligations, which could have a material adverse effect on Chorus' business, results from operations and financial condition.

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

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

Early termination of the CPA constitutes an event of default under Chorus' financing arrangements with EDC in respect of the Q400s. In the event of such termination, EDC has the right to oblige Chorus to immediately repay all amounts financed in respect of these aircraft. Such repayment would have a material adverse effect on Chorus' liquidity and financial condition.

Upon the expiration or termination of the CPA, Chorus may lose access to airport facilities at key locations where Air Canada supplies facilities and other services to Chorus. Chorus 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 Chorus' principal domestic destinations are leased by Air Canada from airport authorities. Under the CPA, Chorus is currently entitled to use these facilities to fulfill its obligations to Air Canada. All of Chorus' airport takeoff or landing slots used for Scheduled Flights are under Air Canada's name. Upon the expiry or termination of the CPA, Chorus may lose access to those airport facilities, airport takeoff or landing slots, and Chorus 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 Chorus would have access to other airport facilities or slots or as to the terms upon which Chorus could do so. Chorus' inability to secure access to sufficient airport facilities or slots, or ability to do so only with a significant cost increase, could have an adverse effect on Chorus' business, results from operations and financial condition.

*Compensation under the CPA*

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

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

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

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

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

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

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

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

*Seasonal nature of the business, other factors and prior performance*

Under the CPA, Chorus 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. Chorus has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short-term. Chorus' 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, Chorus is paid by Air Canada through rates based on a variety of different metrics and Chorus' estimated Controllable Costs in the applicable period plus certain predetermined fixed fees during the remaining term of the CPA. However, Chorus' actual quarterly results could differ from those contemplated by the target margin based on a variety of factors, including the timing of capital expenditures and changes in operating expenses, such as personnel and maintenance costs, over the course of a fiscal year.

*Pilot Mobility*

Jazz has entered a pilot mobility agreement with Air Canada. Air Canada expects to be in need of pilots as it continues to grow and face increased pilot retirements. Air Canada has agreed to source at least 80% of its new pilot hires from Jazz pilots named on the pilot mobility list (discussed in Section 2 - Capacity Purchase Agreement with Air Canada). As Air Canada hires Jazz pilots, Jazz will have to replace such pilots, which it anticipates it will be able to do on similar wage rates and pension and benefit terms as agreed to in the ALPA collective agreement. If Jazz were to have to pay costs materially above those in the new collective agreement, it could have a material adverse effect on Chorus' business, results from operations and financial condition.

*Force Majeure*

If either Air Canada or Chorus is prevented from performing its obligations under the CPA in whole or in part due to a force majeure event, the affected party shall 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.

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

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

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

*Air Canada Pilots Association ("ACPA") Scope Clauses*

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

*Absence of exclusivity arrangements*

Chorus does not benefit from exclusivity arrangements preventing Air Canada from allocating some or all of its 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. 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*

Contractual agreements, such as the CPA, are subject to interpretation and conflicts or disputes may arise under such agreements if the parties to an agreement apply different interpretations to that agreement. 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 Chorus and the services Chorus provides to Air Canada.
- The terms of Air Canada's and Chorus' respective collective bargaining agreements.
- Non-competition provisions (refer to Risks related to Chorus - Diversification and growth).
- Chorus' and Air Canada's respective rights and obligations under the CPA or other agreements between Chorus and Air Canada, including conflicts based on differing interpretations of the contract language.

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

*Leasing risk related to Q400s*

Chorus derives a significant portion of its revenues under the CPA from leasing Q400s. Chorus is paid a Fixed Margin per Covered Aircraft for an agreed number of Q400s during the term of the CPA. When the CPA expires on December 31, 2025, there is a risk that Chorus will be unable to find use for these aircraft to generate equivalent revenue. Any such inability to utilize such aircraft could have a material adverse effect on Chorus' business, results from operations and financial condition.

**Risks Relating to the Voyageur business**

*International operations and doing business in foreign countries*

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

*Renewal of customer agreements and competition*

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

## 22 GLOSSARY OF TERMS

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

"**ABCP**" means asset backed commercial paper;

"**Billable Block Hours**" mean actual Block Hours flown and Block Hours related to weather and air traffic control cancellations, and commercial cancellations and commercial ferry flights;

"**Block Hours**" mean the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60;

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

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

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

"**Chorus**" references herein to Chorus or the Company in this MD&A refer to, as the context may require, one or more of Chorus Aviation Inc. and its current and former subsidiaries;

"**Compensating Mark-Up**" has the meaning formerly given in the CPA before the January 1, 2015 CPA Amending Agreement;

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

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

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

"**CPA**" means the amended and restated capacity purchase agreement effective January 1, 2006, between Air Canada and Jazz, as amended on January 1, 2015 and as supplemented by the Rate Setting Agreement;

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

"**CRJ200**" and "**CRJ705**" means Bombardier CRJ 200 and CRJ 705 regional jet aircraft;

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

"**Debentures**" mean the $80.2 million principal amount of 9.50% convertible unsecured subordinated debentures of Chorus fully redeemed during 2014;

"**Departure**" means one take off of an aircraft;

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

"**ESP**" means the agreement entered into by Chorus with Bombardier to be the launch customer for the Dash 8-300 Extended Service Program to extend the service life of the Dash-8-300s;

"**Extended Hub Airport**" has the meaning given in the CPA;

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

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

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

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

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

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

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

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

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

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

"**Jazz Leasing Inc.**" means Jazz Leasing Inc., a corporation incorporated under the CBCA on November 28, 2013;

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

"**Maintenance Capital Expenditures**" represent expenditures incurred to sustain operations or Chorus' productive capacity, which excludes Q400s and engine purchases;

"**MD&A**" means Chorus' management's discussion and analysis of results of operations and financial condition;

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

"**Operating Aircraft**" means the aircraft in Chorus' fleet, less aircraft which have not yet entered commercial service;

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

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

"**PAWOBs**" means passengers arriving without baggage;

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

"**Rate Setting Agreement**" means the agreement between Jazz and Air Canada to set rates effective for 2015;

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

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

"**Unit Costs**" has the meaning given in the CPA; and

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

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

"**Voyageur Airways**" means Voyageur Airways Limited, a corporation incorporated under the Business Corporations Act (Ontario) on January 4, 1968.

# EXHIBIT

# 13

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 14

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 15

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 16

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 17

## [REDACTED AS CONFIDENTIAL]

# EXHIBIT

# 18

## [REDACTED AS CONFIDENTIAL]

4

CT-2016-015

THE COMPETITION TRIBUNAL

**IN THE MATTER OF** the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

**AND IN THE MATTER OF** certain conduct of Vancouver Airport Authority relating to the supply of in-flight catering at Vancouver International Airport;

**AND IN THE MATTER OF** an application by the Commissioner of Competition for one or more orders pursuant to section 79 of the *Competition Act*.

**BETWEEN:**

**COMMISSIONER OF COMPETITION**

**Applicant**

**— and —**

**VANCOUVER AIRPORT AUTHORITY**

**Respondent**

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**AFFIDAVIT OF DR. GUNNAR NIELS**
(Affirmed 4 July 2018)

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1. On November 14, 2017, I swore an affidavit (the "November Affidavit") attaching my report setting out my analysis related to the above noted matter (the "November Report").

2. Because of the Competition Tribunal's Order Amending the Scheduling Order dated March 21, 2018, the Commissioner has asked that I update my November Report to incorporate information provided to me after November 15, 2017. The Commissioner has also asked me to provide opinions related to VAA's licencing dnata Catering Services Ltd. to provide in-flight catering services at YVR. Appendix A2 of my updated report contains the specific instructions from the Commissioner to update the November Report.

3. I attach as Exhibit "A" to this affidavit the updated report.

4. I attach as Exhibit "B" a redline that shows the changes made in the updated report from the November Report.

5. I rely on my curriculum vitae and Acknowledgement of Expert Witness attached as exhibits to the November Affidavit.

**AFFIRMED before me** at the )
City of OXFORD )
United Kingdom )
on 4 July 2018 )

A Commissioner for Taking Affidavits, etc. )

**DR. GUNNAR NIELS**

Martin James Henry Burn, Notary Public
7200 The Quorum,
Oxford Business Park North, Oxford, OX4 2JZ
01865487136 martyburn@oxemplaw.co.uk

**This is Exhibit "A" to the**
**Affidavit of Dr. Gunnar Niels**
**Affirmed before me 4 July 2018**

**A Commissioner for Taking Affidavits, etc.**

Martin James Henry Burn, Notary Public
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CT-2016-015

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**Applicant**

**— and —**

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**Respondent**

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# EXPERT REPORT OF DR. GUNNAR NIELS

**4 JULY 2018**

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# Expert report of Dr Gunnar Niels

In the matter between

Commissioner of Competition
and
Vancouver Airport Authority

4 July 2018

Confidential version

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## Contents



Oxera Consulting LLP is a limited liability partnership registered in England no. OC392464, registered office: Park Central, 40/41 Park End Street, Oxford OX1 1JD, UK; in Belgium, no. 0651 990 151, registered office: Avenue Louise 81, 1050 Brussels, Belgium; and in Italy, REA no. RM - 1530473, registered office: Via delle Quattro Fontane 15, 00184 Rome, Italy. Oxera Consulting GmbH is registered in Germany, no. HRB 148781 B (Local Court of Charlottenburg), registered office: Rahel-Hirsch-Straße 10, Berlin 10557, Germany.

# 1 Introduction

1.1 I, Dr Gunnar Niels, Partner, Oxera Consulting LLP, Park Central, 40/41 Park End Street, Oxford, UK, say as follows.

## 1A Qualifications

1.2 I am a professional economist with nearly 25 years of experience working in the field of competition analysis and policy. I am a Partner at Oxera, an independent economics consultancy based in Europe specialising in competition, regulation and finance. My work at Oxera has involved providing economic analysis and expert testimony across a range of jurisdictions, including the EU, the UK, the Netherlands, Austria, Germany, Spain, South Africa and New Zealand. I have acted for companies, courts and competition authorities, and for both defendants and claimants, in a variety of matters and across different industries.

1.3 I am currently a non-governmental adviser to the UK for the International Competition Network Working Group on Unilateral Conduct. I am on the editorial boards of *Oxford Competition Law* and *Markt & Mededinging* (a Dutch journal), have been a guest editor for the *Antitrust Bulletin*, and have published in many other journals. I am co-author of *Economics for Competition Lawyers* (second edition, Oxford University Press, 2016). I have a Masters and PhD in Economics from the Erasmus University Rotterdam, the Netherlands. Before joining Oxera in 1999, I was deputy head of the Economics Directorate at Mexico’s Federal Competition Commission. During my time there I took part in cooperation programmes with the US and Canadian competition agencies in the context of the North American Free Trade Agreement.

1.4 I have extensive experience in competition and regulatory cases in the aviation industry. At different times I have provided advice to British Airports Authority (BAA), Gatwick Airport, Dublin Airport Authority, Schiphol Airport Group, Macquarie Airports, Manchester Airports Group and the Airports Council International on regulatory and policy matters. I acted as expert for easyJet in a competition law action against Liverpool Airport (2007), and for car park operators in competition cases against Glasgow Prestwick Airport (2006) and Leeds Bradford International Airport (2012). I also acted as an expert for a bus company, Arriva, in an abuse of dominance case against Luton Airport (2013–14).

1.5 I acted as expert for the New Zealand Commerce Commission in its case against various airlines relating to an international air cargo cartel (2011), and for groups of claimants against air cargo cartels in Australia (2013–14), the UK (2009 to date), and the Netherlands (2016 to date). I advised Flybe in an abuse of dominance inquiry by the UK competition authorities (2010), and Ryanair during the European Commission and UK inquiries into its proposed acquisition of Aer Lingus (2011–15). I have also worked on a ground-handling merger in Singapore (2008). I have advised Ryanair in relation to several ongoing state aid investigations by the European Commission into deals with regional airports (2004 to present).

1.6 Further details of my experience and publications are included in Appendix A1.

1.7 In undertaking the analysis for this expert report, I have been assisted by my colleagues Michele Granatstein, Principal, Rebecca Gu, Consultant, Tamrat Shone, Consultant, Michael Horn, Consultant, Shiv Patel, Analyst, and Sean Duckers, Analyst. All analysis has been carried out under my supervision.

## 1B Instructions and economic questions of relevance to the case

1.8 I have been instructed by the Commissioner of Competition ('the Commissioner') to provide an expert analysis relating to his abuse of dominance case against the Vancouver Airport Authority ('VAA'), as articulated in the Notice of Application ('the Notice') that the Commissioner filed on 29 September 2016.[1]

1.9 I previously submitted an expert report on 15 November 2017.[2] Pursuant to the Scheduling Order, the hearing dates were then amended and delayed by approximately eight months.[3] As a result, I have updated the analysis from my expert report to take account of events occurring or matters arising from information or documents that have become available to me since 15 November 2017.[4]

1.10 This type of case is not uncommon under competition law. As a matter of economics, the refusal to grant access to providers of in-flight catering services

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[1] Notice of Application of the Commissioner of Competition, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15.
[2] 'Expert report of Dr Gunnar Niels', 14 November 2017, Public version, available at http://www.ct-tc.gc.ca/CMFiles/CT-2016-015_Expert%20Report%20of%20Dr.%20Gunnar%20Niels_137_67_11-15-2017_6407.pdf.
[3] Competition Tribunal (2018), 'Order Amending the Scheduling Order', 21 March.
[4] I have also made updates in relation to Gate Gourmet's 2015 and 2016 management account data—see footnote 68.

(i.e. catering and/or galley-handling providers), or granting such access discriminatorily, can constitute an anticompetitive act or conduct in the airside access market, the competitive detriment of which arises in related downstream markets. In competition law terms, a firm can abuse its dominant position in one market with the object and/or effect of preventing or lessening competition in another, related market.

1.11 In the present case, the markets in question are related vertically (in terms of forming part of the same vertical supply chain): airside access is an upstream input into the provision of in-flight catering services downstream. The potential effect of this refusal to grant access upstream is the foreclosure of competition downstream between providers of in-flight catering services, which is a recognised theory of harm in competition policy that can be addressed under the abuse of dominance rules.

1.12 Section 79 of the Competition Act sets out a three-part test for the establishment of abuse of dominance:[5]

- 79(1)(*a*) requires that one or more persons substantially or completely controls, throughout Canada or any area thereof, a class or species of business;
- 79(1)(*b*) requires that the person or those persons have engaged in or are engaging in a practice of anticompetitive acts;
- 79(1)(*c*) requires that the practice has had, is having or is likely to have the effect of preventing or lessening competition substantially in a market.

1.13 The Commissioner has asked me to address a number of economic questions that are relevant for the application of this three-part test for abuse of dominance, as follows.

1. Whether VAA substantially or completely controls (i.e. is dominant) in one or more markets relating to the supply of one or more components of in-flight catering at Vancouver International Airport ('YVR') and, more specifically:
    - whether VAA is dominant in a market for access to the airside at YVR for the supply of one or more components of in-flight catering and, in this regard, whether any market power held by VAA in such a market is or

[5] Competition Act, R.S.C. 1985, c. C-34.

would likely to be constrained as a result of competition between YVR and other airports, or otherwise.

2. Whether there exist any justifications from an economic perspective that could apply to a decision by VAA to refuse to permit additional competition at YVR in respect of one or more components of in-flight catering and, more specifically:

   - whether only two providers of in-flight catering services can operate profitably at YVR.

3. Whether VAA's refusal to permit additional competition at YVR in respect of one or more components of in-flight catering, or VAA's practice of tying authorisation to access the airside at YVR to provide one or more components of in-flight catering to a firm locating its in-flight catering facility on YVR property, has had, is having or is likely to have the effect of preventing or lessening competition substantially in a relevant market.

1.14 Subsequent to submitting my expert report on 15 November 2017, the Commissioner has asked me to address two additional questions, as follows.

1. Whether additional providers of in-flight catering services can operate profitably at YVR; and

2. Whether VAA's continuing policy to restrict entry at YVR in respect of one or more components of in-flight catering, is having or is likely to have the effect of preventing or lessening competition substantially in a relevant market.

1.15 In this report I present several pieces of economic analysis that address these questions, and hence ultimately inform on the legal analysis of the case.

1.16 I acknowledge that I comply with the Competition Tribunal's code of conduct for expert witnesses, as described below.[6]

- An expert witness who provides a report for use as evidence has a duty to assist the Tribunal impartially on matters relevant to his or her area of expertise.

[6] Competition Tribunal, December 2010, Re: Acknowledgement of Expert Witness, available at http://www.ct-tc.gc.ca/Procedures/AcknowledgementForm-eng.asp.

- This duty overrides any duty to a party to the proceeding, including the person retaining the expert witness. An expert is to be independent and objective. An expert is not an advocate for a party.

## 1C Structure of the report

1.17 The first set of economic analyses—presented in **section 2**—addresses the question of whether VAA is dominant. The first step in the analysis of dominance is to delineate the relevant markets.

1.18 The economics of airport operations means that it is often relevant to consider the broader competitive environment in which the airport operates, as this may affect its incentives with respect to organising access to its facilities for downstream service providers. I therefore analyse the extent to which VAA faces competitive constraints from other airports, and whether, as VAA states, any such constraints would also limit the market power of VAA in the provision of airside access at the airport.[7]

1.19 For the question of dominance it is also relevant to consider whether airside access is very important (or even essential) in order for providers of in-flight catering services to compete effectively downstream. (In this report I use the term 'in-flight catering services' to include the activities of galley handling and catering.) This includes an assessment of whether there are alternatives that can substitute for access to the airport airside.

1.20 VAA is not itself active in the provision of galley-handling and catering services. However, I do analyse how these downstream markets may be delineated for the purpose of the present case. I understand that Canada's Federal Court of Appeal has established that, even if a firm does not participate directly in a particular market, it may still have dominance in that market:

> The Commissioner takes the position that a person that is not a competitor in a particular market nevertheless may control that market substantially within the meaning of paragraph 79(1)(a) by, for example, controlling a significant input to competitors in the market, or by making rules that effectively control the business conduct of those competitors. In my view, the Commissioner's position

[7] See, for example, Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, para 65.

reflects an interpretation of paragraph 79(1)(a) that its words can reasonably bear, given the statutory context.[8]

1.21 The second set of economic analyses—presented in **section 3**—explores whether, from an economic perspective, there is any objective justification for the refusal to grant access. For example, as VAA states, if there is only limited physical capacity, or economies of scale are large relative to total market demand, then granting access to all in-flight catering operators may not be feasible or efficient.[9]

1.22 Nevertheless, in these circumstances the available capacity could, in principle, still be allocated among operators in such a way that competition downstream is maintained as much as possible; or competition itself (rather than the airport) could be relied on to determine which operators are best suited to serve the market. These are questions I also turn to in section 3.

1.23 Based on financial data made available to me, I have carried out an analysis of the profitability of the operations of the current providers at YVR, Gate Gourmet and CLS. This allows me to assess how many providers of in-flight catering services can viably operate at YVR. This question can be asked for the period from around 2014 when Newrest and Strategic Aviation requested access. It can also be asked today (from 2018) now that dnata has been allowed to commence operations as a third caterer.

1.24 The third set of economic analyses—presented in **section 4**—explores whether competition in the downstream market was or is substantially lessened or prevented by VAA's refusal to grant access to the in-flight catering market.

1.25 The available price and sales data has allowed me to look at the effects of entry on switching and prices in the in-flight catering market at Canadian airports other than YVR. This is informative for understanding the competitive dynamics that could arise at YVR if entry were no longer restricted. Another way of putting this is whether the competitive dynamics and outcomes would be substantially improved if a new entrant were allowed into the in-flight

[8] Federal Court of Appeal (2014), 'Commissioner of Competition v. Toronto Real Estate Board', 2014 FCA 29, para 14.
[9] See, for example, Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 3 and 75, and Schedule A – Concise Statement of Economic Theory, para 11.

catering market at YVR. I present the results of this data and econometric analysis in section 4.

1.26 In **section 5** I present my overall conclusions. Section 1E at the end of the present section provides a summary of my conclusions.

1.27 Appendix A1 provides my CV and list of publications. Appendix A2 sets out the questions that the Commissioner has asked me to address. Appendix A3 provides a list of airports referred to in my analysis, for ease of reference.[10] Appendix A4 provides more detail about the data used in my analysis in section 4. My detailed workings and data for all sections are provided separately in an electronic file.

## 1D List of documents reviewed and data received

1.28 I have been given access to the documents and data received by the Commissioner in his filing of the Notice, including:

- pleadings by the Commissioner and VAA, including the Notice of Application of the Commissioner of Competition and the Response of Vancouver Airport Authority;
- transcripts arising from the examination of VAA as well as responses to undertakings, and information from any subsequent examination and discovery;
- datasets of [redacted] for which the document identification numbers are provided in a separate file;
- the OAG database of flight information for Canadian and international airports;
- information and records that have been disclosed to the Commissioner voluntarily and/or pursuant to court order by VAA and by third parties;
- witness statements from airlines and in-flight catering firms;
- [redacted].

[10] This Appendix is as presented in my expert report of 15 November 2017. The airport information has been updated to 2017 data. As noted in section 2, I have used OAG data rather than airport websites for this 2017 update. The list of airports referred to in my updated analysis can therefore be found in my datapack, rather than in this Appendix.

1.29 All documents that I have relied upon are referenced in the footnotes of this report.

## 1E Summary of conclusions

### 1E.1 Conclusions on market definition and dominance (section 2)

1.30 There are a number of relevant markets in this case:

- the **airports market**, in which airports compete for airlines and passengers;
- the **airside access market** at an airport, which involves access to infrastructure at the airport to provide catering and galley-handling services;
- the **catering and galley-handling market(s)**, which are the downstream markets where competition is potentially prevented or lessened as a result of VAA's conduct.

1.31 I find that VAA faces limited competitive constraints from other airports. For origin and destination ('O&D') passengers, Bellingham is the only airport within YVR's catchment area, but has no overlap in Canadian or international destinations. Additionally, there are surface access constraints associated with Bellingham and the two other airports nearest to YVR—i.e. Seattle and Victoria. As regards transfer passengers, I find that competition from other airports for Pacific Rim (transfer) traffic does not pose a significant constraint on YVR.

1.32 As the operator of YVR, VAA has responsibility for controlling access to the airport's facilities. I find that self-supply and double catering are to some extent (for certain types of flight and routes) alternatives to procuring in-flight catering services at VAA, but not by a sufficient degree for them to pose a significant competitive constraint on VAA when providing airside access. These alternatives therefore do not change my conclusion that VAA is dominant in the market for airside access at the airport.

1.33 The precise delineation of the downstream markets—in particular, whether galley-handling and catering services at YVR are separate markets or a single market—can be left open. What matters is that the refusal to grant airside access has an impact on the activity of galley handling, which relies on airside access.

1.34 Finally, I note that a theory of harm of lessening downstream competition through a refusal to grant access to an upstream input requires the firm in question to be dominant upstream, but does not require it to be dominant downstream, or even to be directly active downstream. Even if the firm is not vertically integrated, as is the case for VAA, it may have a financial stake in the outcome of competition in the downstream market.

### 1E.2 Conclusions on the scope for entry at YVR (section 3)

1.35 My assessment of whether the in-flight catering market at YVR can sustain entry is rooted in profitability analysis, using the earnings before interest, taxes, depreciation and amortisation (EBITDA) margin as a profitability measure. I find that a [redacted]% EBITDA margin is a reasonable benchmark range for the market to be able to sustain entry. Gate Gourmet's and CLS's current margins at YVR are [redacted]. I also assess whether the market for in-flight catering at YVR would have been able to sustain a third firm from 2014 (when Newrest and Strategic Aviation requested access), and whether it could sustain additional entry after dnata commences its operations at YVR in 2018.

1.36 My analysis (both static and dynamic) indicates that, from 2014, the market was able to sustain a third entrant that either requires or does not require on-airport kitchen space—i.e. the combined profit margin in this case would be within the indicative benchmark range.

1.37 I also carry out a forward-looking analysis following the commencement of operations of dnata in 2018—where prices, demand and costs may all change going forward. My results suggest that profitability in the market as a whole would remain sufficient for four viable operators if another provider similar in size to [redacted] were to enter the market from 2018. If the entry of firms to the market caused a reduction in market-wide variable costs then it is possible that the market could also sustain larger entrants than [redacted].

1.38 My conclusion on the viability of entry from 2014 is supported by [redacted], which finds that a new entrant would be profitable. My conclusion is also consistent with [redacted] it offered dnata a licence to operate at YVR.

1.39 Finally, I note that the competitive process itself can and should determine how many competitors can operate viably. Even if, contrary to my conclusion, there were room for only two providers at YVR from 2014 onwards, or for three following dnata's entry in 2018, the competitive process would be well placed to determine which two, or which three, providers they should be. Competition ensures that firms that are the most efficient, innovative and/or responsive to customers are the ones that survive.

### 1E.3 Conclusions on the effects of restricting entry at YVR (section 4)

1.40 The available data has allowed me to look at the effects of entry on switching and prices in the in-flight catering market at airports other than YVR. This is informative for understanding the competitive dynamics that would be likely to arise at YVR if entry were no longer restricted, and hence for assessing whether VAA's conduct has substantially prevented or lessened competition.

1.41 I find only one instance of an airline switching in-flight catering firms at YVR between 2013 and 2017—American Airlines switched from CLS to Gate Gourmet in August 2013. In contrast, I find substantially more switching at other airports in Canada. That switching typically involves a new entrant. A significant proportion of switches occurred within one month of entry, indicating that switching and entry may be linked; sometimes entry is directly encouraged by airlines that are willing to switch. This indicates that, absent VAA's refusal to grant airside access, there would be enhanced competitive dynamics in the provision of in-flight catering services at YVR.

1.42 I analyse the gains from switching in-flight catering firms accruing to Jazz Aviation LP ('Jazz'), a Canadian-based airline. These switches were to Newrest and Strategic Aviation, the two firms that sought to enter the in-flight catering market at YVR in 2014. I find that Jazz saved approximately $[redacted] across the airports where it switched provider in the year after the switch occurred. This saving is largely attributable to [redacted]. It represents a cost saving of approximately [redacted]% for Jazz.

1.43 Finally, I find robust evidence of a reduction in [redacted] galley-handling prices for [redacted] airlines in response to the entry of [redacted], despite these airlines not actually switching themselves. I estimate that [redacted] galley-handling prices to [redacted] airlines that do not switch provider decrease by an average of [redacted]% to [redacted]% after Strategic Aviation enters. These smaller airlines in aggregate represent approximately [redacted] of the flights at YVR. This suggests that entry can also benefit airlines that do not switch. For [redacted] airlines the result is not clear-cut. There are a number of reasons why the [redacted]. In all, I interpret these results to be a further indication of the enhanced competition and customer benefits that would arise if there were no airside access restrictions at YVR.

# 2 Analysis of the relevant markets and dominance

## 2A Main principles of market definition

2.1 Market definition is a useful first step in determining dominance. The relevant market delineates the group of products and geographic areas from which the firm in question faces significant competitive constraints. In this case, to assess whether VAA has a dominant position, one must delineate the markets in which VAA operates.

2.2 Market definition also helps to identify related markets where the conduct in question may have anticompetitive effects, even if they are not the markets in which the conduct takes place or where the firm in question is dominant. For example, a firm may have a dominant position in an upstream market, but the lessening of competition could arise in a downstream market. In this case the alleged lessening of competition arises in the downstream galley-handling market at YVR.

2.3 Markets are usually defined with reference to demand-side substitution: which other products or geographic areas would customers switch to if there were an increase in the price of the product or geographic area in question (known as the candidate product and candidate area)? If switching after a small price increase were significant, those other products and/or areas should be included in the relevant market.[11]

2.4 This demand-side substitution may be influenced by direct customers, but may also be influenced by demand from indirect customers (commonly referred to as 'derived demand'). For example, demand by airlines at an airport may be influenced by passenger demand—if passengers consider two airports to be close substitutes, then so, normally, would airlines. Likewise, demand for access to an airport's facilities by providers of in-flight catering may be influenced by the preferences of airlines.

2.5 In any given case there may be more than one relevant market. There may be different relevant markets determined by:

[11] Competition authorities around the world often refer to the hypothetical monopolist test for market definition: would a hypothetical monopolist of a product and geographic area be able to impose a small but significant and non-transitory increase in price (SSNIP)? If the answer is yes, that product and area constitutes a relevant market. If the answer is no, the relevant market must be extended to include the closest substitute products and areas. The SSNIP test is a useful way of framing the market definition questions, even if in practice the test is not often fully quantified, and other tests are available to assess the substitutability between products.

- where the firm in question has a dominant position, or where it derives its dominant position from; and/or
- where the alleged anticompetitive conduct takes place; and/or
- where the conduct potentially has a negative effect on competition.

2.6 Identifying these markets in a specific case can help in assessing the existence of dominance and competitive effects, and depends on the particular conduct at hand. Market definition is not an end in itself, and is not carried out in the abstract.

2.7 In this case the relevant question is whether VAA faces competitive constraints in granting airside access to providers of in-flight catering services. Such competitive constraints can come from a number of sources.

2.8 The primary activity of an airport is to service airlines and their passengers. It earns aeronautical revenue by charging airlines for use of the airport. Airports also earn non-aeronautical revenue through commercial activities performed (often by third parties) at the airport's premises, such as duty-free and food outlets. A third category is non-aeronautical revenue from third parties that provide services that in part make use of the airport's premises, such as surface transport, and catering and galley handling. These different revenue streams of an airport interact with one another.[12]

2.9 An airport that competes with other airports to attract airlines and passengers has incentives to facilitate attractive service offerings at the airport—including convenient retail and public transport services to passengers, and efficient ground-handling and in-flight catering services to airlines. In theory, if the airport sets prices for these services too high or does not maintain quality, this could lead to switching by airlines or passengers to alternative competing airports.

2.10 However, regardless of its competitive position vis-à-vis other airports, VAA controls the airside and landside facilities at YVR by virtue of its position as the operator of the airport. Providers of in-flight catering services typically require

[12] That is to say, airports offer services to multiple types of customer (airlines, passengers, service providers), and there are demand interactions between these types which airports must take into account when determining quality and setting prices (for example, the more airlines and passengers make use of an airport, the more attractive it is for service providers such as shops and restaurants to offer services at the airport). In economic terms, an airport can be considered a two-sided or multi-sided market. I do not discuss this economic concept further in this report, but in this section I do consider the importance of the airline and passenger side at YVR when determining dominance on the airside access side.

physical access to the airside, at least for the galley-handling part of their activities. It is therefore relevant to consider whether there are any substitutes for airside access at YVR. For instance, airlines may in theory be able to substitute for airside access at YVR by sourcing in-flight catering services at other (origin or destination) airports.

2.11 There are a number of markets that are relevant to consider as part of this case:

- the **airports market**, in which airports compete for airlines and passengers;
- the **airside access market** at an airport, which involves access to certain infrastructure at the airport to provide catering and galley-handling services to airlines;
- the **catering and galley-handling market(s)**, which are the downstream markets where competition is potentially lessened as a result of the refusal to grant airside access to new providers.[13]

2.12 Figure 2.1 illustrates how these markets relate to one another. Each of the markets is considered in the following sub-sections: section 2B considers the airports market; section 2C the airside access market at YVR; and section 2D the provision of catering and galley-handling services at YVR.

[13] The distinction between catering and galley-handling providers is discussed in more detail in section 2C. In some cases, suppliers provide both galley-handling and catering services, but in other cases firms provide only one of these two services.

Figure 2.1 Overview of relevant markets in the current case


## 2B The airports market

### 2B.1 Overall approach to assessing competition between airports

2.13 It is first relevant to consider the airports market and the competitive constraints faced by YVR at the airport level. If YVR is strongly constrained by other airports, it will face greater pressure to organise access to the airside in a manner that most benefits airlines (and passengers), as airlines (and passengers) could otherwise switch to another airport.

2.14 VAA has stated that it has been successful in attracting major international airlines to YVR, that the airport is an important gateway to the Pacific Rim, and that, from this perspective, there is a degree of competition between YVR and certain large airports on the US West Coast.[14] Such competition between hub airports also exists in other regions and continents.

2.15 However, for the current purposes the question is whether any such competition with other airports is sufficiently strong to constrain VAA with regard to its conduct in the provision of airside access at YVR. In the analysis below, I therefore apply commonly used market definition methods to assess

[14] See, for example, Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 2 and 4.

the degree of competition faced by VAA from other airports, and whether this competition translates into a competitive constraint on VAA with regard to airside access.

2.16 I carry out two types of analysis:

- **catchment area analysis**—this is frequently used to determine the geographic area to/from which an airport's passengers travel. The size of the catchment area and the extent of overlap of catchment areas between airports can then be used as part of an assessment of the extent of competition, since passengers in these overlapping areas may view the two airports as substitutes;
- **route overlap analysis**—the extent to which airlines offer overlapping routes from different airports is informative in determining whether passengers consider these airports to be substitutable.

2.17 Catchment area and route overlap analysis are commonly used in competition cases around the world involving airports or airlines. Each of these analyses may generate different results depending on the type of passenger. I therefore consider the analyses for two distinct groups of passengers: O&D passengers (sub-section 2B.2), and transfer passengers (sub-section 2B.3).

### 2B.2 Analysis of competition for origin and destination passengers

#### *Catchment area analysis*

2.18 In terms of O&D passengers, catchment area analysis determines whether, based on access distance or time, other airports are sufficiently close to YVR that they may serve as substitutes.

2.19 There are no definitive tests for the boundaries of catchment areas, but a pragmatic approach can often be sufficiently informative. Catchment areas tend to be defined differently depending on the context.

2.20 Various public domain reports have cited a catchment area based on distances ranging from 200km to 250km with reference to Canadian airports.[15] The European Commission has used a catchment area of 100km around regional

[15] See, for example, Transport Canada (2004), 'Regional and Small Airports Study' (TP 14283B) in Postorino, M.N. (2010), 'Development of regional airports', WIT Press, p. 82; and Council of Ministers Responsible for Transportation and Highway Safety (2006), 'Report of the air issues task force on small airport viability', September, section 5.2.5.

airports, and 300km around international airports,[16] or a 60-minute drive time.[17] However, the Commission ultimately defines catchment areas on a case-by-case basis. A 60-minute drive time is also used in the Commission's 2014 aviation state aid guidelines.[18] The UK Civil Aviation Authority ('CAA') used 60-, 90- and 120-minute drive times in its market power assessments for Gatwick, Stansted and Heathrow airports.[19]

2.21 Passengers may vary in their willingness to travel by surface transport to their departure airport. For instance, passengers going on holiday are often more price-sensitive, and therefore willing to travel further distances to a departure airport, whereas business passengers are often more time-sensitive and likely to travel to the closest airport, regardless of the price differential. Preferences for travel time may also differ according to the flight distance (for example, long-haul passengers are often willing to travel longer distances to an airport) and whether they are domestic or foreign residents.

2.22 While there are several small regional airports near YVR, for practical reasons I use the National Airport System ('NAS') list, which is an authoritative source, but which within Canada restricts its designation to airports in provincial capitals and airports with at least 200,000 passengers per annum. Appendix A3 lists the airports included in the NAS list. YVR self-reported over 24m enplaned and deplaned passengers in 2017, so it is unlikely that airports with fewer than 200,000 passengers would represent a competitive constraint on YVR.[20] I therefore consider only airports on the NAS list for airports within Canada in my analysis.

2.23 Based on the NAS list, and my own review of airports in the USA near YVR, the closest airports to YVR by travel time or distance are those listed in Table 2.1. For ease of reference I also present 2016 passenger numbers, which were included in my expert report of 15 November 2017.

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[16] European Commission (2005), 'Commission Decision of 08.08.2005 referring case No COMP/M.3823 – MAG/Ferrovial Aeropuertos/Exeter Airport to the competent authorities of the United Kingdom pursuant to Article 9 of Regulation (EC) No 139/2004', C(2005)3144, 8 August, para 18.
[17] European Commission (2013), 'Case No COMP/M.6663 – RYANAIR/ AER LINGUS III, Regulation (EC) No 139/2004 Merger Procedure', C(2013) 1106 final, 27 February, para 80.
[18] European Commission (2014), 'Guidelines on State aid to airports and airlines', *Official Journal of the European Union*, 2014/C 99/03, para 25(12).
[19] Civil Aviation Authority (2012), 'Heathrow: Market Power Assessment - Non-confidential Version', The CAA's Initial Views', February.
[20] YVR (2018), 'Facts and Stats', available at http://www.yvr.ca/en/about-yvr/facts-and-stats.

Table 2.1 Travel (drive) time between YVR and other airports

| Airport | Approximate drive time | Distance (km) | Passengers, 2016 | Passengers, 2017 |
|---|---|---|---|---|
| Bellingham International Airport (BLI) | 55 m | 77 | 868,394 | 745,539 |
| Victoria International Airport (YYJ) | 2 h 36 m[1] | 85 | 2,641,288 | 2,110,051 |
| Seattle Tacoma International Airport (SEA) | 2 h 52 m | 245 | 31,664,866 | 44,899,051 |
| Prince George International Airport (YXS) | 8 h 27 m | 793 | 563,772 | 562,422 |
| Calgary International Airport (YYC) | 10 h 15 m | 999 | 11,565,758 | 15,940,214 |
| Edmonton International Airport (YEG) | 11 h 49 m | 1,196 | 6,797,529 | 7,499,133 |
| San Francisco International Airport (SFO) | 15 h 14 m | 1,538 | 40,820,555 | 52,520,866 |

Note: [1] Requires ferry transport across the Strait of Georgia. Passengers include enplaned and deplaned passengers.

The passenger estimates provided by the OAG database are not equivalent to the passenger numbers reported by the airport websites themselves. The airport websites do not appear to consistently report passenger numbers for 2017. I find the OAG estimates to be consistently slightly understated for these airports relative to that data on the airport websites, but I use OAG data for 2017 as this allows me to ensure the data is consistently reported in my analysis.

Source: NAS, Google Maps and OAG.

2.24 The only airports that appear to be in (or close to) YVR's catchment area are Bellingham International Airport (BLI), based on both travel time and distance, and Victoria International Airport (YYJ) and Seattle Tacoma International Airport (SEA), based on distance only.

2.25 However, there are a number of significant surface access constraints for passengers in reaching these airports, depending on where they are originating from. Travel between YVR and both BLI and SEA requires a Canada–USA border crossing, which may increase travel time. Travel between YVR and YYJ involves ferry transport, which results in a journey time that is comparable to that between YVR and SEA, despite the YVR–SEA journey being 160km longer.

2.26 Catchment area analysis is conceptually based on isochrones of travel time or distance around an airport to establish whether other airports are within the same catchment area. This analysis takes no account of where passengers actually reside, or variation in passenger density around an airport. Where survey data is available, it is often useful to consider the origin/final destination of passengers who use an airport. I am not aware of this data being available for YVR.[21]

2.27 Therefore, on the basis of the data available to me on both drive time and distance, I consider BLI to be the only other airport in YVR's catchment area. However, I adopt a conservative approach in the route overlap analysis below by also considering YYJ and SEA. Their journey times from YVR are under three hours, and some passengers located in between the airports may therefore potentially consider them as substitutes. I do not consider the other airports listed in Table 2.1 above, as the travel time between YVR and these airports is over eight hours and 700km.

***Route overlap analysis***

2.28 Although an airport may be located in YVR's catchment area, this does not necessarily imply that passengers view the airports as substitutable. Airports may be distinguished according to a number of factors, including the destinations offered. An airport in YVR's catchment area may therefore not be considered substitutable if the destinations offered are not those demanded by YVR passengers.

2.29 Table 2.2 sets out an overview of the destinations, by region, served by YVR, YYJ and SEA. I consider Canadian, US and international (excluding US) destinations separately.

**Table 2.2 Destinations offered from YVR and nearest airports, by region, 2017**

| Origin airport | Canadian destinations | US destinations | International destinations | Total destinations |
|---|---|---|---|---|
| Vancouver International Airport (YVR) | 42 | 42 | 46 | 130 |
| Bellingham International Airport (BLI) | 0 | 14 | 0 | 14 |
| Victoria International Airport (YYJ) | 9 | 3 | 4 | 16 |
| Seattle Tacoma International Airport (SEA) | 6 | 122 | 27 | 155 |

Note: BLI destination includes IWA, which I have included as a US destination based on the FAA code for Phoenix-Mesa Gateway Airport in the USA, rather than as the IATA code for Ivanovo Yuzhny Airport in the Russian Federation.

[21] I understand that OAG data, which I use in my analysis elsewhere in this report, includes information about where bookings are made for passenger journeys. The information is limited to the country in which a booking is made, and is therefore not sufficiently detailed for me to undertake analysis of the ultimate origin or destination points from/to which passengers are travelling.

The numbers of destinations in this table and the tables that follow have changed compared with my previous report. As noted above, for internal consistency, I have updated the information based on OAG data from 2017 rather than the data on airport websites from 2015/16.

Source: OAG based on O+D passenger bookings data, 2017.

2.30 I have used OAG data to undertake this analysis, based on all direct (O+D) passenger bookings between each airport and other airports in 2017, to determine the total number of direct routes offered.[22] The OAG database records information on all passenger flight bookings by airport, the location where the booking was made, and other information such as seat class.

2.31 While Table 2.2 above lists the number of destinations by region for each of the airports, in Table 2.3 below I summarise the overlap that each of the three airports shares with YVR across the three destination categories.

**Table 2.3 Overview of destination overlap with YVR**

| Airport | Overlap of Canadian destinations | Overlap of US destinations | Overlap of international destinations |
|---|---|---|---|
| BLI | 0/42 (0%) of YVR destinations | 8/42 (19%) of YVR destinations | 0/46 (0%) of YVR destinations |
| SEA | 5/42 (12%) of YVR destinations | 39/42 (93%) of YVR destinations *(1 of the 42 is SEA) | 19/46 (41%) of YVR destinations |
| YYJ | 8/42 (19%) of YVR destinations* *(1 of the 42 is YYJ) | 3/42 (7%) of YVR destinations | 4/46 (9%) of YVR destinations |

Note: BLI destination includes IWA, which I have included as a US destination based on the FAA code for Phoenix-Mesa Gateway Airport in the USA, rather than as the IATA code for Ivanovo Yuzhny Airport in the Russian Federation.

Source: OAG based on O+D passenger bookings data, 2017.

2.32 When comparing YVR with BLI, it is apparent that the two airports serve different mixes of destinations. BLI and YVR share no common international or Canadian destinations. There is relatively limited overlap in destinations between YVR and YYJ. SEA and YVR have a high degree of overlap on US destinations, but less overlap on Canadian and international destinations.

2.33 I also consider the degree of overlap in destinations offered between YVR and BLI, YYJ and SEA by region. Table 2.4 compares the unique destinations offered by YVR with those offered by BLI. All of YVR's Canadian and international destinations, and the majority of its US destinations, are not shared with BLI.

[22] The OAG (available at https://www.oag.com/) is a comprehensive global database with records of flight information schedules, passenger bookings and journeys.

**Table 2.4 Common destinations: YVR and BLI**

| | YVR total | Destinations unique to YVR | BLI total | Destinations unique to BLI |
|---|---|---|---|---|
| Canadian destinations | 42 | 42 | 0 | 0 |
| US destinations | 42 | 34 | 14 | 6 |
| International destinations | 46 | 46 | 0 | 0 |
| Total | 130 | 122 | 14 | 6 |

Note: BLI destination includes IWA, which I have included as a US destination based on the FAA code for Phoenix-Mesa Gateway Airport in the USA, rather than as the IATA code for Ivanovo Yuzhny Airport in the Russian Federation.

Source: OAG based on O+D passenger bookings data, 2017.

2.34 Table 2.5 compares the unique destinations offered by YVR and YYJ. As with BLI, the majority of Canadian, US and international destinations offered by YVR are not offered by YYJ. Excluding YVR itself, YYJ does not offer any destinations that are not offered by YVR.

**Table 2.5 Common destinations: YVR and YYJ**

| | YVR total | Destinations unique to YVR | YYJ total | Destinations unique to YYJ |
|---|---|---|---|---|
| Canadian destinations | 42 | 34 (including YYJ) | 9 | 1 (including YVR) |
| US destinations | 42 | 39 | 3 | 0 |
| International destinations | 46 | 42 | 4 | 0 |
| Total | 130 | 115 | 16 | 1 |

Source: OAG based on O+D passenger bookings data, 2017.

2.35 Table 2.6 compares the unique destinations offered by YVR and SEA. While SEA offers more unique US destinations, YVR offers more unique Canadian and international destinations, the majority of which are not shared with SEA.

**Table 2.6 Common destinations: YVR and SEA**

| | YVR total | Destinations unique to YVR | SEA total | Destinations unique to SEA |
|---|---|---|---|---|
| Canadian destinations | 42 | 37 | 6 | 1 (including YVR) |
| US destinations | 42 | 3 (including SEA) | 122 | 83 |
| International destinations | 46 | 27 | 27 | 8 |
| Total | 130 | 67 | 155 | 92 |

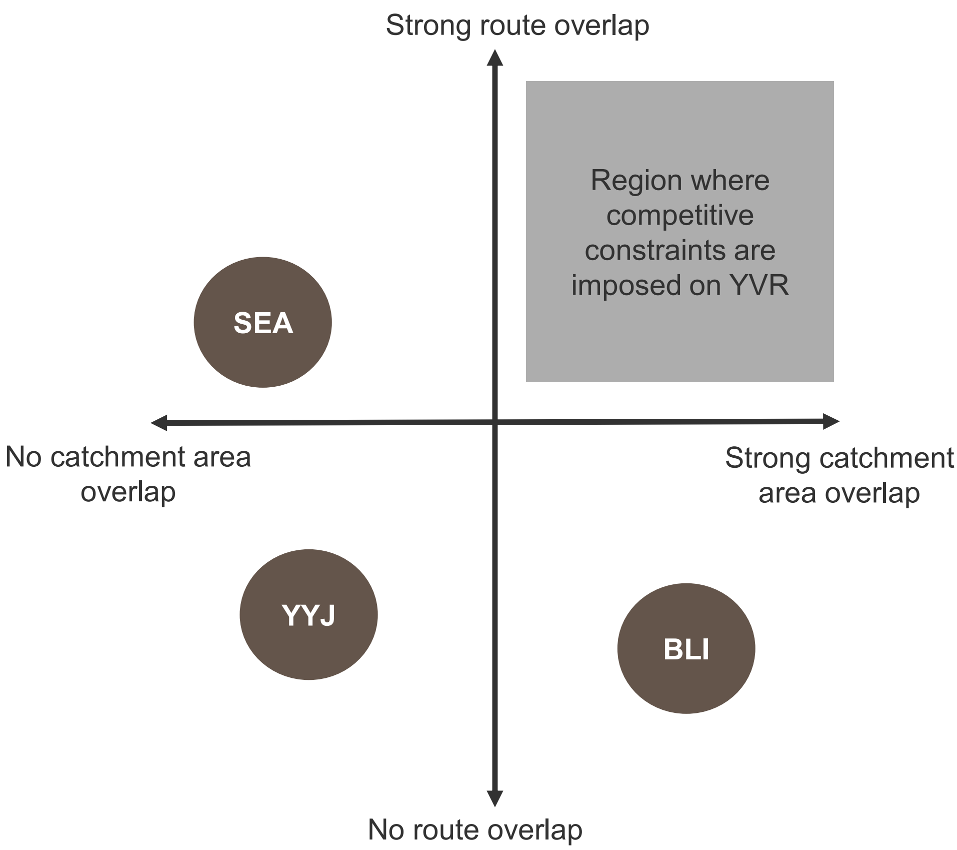
Source: OAG based on O+D passenger bookings data, 2017.

2.36 According to the route overlap analysis, BLI does not share common destinations with YVR in Canada or internationally, and only eight US destinations are shared between the two airports. I consider this level of overlap, as a proportion of the 130 destinations offered by YVR in total, to be too low for YVR to be meaningfully constrained by BLI.

2.37 Route overlap and geographic catchment analysis are aspects of market definition that must be considered in tandem. If passengers were faced with the option of travelling through an alternative airport to YVR that offered many of the same destinations and required minimal additional travel time, they would be likely to consider this airport to be more substitutable with YVR than an alternative airport requiring greater additional travel time. While YYJ and SEA both have a greater level of destination overlap with YVR, they are sufficiently outside of the geographic catchment area that, even for customers travelling on these overlapping routes, they are not likely to be considered as close substitutes to YVR.

2.38 My overall conclusion on the basis of both the catchment area and route overlap analyses is that YVR does not face a significant level of competition for O&D passengers from other airports. I illustrate this concept in Figure 2.2.

**Figure 2.2 Summary of O&D analysis of competitive constraint on YVR**




### 2B.3 Analysis of competition for transfer passengers

2.39 I understand that VAA states that it has been successful in attracting major international airlines to YVR, and that it faces competitive constraints from airports that are not within its local catchment area.[23] In particular, it states that it faces competitive constraints from international hub airports located on the west coast of the USA for transfer passengers on long-haul flights between North America and the Pacific Rim. The airports cited by VAA in its Response are San Francisco International Airport (SFO) and SEA.[24] VAA does not identify the specific countries in the Pacific Rim for which it considers YVR to face competition.

2.40 For the current purposes, the question is whether any such competition is sufficiently strong to constrain VAA with regard to its conduct in the provision of airside access at YVR. I assess this question below. For the purposes of this analysis I adopt the broadest possible definition of the Pacific Rim, so as to be conservative.[25]

2.41 To assess whether YVR faces competitive constraints from SEA and SFO, I consider a number of factors. I first consider the total transfer traffic at YVR that has an origin or destination in the Pacific Rim, using passenger booking data from the OAG database. The OAG database includes bookings with up to two transfer airports listed.[26] I then look at the proportion of YVR's traffic that is composed of passengers who start/end their journeys in other cities in North America, but travel through YVR to/from the Pacific Rim. If a significant proportion of Pacific Rim traffic has a stopover on the West Coast, then this

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[23] See, for example, Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 2 and 4; and Vancouver Airport Authority, Chart of Undertakings, Questions Taken Under Advisement and Refusals Provided at the Examination for Discovery of Craig Richmond Held May 25–26, 2017.

[24] See, for example, Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 2 and 4. In Vancouver Airport Authority, Chart of Undertakings, Questions Taken Under Advisement and Refusals Provided at the Examination for Discovery of Craig Richmond Held May 25–26, 2017, VAA cites a much broader range of airports, including Detroit and Chicago. I have not considered these airports further here, as they are unlikely to be meaningful competitors to YVR for hub business, given that they are located quite far from YVR. Competition authorities also usually do not consider remote airports to be in competition for transfer passengers. For example, in its assessment of the geographic market for Berlin Airport in 1999, the European Commission found that airports that lay within a two-hour flight time could be considered part of the same geographic market for hub functions. European Commission (1999), 'Decision regarding regulation number 4064/89, M.1255 Case M.1255 Flughafen Berlin', 21 May.

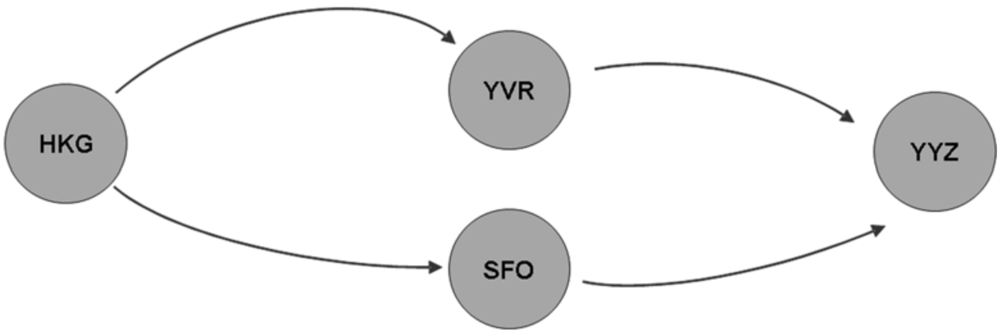
[25] This covers the following countries in the OAG database: Nepal, China, American Samoa, Brunei Darussalam, Ecuador, Fiji, Malaysia, Australia, Samoa, Korea Democratic People's Republic of, Solomon Islands, Singapore, Guam, Papua New Guinea, Northern Mariana Islands, Guatemala, Colombia, French Polynesia, Norfolk Island, Micronesia Federated States of, Cook Islands, Peru, Panama, New Zealand, Hong Kong (sar) China, Nicaragua, Wallis and Futuna Islands, Bhutan, Honduras, Palau, Vanuatu, Philippines, Myanmar, Macao (sar) China, Chinese Taipei, Timor-leste, Lao People's Democratic Republic, Tonga, Falkland Islands, Mongolia, Thailand, Mexico, Japan, Kiribati, Korea Republic of, Russian Federation, Chile, Marshall Islands, New Caledonia, Vietnam, El Salvador, Cambodia, Indonesia, Northern Mariana Islands (except Guam). I exclude Canada and the USA from this definition as these countries include the airports under analysis.

[26] While there is a small distinction between bookings and passengers, throughout the remainder of my analysis of OAG bookings data, I refer to OAG bookings as passengers.

may exert a competitive constraint on YVR. I focus on Pacific Rim passengers, as VAA specifically cites this group in its statement, as referred to above.

2.42 I illustrate this approach in Figure 2.3 below with a hypothetical journey between Hong Kong International Airport (HKG) and Toronto Pearson International Airport (YYZ). In this example, a passenger may consider a route that includes a stopover in YVR to be comparable to a route with a stopover in SFO.[27]

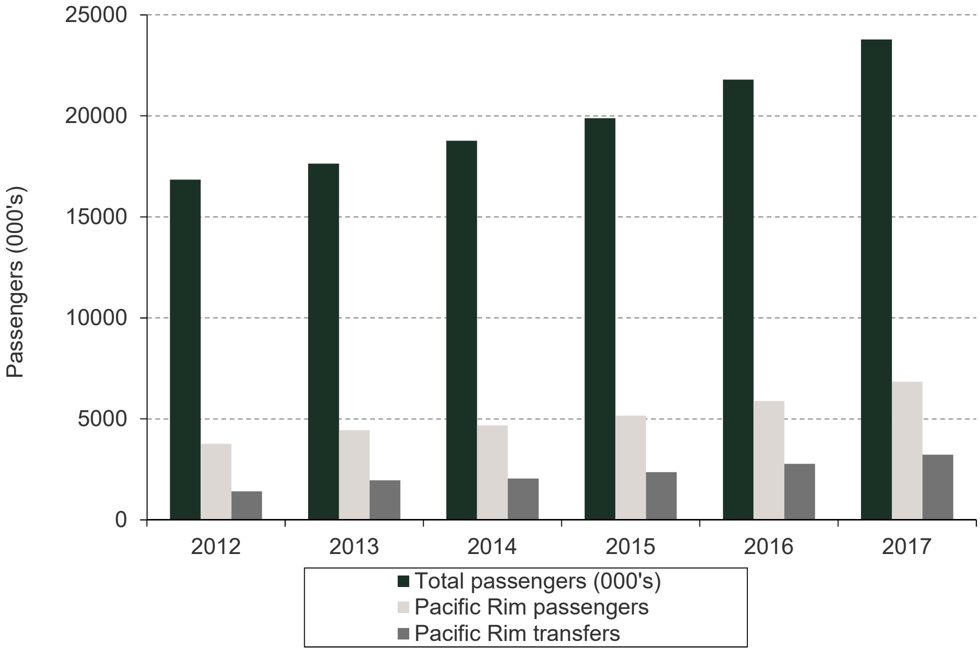
**Figure 2.3 Illustration of the hypothetical constraint imposed by US West Coast hubs on YVR**




2.43 In Figure 2.4 I summarise total passengers, total Pacific Rim passengers, and Pacific Rim transfer passengers at YVR, between 2012 and 2017.

[27] In the airports field, the OAG database reports two intermediate gateways, Gateway 1 and Gateway 2 (although this data does not exist when there are fewer legs in a journey). This allows up to two stopover points on a journey to be identified.

**Figure 2.4 Passengers at YVR, 2012–17**




Note: Pacific Rim passengers include all bookings in which YVR and a Pacific Rim country are present, in any order, in the journey. Pacific Rim transfer passengers include all bookings where a Pacific Rim country is the origin/destination, and YVR is an intermediate gateway airport in the journey; or the Pacific Rim is a gateway, and YVR is another gateway in the booking.

Source: Analysis based on OAG database.

2.44 The OAG database reports that 23.8m passengers travelled through YVR in 2017.[28] Passenger journeys that involved travel between a Pacific Rim airport and YVR accounted for 28.8% of all YVR traffic in that year. I refer to this subset of YVR traffic as 'Pacific Rim traffic' for the remainder of this analysis. More than half (approximately 53%) of this Pacific Rim traffic had YVR as either an origin or a destination airport, with the remainder of Pacific Rim traffic using YVR as a transfer airport (referred to as either Gateway 1 or Gateway 2 in the OAG data).

2.45 Within the subset of Pacific Rim passengers, I analyse the total number of passenger journeys where YVR is a transfer airport, and a Pacific Rim country is either an origin or a destination airport—see Figure 2.5 below. I refer to these passengers as the 'Pacific Rim transfer traffic'.

[28] YVR's website reports over 24m enplaned and deplaned passengers travelling through YVR in 2017. I am unable to determine the reason for the discrepancy. I do not believe, however, that the magnitude of the discrepancy raises any concerns about the conclusions that can be drawn from my analysis.

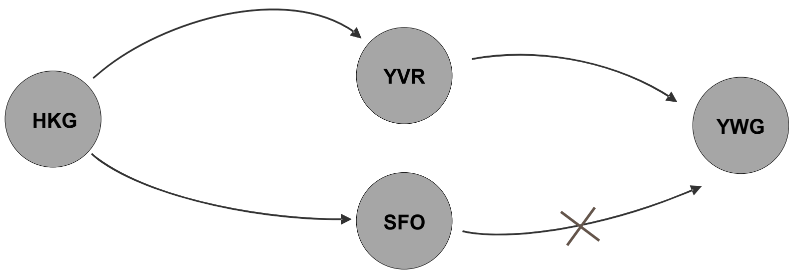
**Figure 2.5 Illustrative example of Pacific Rim transfer traffic at YVR**


2.46 This assessment includes journeys in which the origin and destination airports are both in the Pacific Rim (a 'return journey'), which may result in overstating the number of true indirect journeys.[29] I consider this to be a conservative approach.

2.47 Based on the above criteria, Pacific Rim transfer passengers account for only 8.4% to 13.6% of YVR's overall passenger traffic between 2012 and 2017.

2.48 In order for these passengers to consider SEA and/or SFO as substitutable for YVR, the airports would need to offer flights between the same origin and destination airports. For example, a passenger may be seeking to travel from HKG to Winnipeg (YWG). If SFO does not offer a flight from HKG and to YWG, the passenger is unlikely to consider transferring through SFO as an alternative to transferring through YVR where YVR offers both the HKG and YWG flights. This is shown in Figure 2.6.

**Figure 2.6 Transfer journeys where YVR does not face a competitive constraint**




2.49 I have reviewed bookings data from OAG for SEA and SFO to determine whether there are direct flights between these hub airports and the origin/destination airports listed for the Pacific Rim transfer traffic. For example, the above illustration of a HKG–YVR–YWG journey would be considered

[29] For example, this might be a journey from HKG to YVR and back to HKG. In this journey, YVR is likely to be a destination rather than an intermediate airport. My analysis would consider such passengers to be transfer passengers rather than O&D passengers. This would attribute these journeys as indirect rather than direct, which would understate the true number of Pacific Rim journeys to/from YVR that are direct.

Pacific Rim transfer traffic, and in this case I would record YWG as the destination airport of interest in this journey and HKG as the origin airport.

2.50 Based on a review of all relevant origin/destination airports, in Table 2.7 I estimate the percentage of transfer passengers at YVR for whom there are potentially competing services from SEA or SFO, by verifying whether these origins/destinations are available from SEA and/or SFO.

2.51 The proportion of Pacific Rim transfer traffic for which an alternative intermediate airport to YVR exists is the contestable market, or the proportion of the market for which an alternative hub airport would feasibly provide a competitive constraint on YVR.[30]

**Table 2.7 Potentially contestable Pacific Rim transfer traffic at YVR**

| Year | YVR total number of passengers | Pacific Rim transfer traffic at YVR | | Contestable market SEA | Contestable market SFO | Contestable market (SEA or SFO) |
|---|---|---|---|---|---|---|
| | | Number of passengers | Passengers as a percentage of YVR total traffic | | | |
| 2012 | 16,844,668 | 1,414,664 | 8.4% | 6.2% | 6.5% | 6.7% |
| 2013 | 17,632,644 | 1,957,453 | 11.1% | 7.9% | 8.5% | 8.9% |
| 2014 | 18,771,476 | 2,054,985 | 10.9% | 7.8% | 8.5% | 8.5% |
| 2015 | 19,887,488 | 2,371,399 | 11.9% | 8.6% | 9.3% | 9.3% |
| 2016 | 21,792,786 | 2,776,696 | 12.7% | 9.4% | 9.7% | 10.2% |
| 2017 | 23,779,356 | 3,224,207 | 13.6% | 10.1% | 8.1% | 10.8% |

Note: The contestable market is calculated as a proportion of the total number of passengers at YVR.

Source: Analysis based on OAG database.

2.52 The cumulative effect of (a) transfer passengers to/from the Pacific Rim being a small percentage of YVR's overall traffic; and (b) the fact that only a portion of these transfer passengers are able to travel to their origin/final destination through one of SFO or SEA; indicates that the competitive constraint on YVR for transfer traffic to/from the Pacific Rim is likely to be low. The percentage of potentially contestable transfer passengers ranges from 6.7% to 10.8% of YVR's overall traffic.

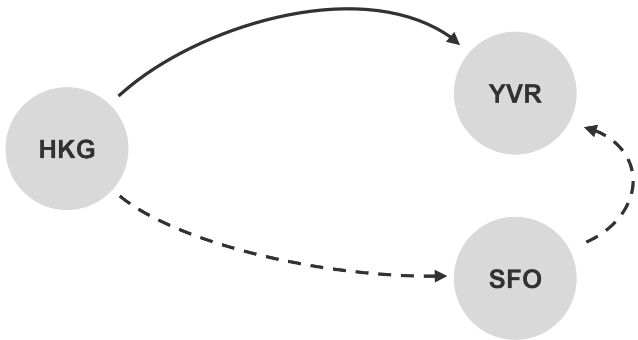
[30] As OAG data records up to two Gateway airports, it does not list bookings in which more than four airports are involved. It therefore excludes journeys which involve three or more transfers. However, the number of bookings in the OAG data is similar to the total reported passenger numbers by YVR. I would therefore not expect the number of excluded journeys to be significant.

2.53 In the UK, the CAA assessed the competitive constraint faced by Gatwick Airport arising from transfer traffic. In that case, the conclusion was that 8% of total passengers were either self-connecting or inter-/intra-lining between flights at Gatwick. The CAA considered that this proportion of passengers was too low to act as a constraint on Gatwick.[31]

2.54 Given that the contestable market for SEA/SFO is between 6.7% and 10.8%, I do not consider that US West Coast hub airports are imposing a significant competitive constraint on YVR.

2.55 A further potential constraint may come from US West Coast hub airports if a passenger considers an indirect journey from the Pacific Rim to YVR through SFO or SEA to be substitutable for a direct journey (see Figure 2.7).

**Figure 2.7 Illustration of the hypothetical constraint for O&D passengers from US West Coast hubs**




2.56 I have assessed Pacific Rim traffic travelling through US West Coast hub airports (SEA or SFO) to YVR. If there are a significant number of indirect bookings that treat YVR as an origin or destination airport, but travel through another US West Coast hub airport, then this may be evidence that these airports compete for certain long-haul routes to/from the Pacific Rim (although in such instances, YVR would still benefit from this passenger traffic). I consider bookings that fit the following criteria:

- YVR is the origin airport, SEA/SFO is a gateway airport, and the destination is in the Pacific Rim;[32] or

[31] Civil Aviation Authority (2014), 'CAP1134 - Market power determination in relation to Gatwick Airport – statement of reasons', January, Appendix F, 'Evidence and analysis on competitive constraint by passenger switching', F21–F24.
[32] In terms of the nomenclature of the OAG database, this includes cases where SEA/SFO is the Gateway 1 airport, and cases where Gateway 1 is an empty field in the database but SEA/SFO is the Gateway 2 airport. In practice, both journeys involve a direct flight from YVR to SEA/SFO with a final destination in the Pacific Rim.

- YVR is the destination airport, SEA/SFO is a gateway airport, and the origin is in the Pacific Rim.[33]

I present the results of this analysis in Table 2.8 below.

**Table 2.8 Indirect Pacific Rim bookings through SEA/SFO, 2012–17**

| | SEA to YVR | YVR to SEA | SFO to YVR | YVR to SFO | Total YVR passengers |
|---|---|---|---|---|---|
| 2012 | 8,885 | 11,513 | 15,161 | 15,485 | 16,844,668 |
| 2013 | 11,006 | 11,706 | 17,658 | 24,168 | 17,632,644 |
| 2014 | 15,430 | 15,284 | 19,686 | 25,537 | 18,771,476 |
| 2015 | 18,973 | 19,775 | 16,186 | 22,763 | 19,887,488 |
| 2016 | 15,677 | 15,287 | 20,189 | 22,757 | 21,792,786 |
| 2017 | 12,946 | 14,852 | 25,601 | 25,339 | 23,779,356 |

Source: Analysis based on OAG database.

2.57 Total indirect journeys through SEA and SFO do not represent a significant proportion of YVR's passenger traffic—traffic through these two hubs combined represents less than 1% of YVR's 2017 passengers. This indicates that these airports do not meaningfully constrain YVR by offering indirect routes between the Pacific Rim and YVR.

### 2B.4 Conclusions on competitive constraints from other airports

2.58 The analysis in this section has considered the competitive constraints imposed on YVR by other airports. I have assessed the airports market based on two passenger groups: O&D passengers and transfer passengers.

2.59 For O&D passengers, the results indicate that BLI is the only airport within YVR's catchment area. However, it offers only eight US destinations in common with YVR, and there is no overlap in Canadian or international destinations. Additionally, there are surface access constraints associated with BLI and the two other nearest airports to YVR (YYJ and SEA), involving the need for either ferry transport or a Canada–USA border crossing.

2.60 My assessment of transfer passengers is focused on the Pacific Rim, as VAA has stated that YVR faces significant competition from US West Coast hub airports for this customer segment.[34] I conclude that competition from other

[33] This includes cases where SEA/SFO is the Gateway 2 airport, and cases where Gateway 2 is an empty field in the OAG database but SEA/SFO is the Gateway 1 airport. In practice, both journeys involve a flight the Pacific Rim, with a direct flight from SEA/SFO to YVR as a final destination.
[34] Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 2, 4 and 74.

airports for Pacific Rim transfer traffic does not pose a significant constraint on YVR, because the size of the contestable market is small.

2.61 I therefore conclude that YVR faces limited competitive constraints from other airports. I discuss the market for airside access at YVR in the next section.

## 2C The market for airside access at YVR

### 2C.1 Airside access market definition depends on the downstream service in question

2.62 As the operator of YVR, VAA has responsibility for controlling access for commercial services to the airport's facilities. This includes airside access for providers of in-flight catering services. VAA also controls the land on the airport's premises where the current providers of in-flight catering services (Gate Gourmet and CLS) have their production facilities.

2.63 The Commissioner's case against VAA concerns the refusal to grant access to the airside. Another allegation made by the Commissioner is that VAA refused airside access to new entrants that did not wish to operate facilities on the airport's premises (the tying abuse). The question of market definition in this case therefore relates to airside access at YVR.

2.64 This question of market definition can be rephrased as follows: is airside access at YVR a very important (or even essential) input for the provision of in-flight catering services at YVR? If it is, there is a separate relevant market for airside access at YVR. By virtue of its ability to restrict access, VAA has monopoly control over that market, and can therefore be considered dominant.

2.65 When answering this question, it is important to distinguish among a number of different activities that form in-flight catering services. This is because these activities depend in different degrees on airside access, and hence the answer to the market definition question may be different in each case. I therefore discuss these in-flight catering services here as part of the airside access market definition, although I do not consider the actual market definition for these downstream services until later, in section 2D below.

2.66 At this stage in the report, it is also important to highlight the differences between the parties in terms of terminology used to describe galley handling and catering (which are separate from any differences in market definition, discussed in section 2D).

2.67 The Commissioner uses the terms ‘catering’ and ‘galley handling’ in a specific way.[35] Catering consists primarily of the preparation of meals for distribution, consumption or use on board a commercial aircraft by passengers and crew. Galley handling consists primarily of the services involving loading and unloading onto/from aircraft of catering products, commissary products (non-food items and non-perishable food items) and ancillary products (duty-free, linen and newspapers).[36] This terminology is broadly consistent with the terminology often used by in-flight catering providers themselves and by airlines.[37]

2.68 VAA uses a different terminology for these activities. It includes under catering the preparation and loading onto aircraft of fresh meals and other perishable food offerings. It describes galley handling as the provision and loading onto aircraft of non-perishable food items, drinks, and other items such as duty-free products.

2.69 There is therefore some scope for confusion about terminology between the parties. The Commissioner’s terminology emphasises the difference between the activity of loading and unloading onto and off the aircraft of products (galley handling), and the products themselves (catering). In contrast, VAA’s terminology places emphasis on the distinction between fresh/perishable items (catering) and other items (galley handling), both of which involve the activity of loading and unloading.

2.70 For the purposes of my analysis in this report I follow the Commissioner’s terminology, as I consider this to be more insightful for the analysis of market definition for airside access.

2.71 Galley handling, described by the Commissioner as the loading and unloading of the various types of product onto and from the aircraft, clearly requires airside access.[38] Catering services do not require airside access as such. The question of whether airside access is an important or essential input is

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[35] Notice of Application, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, para 7.
[36] Similarly, the European ground-handling directive states that catering services comprise liaison with suppliers and administrative management, storage of food and beverages and of the equipment needed for their preparation, cleaning of this equipment, and preparation and delivery of equipment as well as of bar and food supplies. It defines the transport, loading onto, and unloading of, food and beverages from the aircraft separately as a ramp-handling service. Council Directive 96/67/EC of 15 October 1996 on access to the groundhandling market at Community airports.
[37] For example, see Witness Statement of Mark Brown, Strategic Aviation Holdings Ltd., para 18.
[38] A hypothetical substitute would require catering services to be loaded/unloaded from an aircraft at an off-airport location, which would imply the transport of the aircraft out of the airport’s premises. For logistical and financial (and probably legal) reasons, this would not be possible.

therefore more relevant in the context of galley-handling services. (In section 2D I discuss further whether catering and galley handling are themselves separate relevant downstream markets.)

2.72 For the avoidance of doubt, my overall conclusions do not depend on this discrepancy in terminology for catering and galley handling. If I were to follow VAA's terminology, the market definition question would simply have to be answered from the perspective of both catering and galley handling, as in that terminology both services include the activity of loading and unloading products onto and off the aircraft, and both would therefore require airside access.

2.73 The provision of galley-handling services (in the Commissioner's terminology) at YVR requires airside access, since it involves the loading and unloading of products onto aircraft. Without airside access, the galley-handling service could not be provided at YVR. From this perspective, airside access at YVR is a separate relevant market, controlled by VAA, thus rendering VAA dominant.

### 2C.2 Self-supply and double catering as potential substitutes

2.74 In theory, airlines may have other options for sourcing in-flight catering services on flights to and from YVR. These potential substitutes for galley handling at YVR are self-supply and double catering. Below, I assess the extent to which these substitutes pose a competitive constraint on galley handling at YVR.

2.75 I understand that, for most airlines, self-supply is not a feasible option and does not represent a competitive constraint on galley handlers. For example, Air Canada notes that it used to self-supply, but it switched to outsourcing in the 1990s for cost reasons, [redacted][39]

2.76 I understand that, in the past, WestJet sourced catering products directly and self-supplied galley handling at five airports in Canada—Vancouver, Calgary, Edmonton, Toronto and Winnipeg. WestJet [redacted], and in these cases it contracted out the handling, using Gate Gourmet at most airports in

[39] See Witness Statement of Mark McVittie, Air Canada, para 45.

Canada.[40] [redacted]. It has recently determined that it will stop self-supply.[41] I am therefore not aware of any major airline operating from YVR that self-supplies.

2.77 I understand that some airlines use double catering, which involves loading catering for the outbound and the inbound flight at the origin airport, eliminating the need to access catering services at the destination airport. I understand that in most cases this is used for relatively short-haul journeys,[42] although in some cases airlines may use double catering on medium- or long-haul journeys.[43]

2.78 Double catering may be feasible for non-perishable products. However, it is likely to be less so for perishable items. WestJet notes that it sometimes double caters perishables to southern destinations, but there are also certain limitations and it may not always be feasible or suitable for WestJet flights.[44] It may also not be operationally possible to double cater in all circumstances; for example, if an aircraft lands late at night and leaves in the morning, it will need to be served at that airport in the morning.[45]

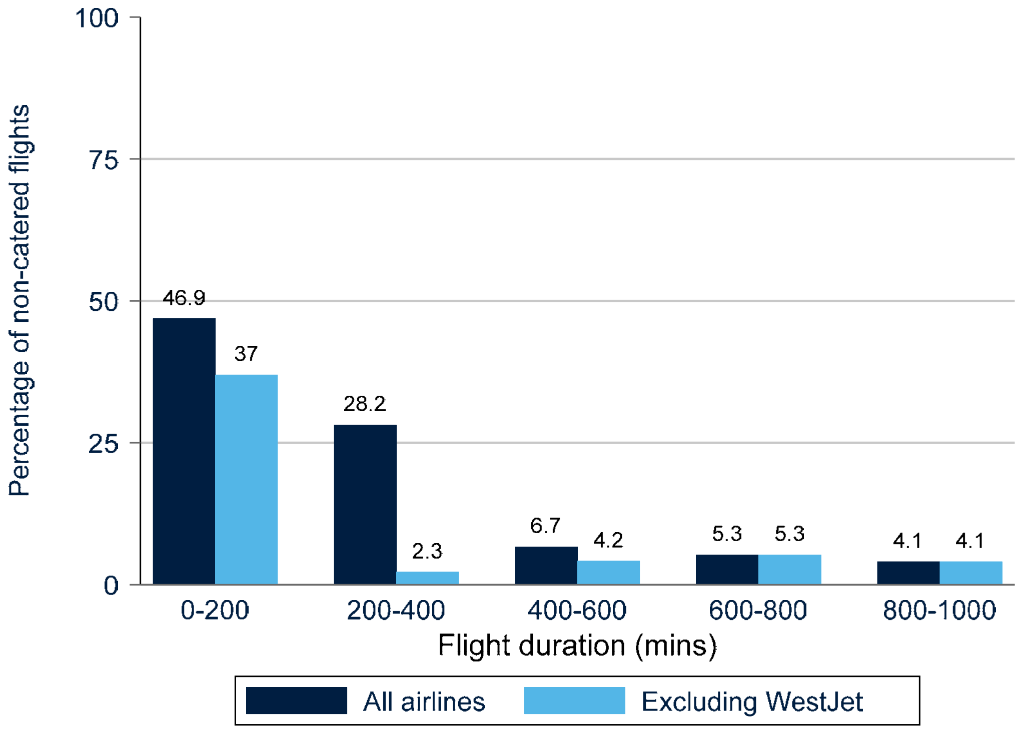
2.79 I have undertaken an analysis of the extent to which airlines that operate at YVR double cater, to determine whether double catering is a sufficiently close substitute for procuring catering and galley-handling services at YVR. I have matched data on flight distance and time from the OAG database to the caterer data for Gate Gourmet and CLS at YVR between 2013 and 2017.[46]

2.80 I have looked at the relationship between the proportion of flights that are not catered at YVR and the duration of the flights. I focus my analysis on flights that are not catered at YVR, as this is a reasonable proxy for the number of flights that are being double catered from another airport or self-supplied. Figure 2.8 below depicts this relationship, both for all airlines that operate at

[40] See Witness Statement of Colin Murphy, WestJet, paras 25 and 26.
[41] See Witness Statement of Colin Murphy, WestJet, para 36.
[42] See Witness Statement of Ken Colangelo, Gate Gourmet Canada Inc., paras 37 to 40.
[43] See Witness Statement of Ken Colangelo, Gate Gourmet Canada Inc., para 40.
[44] These limitations include space constraints in the aircraft, maintaining appropriate food safety temperatures, and ensuring that fresh products remain fit for consumption.
[45] See [redacted].
[46] I have matched data based on airline, destination and flight date. Therefore, if there are multiple flights on the same airline with the same destination on the same day, these are collapsed into one observation. I do not consider that this distorts my analysis materially, as if an airline uses Gate Gourmet to cater the morning flight—for example, YVR to YYZ—it is likely to use Gate Gourmet for the evening flight at YVR as well.

YVR, and after excluding WestJet, which engaged in self-supply at YVR until recently.

**Figure 2.8 Relationship between flight duration and extent of catering at YVR**




Source: Analysis based on caterer datasets and OAG database.

2.81 As can be seen in Figure 2.8, for flight durations of over 400 minutes on all airlines, only a small proportion of flights departing from YVR (around 15%) are not catered at YVR, indicating that catering at YVR is necessary for a large proportion of these longer flights. For flights under 400 minutes, the proportion of flights not catered at YVR is higher. These flights may be double catered at other airports, self-supplied, or not catered at all. Many of these flights are between YVR and small airports in British Columbia, including Williams Lake (YWL) and Campbell River (YBL).

2.82 Excluding WestJet, which I understand self-supplied at YVR during the period under consideration, significantly reduces the proportion of flights not catered at YVR. These results indicate that double catering is only really feasible on flight durations of less than 200 minutes—the vast majority of flights (excluding WestJet) that run for more than 200 minutes are catered from YVR, indicating that double catering may not be feasible for such longer flights.

2.83 Overall, I conclude that self-supply and double catering are to some extent (for certain types of flight and routes) alternatives to procuring in-flight catering services at YVR, but not by a sufficient degree for them to pose a significant competitive constraint on VAA when providing airside access. These alternatives therefore do not change my conclusion that VAA is dominant in the market for airside access at the airport.

## 2D The markets for catering and galley handling at YVR

### 2D.1 Are there different downstream markets for catering and galley handling?

2.84 As noted above, it is useful to bear in mind that there is a difference between catering and galley-handling services, in that their reliance on airside access is different. In the Commissioner's terminology, galley handling consists of the loading and unloading of catering and other products onto/from aircraft (which also covers related activities such as inventory management, transportation of products between the aircraft and various facilities including kitchens, and trash removal). Catering involves the preparation of meals for distribution and consumption on board the aircraft, and does not involve airside access as such, as that is through handling.

2.85 One question that arises in relation to market definition is whether catering and galley handling form a single downstream market or separate downstream markets. I address this question here.

2.86 Both Gate Gourmet and CLS are 'full-service' providers that offer both catering and galley handling at YVR.[47] I understand that both firms traditionally sell these services together to airlines—i.e. in bundles.

2.87 However, I understand that the market for in-flight catering services is evolving, with a trend towards separating catering from the galley-handling function. Meals may be prepared on-airport, but they may also be transported to the airport from an off-airport kitchen or from local restaurants. Indeed, of the two firms that requested entry at YVR in 2014, Newrest was planning to operate an off-airport kitchen, while Strategic Aviation was planning to operate only galley-handling services.[48] The new provider of in-flight catering services at YVR, dnata, which received its licence from VAA in 2018, also operates an off-airport kitchen facility. This means that companies specialising in catering services only do not need to provide galley-handling services themselves, but will

[47] I also understand that dnata will be a 'full-service' provider offering both catering and galley handling at YVR.
[48] Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 52 and 53.

require an agreement or partnership with a galley-handling firm with airside access in order to deliver products to/from the aircraft. Hence, catering and galley handling are complementary services in this regard.

2.88 What does this mean for market definition? There are two possibilities. There could be separate markets for catering and for galley-handling services at YVR. Alternatively, catering and galley handling could form a combined or 'bundled' market.

2.89 In cases involving complementary products, whether to define separate product markets or a market for bundles depends on a number of factors. How common is it for suppliers in the market to offer bundles as opposed to individual products? How common is it for customers to purchase bundles as opposed to individual products?

2.90 Nevertheless, in the current case the precise delineation of the downstream markets can be left open. This is because VAA's refusal to grant airside access can be considered capable of lessening downstream competition regardless of the precise downstream market definition.

2.91 Specifically, the refusal to grant airside access has an impact on the activity of galley handling, which relies on airside access. Therefore, if there were separate downstream catering and galley-handling markets, there would be a potential lessening of competition in galley handling because new entry is prevented. That would be sufficient for an economic theory of harm from the refusal to grant access, and it would be less important to consider the effect on the downstream catering market in detail.

2.92 Equally, if instead there were a combined catering and galley-handling market, competition in this market would be lessened because new entrants would be unable to provide the galley-handling activity (because of VAA's refusal) and hence could not enter this combined market. Again, this would be sufficient for having a coherent economic theory of harm.

2.93 For this reason, I consider it unnecessary to conclude on the exact boundaries of the downstream market—i.e. whether galley handling and catering are separate markets or form a combined downstream market—as my conclusions are the same in both scenarios.

2.94 I note that the Commissioner considers galley handling to be a separate relevant product market, and his theory of harm is that VAA's refusal prevents or lessens competition in the market for galley handling (i.e. the Commissioner does not focus on the downstream catering market as such).[49] This position is consistent with my own analysis, even if I leave open the delineation of downstream market boundaries.

2.95 In sections 3 and 4 of this report—when analysing, respectively, the scope for downstream competition and the effects of VAA's conduct on downstream competition—I consider the provision of in-flight catering services as a whole, in part because much of the data refers to both catering and galley handling (for example, the financial data from Gate Gourmet and CLS analysed in section 3). Where the data allows it I also consider galley handling separately (for example, when determining the price effects for airlines that do not switch in-flight catering providers in section 4E).

### 2D.2 What is the position of VAA in the downstream markets?

2.96 It is uncontroversial that VAA itself is not active in the provision of catering or galley-handling services.

2.97 The Commissioner's position is that VAA has considerable ability to determine and influence price and non-price dimensions in the galley-handling market by virtue of its control over airside access at YVR, and that this translates into VAA having market power in the galley-handling market.[50] VAA disagrees with this position.[51]

2.98 From an economics perspective, a theory of harm of foreclosure of downstream competition through a refusal to grant access to an upstream input requires the firm in question to be dominant upstream, but does not require it to be dominant downstream, or even to be directly active downstream.

2.99 Where the dominant upstream firm is vertically integrated into the downstream activity it may have a clear economic motive to prevent downstream competition—i.e. it may wish to favour its own downstream operations at the expense of downstream competitors. However, even if the firm is not vertically integrated, it may have a financial stake in the outcome of competition in the

[49] Notice of Application, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 12–18 and section IIIC.
[50] Notice of Application, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 34–35.
[51] Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 66–68.

downstream market, and therefore an economic motive to influence this competition.

2.100 This principle was recognised by the English High Court in a case in 2014 involving access to the bus station at Luton Airport, which the airport had granted exclusively to one bus operator. Luton Airport was not itself active in the provision of bus services to and from the airport. However, through the award of an exclusive concession the airport raised its commercial stake in the downstream market: it derived commercial benefit from the terms of the concession, since the fee it received was related to the expected revenue of the bus operator on the route, and was much higher than in the previous, non-exclusive arrangement. With such a stake in the downstream service, Luton Airport would have sufficient incentive to favour one downstream provider over another. As the High Court put it, Luton Airport was 'not a neutral or indifferent upstream provider of facilities'.[52]

2.101 In my opinion, the current case is comparable to the Luton Airport situation in this regard, since VAA can extract revenues from Gate Gourmet and CLS through the licence and lease agreements that are in place. I understand that VAA charges both Gate Gourmet and CLS a fee based on a percentage of their respective revenues at the airport (currently 5% of revenues).[53] VAA therefore does have a financial interest in the revenues earned by Gate Gourmet and CLS at YVR.

2.102 VAA points out that the revenues thus generated by VAA are '*de minimis*' as they represent approximately 1% of VAA's total revenues.[54] In my opinion, this is relevant only in so far as it indicates that VAA has more significant revenue sources, and it does not detract from the fact that VAA does have a financial interest in the outcome of competition in the galley-handling market.

2.103 VAA—in its Concise Statement of Economic Theory—also seems to make a more theoretical argument as to why it would have no incentives to exploit any market power in the market for galley handling. I quote the VAA argument below:

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[52] *Arriva The Shires Ltd vs London Luton Airport Operations Ltd*, [2014] EWHC 64 (Ch), para 100. I acted as the economic expert for the claimant in this case.
[53] For on-airport sales. Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 38 and 39. [redacted].
[54] Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, para 43.

> The Authority derives no benefit from restricting competition among firms providing Catering and Galley Handling, if the resulting market structure is inefficient. On the contrary, even if one assumes that the Authority was acting as a sole profit-maximizing monopolist with respect to control over airside access to the Airport as alleged by the Commissioner, such a monopoly supplier to the Airport airside for the purpose of supplying Galley Handling would have an interest in ensuring the most efficient market structure for the provision of Galley Handling at the Airport, as that would enable such a monopolist to maximize the revenues it earns from complementary service providers, including Catering and Galley Handling providers.[55]

2.104 This reasoning by VAA seems to refer to a particular economic theory describing a situation where there is a monopolist that controls infrastructure (here, the airport), and a number of complementary downstream services that make use of the infrastructure (here, catering and galley handling). In a situation in which the complementary services are perfectly competitive, economic theory indicates that the monopolist has nothing to gain from trying to control the downstream services, as this would not increase its profits. In such a situation, I would agree that, as a matter of economic theory, VAA would not be able to make higher profits by blocking competition in the downstream markets.

2.105 However, I do not consider this theoretical situation to reflect the economic reality at YVR. Galley handling and catering are not perfectly competitive activities. Rather, there are economies of scale and fixed costs that mean that the number of competitors that can viably operate in these markets is necessarily limited (see my analysis in section 3).

2.106 Hence, the relevant downstream markets are imperfectly competitive due to economies of scale (as are most real-world markets). In such a situation, economic theory indicates that the infrastructure monopolist may have the ability to raise its profits by influencing competition in the downstream market. In particular, restricting the number of service providers in the downstream market to two (or three) may enable those providers to achieve higher revenues than they would otherwise, and this in turn increases the profitability of the airport through the licence fee arrangement.

[55] Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15 Schedule A – Concise Statement of Economic Theory, para 2.

2.107 Therefore, from a theoretical perspective, it cannot be said that VAA has no incentives to restrict competition downstream.

## 2E Conclusions on market definition and dominance

2.108 A number of markets are relevant to consider as part of this case:

- the **airports market**, in which airports compete for airlines and passengers;
- the **airside access market** at an airport, which involves access to certain infrastructure at the airport to provide catering and galley-handling services to airlines;
- the **catering and galley-handling market(s)**, which are the downstream markets where competition is potentially prevented or lessened as a result of the refusal to grant airside access to new providers.

2.109 I have considered whether YVR is dominant in the airports market by looking at the competitive constraint imposed on YVR by other airports. I have assessed the airports market based on two passenger groups: O&D passengers and transfer passengers.

2.110 For O&D passengers, the results indicate that BLI is the only other airport within YVR's catchment area. However, it offers only eight US destinations in common with YVR, and there is no overlap in Canadian or international destinations. Additionally, there are surface access constraints associated with BLI and the two other nearest airports (YYJ and SEA), involving the need for either ferry transport or a Canada–USA border crossing.

2.111 My assessment of transfer passengers is focused on the Pacific Rim, as VAA has stated that YVR faces significant competition from US West Coast hub airports for this customer segment. I conclude that competition from other airports for Pacific Rim (transfer) traffic does not pose a significant constraint on YVR.

2.112 I therefore conclude that YVR faces limited competitive constraints in the airports market.

2.113 As the operator of YVR, VAA has responsibility for controlling access to the airport's facilities. This includes airside access for providers of in-flight catering services. VAA also controls the land on the airport's premises where the current providers of in-flight catering services (Gate Gourmet and CLS) have their production facilities.

2.114 I find that self-supply and double catering are to some extent (for certain types of flight and routes) alternatives to procuring in-flight catering services at YVR, but not by a sufficient degree for them to pose a significant competitive constraint on VAA when providing airside access. These alternatives therefore do not change my conclusion that VAA is dominant in the market for airside access at the airport.

2.115 The precise delineation of the downstream markets—in particular, whether galley-handling and catering services at YVR are separate markets or a single market—can be left open. This is because VAA's refusal to grant airside access can be considered capable of lessening downstream competition regardless of the precise downstream market definition.

2.116 Specifically, the refusal to grant airside access has an impact on the activity of galley handling, which relies on airside access. Therefore, if there were separate downstream catering and galley-handling markets, there would be a potential lessening of competition in galley handling because new entry would be prevented. That would be sufficient for an economic theory of harm from the refusal to grant access, and it would be less important to consider the effect on the downstream catering market in detail.

2.117 Finally, I note that a theory of harm of foreclosure of downstream competition through a refusal to grant access to an upstream input requires the firm in question to be dominant upstream, but does not require it to be dominant downstream, or even to be directly active downstream.

2.118 Where the dominant upstream firm is vertically integrated into the downstream activity, it may have a clear economic interest to distort downstream competition—i.e. it may wish to favour its own downstream operations at the expense of those of downstream competitors. However, even if the firm is not vertically integrated, as is the case for VAA, it may have a financial stake in the outcome of competition in the downstream market, and therefore an economic motive to influence this competition.

# 3 Analysis of the scope for entry in the in-flight catering market at YVR

## 3A Relevance of the scope for entry in this case

3.1 In 2014 two new providers, Newrest and Strategic Aviation, requested access to the airside at YVR in order to provide galley-handling services. VAA refused both requests for access. [redacted].[56]

3.2 One of the main arguments that VAA put forward initially to justify its refusal to grant airside access was that demand for catering and related services was not sufficient to support additional entry.[57] VAA indicated that such entry would imperil the continued viability of the two existing providers of in-flight catering services, Gate Gourmet and CLS, which would result in a risk of service disruption and negative effects on quality and service levels.

3.3 I understand that this view has changed more recently, as VAA [redacted].[58] VAA published a request for proposals for an additional in-flight catering licence, and awarded a licence to the in-flight catering firm dnata in 2018.[59] I understand that dnata has not yet started operating at YVR.[60]

3.4 In any event, an important question to ask in this matter is how many providers of in-flight catering services can viably operate at YVR. This question can be asked for the period from around 2014 when Strategic and Newrest requested access. It can also be asked today (from 2018), now that dnata has been allowed to commence operations as a third caterer.

3.5 One factor that may determine the maximum number of providers is the availability of physical capacity at YVR for a new provider to operate. This is not a matter for economic expertise, although I do not understand VAA to be

[56] For example, see [redacted].

[57] See, for example, Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 3 and 75, and Schedule A – Concise Statement of Economic Theory, para 11.

[58] Vancouver Airport Authority (2017), 'Request for Expression of Interest – In-Flight Catering Licence', RFEOI # CBD-2017-001, 3 August, YVR00016816. [redacted].

[59] In-Flight Catering Licence between Vancouver Airport Authority and dnata Catering services Ltd, YVR00034311.

[60] [redacted]

making this capacity argument.[61] I do not address this point further in this report.

3.6 Another factor that determines the maximum number of providers is economic profitability. In any market, the number of competitors that can viably operate is often determined by a combination of total market size (a demand factor) and economies of scale in the costs of production (a supply factor). If fixed costs in an industry are high relative to total market demand, the number of viable competitors will be relatively small.

3.7 The extreme case of this is natural monopoly: fixed costs are so high that only one supplier can operate profitably. VAA is effectively arguing that the provision of in-flight catering services at YVR was until recently a 'natural duopoly'—i.e. that there was room for only two providers.

3.8 In this section I carry out two pieces of economic analysis, based on financial data from Gate Gourmet and CLS. First, I explore whether levels of profitability in the market in the past were such that there was room for a third competitor. Second, I consider how many providers could viably operate going forward. I consider this both in terms of whether there is room for three firms and in terms of whether there is room for four firms, as VAA has now granted access to a third provider of in-flight catering services (dnata).

3.9 Before doing so I make some observations on this matter from an economic perspective.

3.10 First, as a matter of economic theory, the competitive process itself—as distinct from a 'central planner'—is usually well placed to determine how many competitors can operate viably. The competitive process involves periodic entry and exit: when profits are high, new competitors come in, and when profits are low or negative, competitors exit. Over time the market will settle on a specific number (or range) of competitors, until demand or cost shocks change this again.

3.11 Second, even if there had been room for only two providers at YVR in the past, or three providers going forward, the competitive process—again as distinct from a 'central planner'—would be well placed to determine which providers

[61] I also note that, in the VAA's Request for Expression of Interest, it states that a new entrant would be able to set up a facility on Sea Island. Vancouver Airport Authority (2017), 'Request for Expression of Interest', RFEOI # CBD-2017-001, 3 August.

they should be. Competition means that those competitors that are most efficient, innovative and/or responsive to customer demand are usually the ones that survive. It is not necessarily the incumbent providers that survive.

3.12 In this regard, while VAA—acting here as a kind of 'central planner'—no doubt has significant understanding of the various services provided at its airport, there is also an important role for the providers themselves and for the purchasers of in-flight catering services—i.e. the airlines—to make the market work effectively. In my opinion, it is noteworthy that [redacted].[62]

3.13 I would expect airlines to be well placed to deal with any temporary disruption should one caterer struggle in the competitive process following entry.[63] Airlines would also be in a good position to make a commercial choice between catering services provided off-airport (as proposed by the firms that requested entry[64]) and on-airport (as provided by Gate Gourmet and CLS). It does not have to be VAA that decides what is best for the market.

3.14 Third, and related to the above points, VAA argues that new entry into the in-flight catering market at YVR may not be 'socially efficient'. VAA refers to the economics literature in its 'Concise Statement of Economic Theory'.[65] I make a number of observations here.

- The theory dealing with 'socially efficient' entry has not been generally accepted as a policy guide in competition law and regulation. The rule of thumb that more competition is generally better is still the accepted norm, and, in my opinion, this is for good economic policy reasons.[66]

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[62] For example, see [redacted]

[63] For example, I understand that Gate Gourmet assisted in the transition to a new catering provider at Quebec Airport in 2012. See PAAMC00002_00004030, p. 129.

[64] I note that dnata also plans to operate an off-site kitchen.

[65] Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, Schedule A – Concise Statement of Economic Theory, para 10.

[66] The notion that entry is normally good for competition, efficiency and economic welfare is also supported by the theoretical and empirical economics literature. For example, in a widely cited paper discussing the literature, Shapiro (2012) states that: 'There is a very substantial body of empirical evidence supporting the general proposition that "more competition," meaning greater contestability of sales, spurs firms to be more efficient and to invest more in R&D. For our purposes, "innovation" encompasses a wide range of improvements in efficiency, not just the development of entirely novel processes or products. Detailed case studies of businesses operating in diverse settings almost invariably conclude that companies insulated from competition—that is, firms operating in environments in which relatively few sales are contestable—are rarely at the cutting edge in terms of efficiency and can be woefully inefficient.' Shapiro, C. (2012), 'Competition and innovation: Did Arrow hit the bull's eye?', in Lerner, J. and Stern, S. (eds), *The Rate and Direction of Inventive Activity Revisited*, University of Chicago Press, pp. 376–7.

- The theory of socially efficient entry builds on a seminal paper by Mankiw and Whinston, which sets out the theoretical conditions under which entry may be inefficient.[67] One of these conditions is that products are undifferentiated: if there are too many suppliers, they may each produce inefficiently low volumes. Where products are differentiated, entry is less likely to be 'socially inefficient' in this theoretical framework, since new entry means greater product variety and choice. The latter theoretical outcome seems applicable to the markets for catering and galley handling: products are diverse, and suppliers are exploring new business models, such as off-airport catering. Free competition and entry means that such market dynamics and innovation are given a chance to prevail.

3.15 In the remainder of this section I consider whether the profitability in the in-flight catering market at YVR is such that it would have been able to sustain more than two service providers from around 2014, and whether it could sustain more than three service providers going forward.

## 3B Data and profitability measures used in my analysis

3.16 From the Commissioner's disclosure, I have had access to the following data that is relevant for conducting a profitability analysis.

- **Gate Gourmet**: [redacted].[68]
- **CLS**: [redacted].

3.17 The accounting measure that I can robustly estimate based on this data, and which I rely on in my profitability assessment, is the EBITDA margin (earnings before interest, taxes, depreciation and amortisation, divided by revenues). The EBITDA margin is the measure for which most data points were available for Gate Gourmet and CLS at YVR and across other airports. It is also [redacted]

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[67] Mankiw, G. and Whinston, M. (1986), 'Free Entry and Social Inefficiency', *The RAND Journal of Economics*, **17**:1, pp. 48–58.

[68] In my previous analysis for the expert report dated 15 November 2017, I used [redacted], which was the only data made available to me at the time. Subsequent to filing my expert report, I was advised by the Commissioner that he had inadvertently not provided me with a document that contains [redacted]. Now that I have this data available to me (see PAAH01424_00000795), I have incorporated it into my updated analysis. I note that the [redacted] The updated data has resulted in a change in most figures presented in this section.

[redacted].[69]

3.18 As set out in more detail in a report by Oxera (2003) on profitability analysis in competition law,[70] ideally I would use either the internal rate of return ('IRR') or the net present value ('NPV') as the appropriate profitability measure. These are both based on cash flow figures in relation to an economic activity, taking into account the cash outflows and inflows, and the timing of these cash flows, and they allow for an assessment of profitability relative to the risk and capital investment in the activity.

3.19 However, in the current case it is not possible to estimate the IRR or NPV of Gate Gourmet and CLS at YVR, since [redacted]. I therefore calculate EBITDA margins to measure profitability. The EBITDA margin does not capture an activity's risk and capital investment, but can nonetheless be informative about economic profitability when considered over a number of years and benchmarked against EBITDA margins in other markets.[71] It is therefore a useful profitability measure for my analysis below.

## 3C Profitability of the in-flight catering market at YVR

3.20 I start by considering the actual profitability of the two incumbent firms at YVR.[72] This provides the basis of the analysis of the scope for entry in the in-flight catering market both in 2014 and going forward.

3.21 Over the period from 2012 to 2017, Gate Gourmet's and CLS's revenues [redacted]. This means that overall [redacted].

[69] For example, see PAMC00002_00000706.
[70] Oxera (2003), 'Assessing profitability in competition policy analysis', Economic Discussion Paper 6, A report prepared for the Office of Fair Trading, July.
[71] The usefulness of EBITDA (or variants of profit margins more generally) in these circumstances is also recognised in the Oxera (2003) study referred to above. The Competition and Markets Authority in the UK has used EBITDA margins in a number of cases. See, for example, Competition Commission (2013), 'Cineworld Group plc and City Screen Limited', A report on the complete acquisition by Cineworld Group plc of City Screen Limited, 8 October; Competition Commission (2013), 'AEG Facilities (UK) Limited and Wembley Arena', A report on the completed acquisition by AEG Facilities (UK) Limited, a subsidiary of Anschutz Entertainment Group Inc, of the contract to manage Wembley Arena, 2 September; or Competition Commission (2005), 'Arriva plc and Sovereign Bus & Coach Company Ltd', A report on the acquisition by Arriva plc of Sovereign Bus & Coach Company Ltd, January.
[72] I note that, at the time of writing this report, dnata had not started operating at YVR.

3.22 Revenue for each of CLS and Gate Gourmet [redacted]. The combined revenue of the two providers at YVR amounted to approximately $[redacted] in 2017, as shown in Figure 3.1.

**Figure 3.1 Revenues and market shares of Gate Gourmet and CLS at YVR, 2012–17**

[redacted]

Note: I exclude airside access fee income from the caterers' revenues. Gate Gourmet and CLS [redacted]. I look only at the period from 2012, as [redacted].

Source: Analysis based on data from Gate Gourmet and CLS, and from YVR (2017), 'Facts and Stats', available at http://www.yvr.ca/en/about-yvr/facts-and-stats.

3.23 Total revenue in the market grew by [redacted]% between 2012 and 2017. [redacted] growth was [redacted] its market share from [redacted]% to [redacted]% over this period. The market share of [redacted] correspondingly (from [redacted]% to [redacted]%), although its revenue [redacted].

3.24 Figure 3.2 below sets out the profitability of Gate Gourmet and CLS at YVR between 2011 (2012 for CLS) and 2017 as measured by the EBITDA margin. The average EBITDA margins over the period are [redacted]. The weighted average of the margins of Gate Gourmet and CLS combined over the same period is [redacted]%.

Figure 3.2 EBITDA margins of Gate Gourmet and CLS at YVR, 2011–17

[redacted]

Source: Analysis based on data from Gate Gourmet and CLS.

3.25 The margins of both Gate Gourmet and CLS [redacted], followed by [redacted]. This is consistent with [redacted] illustrated in Figure 3.1 above.

3.26 [redacted].[73] It is not of critical importance to my analysis to understand the detailed reasons behind this difference.

3.27 Overall, the EBITDA margins for each of Gate Gourmet and CLS in the in-flight catering market at YVR were [redacted] over the period for which data is available. The combined margin, which averaged [redacted]%, was [redacted].

3.28 Before being able to assess whether the joint [redacted] of a third firm, and whether more than three firms could viably operate going forward, I undertake two further steps.

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[73] Based on analysis of [redacted].

- I consider whether the observed margins of the in-flight catering firms are influenced by VAA's charges. In particular, I consider whether VAA charges disproportionately high fees for airside access or land leasing, with the effect of lowering the profitability of the incumbent providers. If that is the case, it might be more appropriate to use an 'adjusted profitability' measure for Gate Gourmet and CLS in my analysis. This is discussed in section 3D.
- I establish a benchmark EBITDA margin that a provider (whether incumbent or entrant) of in-flight catering services at YVR would expect to earn at a minimum for it to be considered viable. This allows me to assess whether the current margins of the incumbent firms, and the potential margins in the market after entry by a third or fourth operator, are sufficiently high to sustain an additional competitor. This is discussed in section 3E.

## 3D Effect of VAA's charges on the profitability of in-flight catering firms at YVR

3.29 The two main charges set by VAA for in-flight catering firms that operate at YVR are:[74]

- the airside access fee, which is required in order for a firm to gain access to the airport's premises to operate galley-handling services;
- the leasing rate for renting land at the airport in order to operate an on-airport kitchen facility.

3.30 In this section I consider how the airside access fee and land leasing rate charged to Gate Gourmet and CLS at YVR compare with those at other Canadian airports, and those charged to other types of firm that operate at YVR. This will provide an indication of whether VAA is currently charging high fees to CLS and Gate Gourmet. If it is, the observed profit margins for Gate Gourmet and CLS (set out in section 3C) may be correspondingly lower, and it might be appropriate to make an adjustment to the observed profitability measures and to take this into account in my analysis of the scope for entry in section 3F and 3G.

### 3D.1 Benchmarking airside access fees

3.31 I understand that airside access fees at YVR are charged as a percentage of the in-flight catering firm's sales. [redacted]

[74] Notice of Application, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, para 46.

[redacted]. In this section I focus on the on-airport sales, as I understand that [redacted][75]

3.32 The licence agreement that VAA signed with Gate Gourmet in [redacted] set an airside access fee at a rate [redacted]. According to the terms of the agreement, [redacted][76] The agreement between VAA and CLS, which was signed [redacted]. VAA increased the airside access fee for each of CLS and Gate Gourmet to 4.5% in January 2010, and to 5% in January 2011.[77] I note that [redacted].[78]

3.33 In this section I consider the airside access fees paid by each of CLS and Gate Gourmet at YVR, and whether these are consistent with the fees paid at other Canadian airports. Based on the data provided to me, and as noted above, I look at the period from 2011 to 2014[79] for Gate Gourmet and the period from 2012 to 2017 for CLS.

3.34 Figure 3.3 below shows that the average airside access fee paid by CLS at YVR was [redacted]% between 2012 and 2017. This is [redacted].[80] As noted above, VAA states that the airside access fee at YVR for on-airport sales has been 5% since 2011, which is [redacted].[81]

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[75] YVR00012219.
[76] A supplemental agreement was also entered into on [redacted] MLHE00001_00000014.
[77] Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, para 38.
[78] In-Flight Catering Licence between Vancouver Airport Authority and dnata Catering services Ltd, YVR00034311, p. 4.
[79] Note that from 2015 onwards, the structure of [redacted] As a result, these years are excluded from my analysis.
[80] I note that CLS started operations at Calgary Airport in May 2016. However, I have excluded its results from my analysis because [redacted]
[81] YVR00012219. [redacted].

**Figure 3.3 CLS: airside access fee paid as a percentage of revenue**

[redacted]

Source: Analysis based on data from CLS.

3.35 The average airside access fee paid by Gate Gourmet at YVR over the period from 2011 to 2014[82] was [redacted]%. This is [redacted]. It is also [redacted]. This is shown in Figure 3.4.

[82] For 2015 onwards, it appears that [redacted] I therefore do not consider the 2015 to 2017 airside access fees from Gate Gourmet in my analysis.

**Figure 3.4 Gate Gourmet: airside access fee paid as a percentage of revenue**

[redacted]

Source: Analysis based on data from Gate Gourmet.

3.36 I have also looked at the airside access fee paid by Strategic Aviation, and find that the fee that it pays [redacted].[83]

3.37 The above evidence therefore suggests that the airside access fees paid by CLS and Gate Gourmet at YVR are [redacted]. As a result, I conclude that [redacted] is necessary in relation to the airside access fees that these firms pay to VAA.

### 3D.2 Benchmarking the land leasing rates paid to VAA

3.38 Both Gate Gourmet and CLS also rent land from VAA for on-airport kitchens in order to operate their catering businesses. The Commissioner alleges that VAA has tied access to the in-flight catering market at YVR to leasing land at the airport for kitchen facilities.[84] The lease rates could have an impact on the profitability of the in-flight catering firms at YVR, estimated in section 3C. I

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[83] PDJF00003_00000015.

[84] Notice of Application, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15.

therefore consider how the land leasing rates for in-flight catering firms at YVR compare with those paid by other types of firm that lease land from VAA, and with the fees paid by Gate Gourmet and CLS at other airports in Canada.

3.39 Figure 3.5 shows that the land lease rate paid by CLS at YVR (as a percentage of revenue) is [redacted].

**Figure 3.5 CLS: lease payments to the airport as a percentage of revenue**

[redacted]

Source: Analysis based on data from CLS.

3.40 I also find that the land lease payment as a proportion of revenue for Gate Gourmet is [redacted]. On average over the years 2011–17, Gate Gourmet's lease payments as a percentage of revenue were [redacted]% at YVR. The average across other airports at which Gate Gourmet operates was [redacted]%. This is shown in Figure 3.6.

**Figure 3.6 Gate Gourmet: lease payments to the airport as a percentage of revenue**

[redacted]

Source: Analysis based on data from Gate Gourmet.

3.41 There are therefore some indications that leasing rates for [redacted].

3.42 This is confirmed when considering the leasing rates paid by other types of firm operating at YVR. Figure 3.7 indicates that the leasing rate paid by Gate Gourmet is [redacted]. The leasing rate paid by CLS is [redacted].

**Figure 3.7 Land lease rates charged to various operators at YVR relative to area leased**

[redacted]

Note: [redacted]. The dotted line is a linear regression line; it is a [redacted]

Source: Analysis based on data from VAA.

3.43 Based on this evidence, I conclude that [redacted]. However, the magnitude of the land lease rate is [redacted]. Adjusting for the lease rate in the calculation of the in-flight catering firms' profitability at YVR therefore has little impact on the observed EBITDA margin. Assuming, for example, that [redacted] this would increase the joint EBITDA margin by only [redacted] percentage points on average—as shown in Figure 3.8.

**Figure 3.8 Combined EBITDA margins for caterers at YVR, actual (unadjusted) and adjusted for lease rates, 2012–17**

[redacted]

Source: Analysis based on data from Gate Gourmet and CLS.

### 3D.3 Overall findings on the benchmarking of VAA's rates

3.44 Overall, I conclude the following in relation to the effect of VAA's charges on caterer profitability.

- [redacted].
- [redacted]. [redacted]
- The magnitude of the leasing rate is [redacted]. Therefore, adjusting the land lease rates has [redacted] effect on the EBITDA margins of Gate Gourmet and CLS. For this reason I use [redacted] EBITDA margins in the remainder of my analysis below.

### 3E Profitability benchmarks

3.45 In order to assess whether the observed EBITDA margins in section 3C are high enough to sustain a hypothetical entrant, a benchmark is needed for what is 'high enough'.

3.46 To establish an indicative benchmark range for the EBITDA margin, I consider evidence on EBITDA margins from:

- Gate Gourmet and CLS across their airport operations in Canada;
- Gate Group globally;[85]
- LSG Group globally.[86]

3.47 I focus on Gate Gourmet, CLS, Gate Group and LSG Group as I did not have access to data on [redacted], and the data for [redacted] proved too volatile to be informative for this exercise.[87]

3.48 CLS's average EBITDA margin at YVR was [redacted]% between 2012 and 2017. It was [redacted] (see Figure 3.9 below). EBITDA margins at Toronto Airport [redacted]%. Across the two airports, CLS's average EBITDA margin ranged between [redacted]% and [redacted]%, with an average of [redacted]% between 2012 and 2017.

[85] Gate Group is an umbrella organisation of ten companies that provide in-flight catering services as well as hospitality, provisioning and logistics. See http://www.gategroup.com/about/our-group-of-companies.
[86] The LSG Group is the collection of companies under LSG Lufthansa Service Holding AG, a 100% subsidiary of Deutsche Lufthansa AG. It provides services such as catering and logistics to airlines, train operators and retailers. LSG Sky Chefs is consolidated into LSG Group and has held a 70% stake in CLS since 2008. See http://www.lsgskychefs.com/us/facts-figures/.
[87] This may be because [redacted]

**Figure 3.9 CLS EBITDA margins across airports in Canada**

[redacted]

Source: Analysis based on data from CLS.

3.49 Figure 3.10 shows Gate Gourmet's EBITDA margins across Canadian airports between 2012 and 2017. Gate Gourmet's operations at YVR are [redacted]. The average margin of [redacted]

**Figure 3.10 Gate Gourmet EBITDA margins across airports in Canada**

[redacted]

Source: Analysis based on data from Gate Gourmet.

3.50 The range of EBITDA margins observed across Gate Gourmet's operations in Canada [redacted]. In 2017, Gate Gourmet's operations at [redacted] exhibited EBITDA margins greater than [redacted]%.

3.51 Gate Gourmet's parent company, Gate Group, operates catering, galley-handling and other businesses (such as equipment sale, aircraft cleaning, and security services) around the world. Catering and galley handling make up more than 80% of Gate Group's total revenues.[88] Globally, Gate Group's margins are also above [redacted]% across all geographies except for North America (see Figure 3.11). The highest EBITDA margins are achieved in Latin America and EMEA (Europe, the Middle East and Africa), averaging 11.0% and 6.7%, respectively.

[88] Gate Group (2017), 'Annual Report 2017', p. 63.

**Figure 3.11 Gate Group EBITDA margins globally**

[redacted]

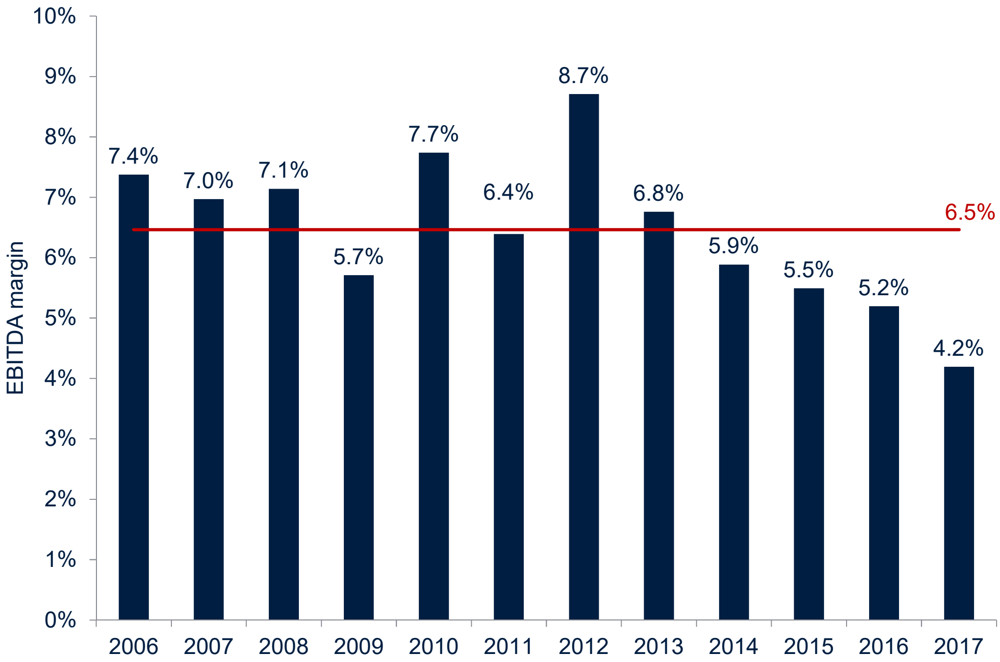
Source: Analysis based on data from Gate Gourmet and Gate Group annual reports.

Note: Gate Gourmet acquired Servair, a French catering firm, in January 2017. Servair's results have been consolidated into Gate Gourmet's for 2017. Servair has a strong presence in the African and European airline catering markets. Gate Gourmet did not report revenue by geography prior to 2014.

3.52 Since its acquisition of a majority stake in CLS in 2008,[89] LSG Sky Chefs has held a 70% stake in CLS. LSG Sky Chefs is in turn a wholly owned subsidiary of Lufthansa Group and is consolidated into LSG Group, the catering business segment of Lufthansa Group. Globally, LSG Group has earned EBITDA margins of between 4% and 9% over the past 12 years, with an average of 6.5% over the same period (see Figure 3.12).

[89] LSG Sky Chefs (2008), 'LSG Sky Chefs acquires CLS Catering Services, Canada', Press Release, 23 July, available at http://www.lsgskychefs.com/media/news/lsg-sky-chefs-acquires-cls-catering-services-canada/.

**Figure 3.12 LSG Group EBITDA margins globally**




Source: Analysis based on Lufthansa Group annual reports.

3.53 Figure 3.13 summarises the evidence reviewed in this section and compares it with the average EBITDA margins of Gate Gourmet and CLS, and their combined margin at YVR, from section 3C.

**Figure 3.13 Profitability of Gate Gourmet and CLS at YVR relative to benchmarks**

[redacted]

Note: GG refers to Gate Gourmet. The averaging periods are 2011–17 for Gate Gourmet Canada and Gate Gourmet globally, and 2012–17 for CLS Canada. [redacted]

[redacted]. For LSG globally, the EBITDA margin is only available for the consolidated business and not by airport or region. The EBITDA margin of 5.9% is the average of the consolidated EBITDA margin over the years 2012–17.

Source: Analysis based on data from Gate Gourmet and CLS and annual reports of Gate Group and Lufthansa Group.

3.54 Based on this information, I consider a range of [redacted]% to be a reasonable benchmark range for the required EBITDA margin for sustainable operations. The lower bound of this range is conservative, given that Gate Group's North American operations suggest that even margins below 5% may be viable. The upper bound of [redacted]% captures a large part of the comparator data points, although I note that Gate Gourmet's margin at YVR is [redacted] this level.

3.55 The combined EBITDA margins observed in the in-flight catering market at YVR, presented in section 3C, which average [redacted]%, are slightly higher than [redacted] of the indicative range, suggesting that purely on the basis of past and current levels of profitability there [redacted] over the period 2012–17. This is investigated in further detail in the following section, where I simulate the effect of a new entrant.

## 3F Can the in-flight catering market sustain more than two operators?

3.56 In this section, I assess whether the in-flight catering market at YVR could have sustained more than two operators from the period around 2014 in which in-flight catering firms requested, and were refused, access to YVR. I also carry out a forward-looking analysis following the commencement of operations of dnata in 2018. This assessment is based on:

- [redacted];[90]
- my own analysis of the effect of entry on profitability in the in-flight catering market at YVR, building on the steps of the analysis presented in sections 3C to 3E above.

3.57 [redacted].[91] This study follows a different methodology from mine, but in essence also considers the past

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[90] PAMC00002_00000706.pdf.

[91] Vancouver International Airport (undated), 'Flight Kitchens at YVR Airport: Market Analysis Report', YVR00024996.

financial performance of Gate Gourmet and CLS and from there infers what would happen to this financial performance in the event of entry.

3.58 I note that this analysis by [redacted], in 2018 VAA provided dnata with a licence to operate in the in-flight catering market at the airport.

3.59 The analysis that I present in this section 3F does not take into account the new entry by dnata. It is in essence the same analysis of the viability of entry of a third operator that I presented in my expert report of 15 November 2017 (except that, as explained above, I have updated the analysis with newly available information). The entry of dnata does raise another relevant question for this case—i.e. whether more than three firms could profitably operate at YVR following dnata's entry. I undertake a new 'forward-looking analysis' to address this question in section 3G below.

### 3F.1 [redacted]

3.60 I note that [redacted].[92]

3.61 [redacted].

- [redacted].
- [redacted].

[92] [redacted].

- [redacted].
- [redacted].

3.62 [redacted], under these assumptions, [redacted], suggesting that new entry into the in-flight catering market at YVR would be viable. [redacted].

3.63 At the same time, it can be inferred [redacted], [redacted] Given that [redacted].

3.64 Thus, [redacted] that a new entrant at YVR would be viable.

### 3F.2 My analysis of the viability of a third entrant: methodology and data

3.65 I use the combined profitability of Gate Gourmet and CLS at YVR, based on their management accounts (discussed in section 3C), as the starting point for my analysis.

3.66 The next step is to estimate the fixed costs of a hypothetical entrant. These fixed costs are the costs that a hypothetical entrant would need to incur in order to operate and maintain the required facilities, regardless of the level of its output.

3.67 I assume that variable costs in the in-flight catering market remain unchanged from the situation in which there are two firms operating. This assumption is conservative, as one would expect that a new entrant would put pressure on the incumbents' operating costs, or that the new entrant might have lower operating costs itself. Indeed, as outlined above, [redacted].

3.68 I focus on profitability in a 'steady state' once the new entrant has established itself in the market, and I therefore do not include any 'start-up' costs in my analysis. This allows me to compare the combined profitability after entry with the profitability benchmarks in section 3E, and to use the current profitability of the market from section 3C.

3.69 I undertake both a static and a dynamic analysis. The difference between the two is as follows.

- The *static analysis* takes the existing market situation in terms of market size and price levels (i.e. it is a backward-looking analysis that takes the market as it was over the past five years). It then assumes that the only effect of entry is the addition of the fixed costs of the hypothetical entrant. How market shares are then divided across the three providers (the two incumbents plus the entrant) does not matter for my analysis; what matters is whether overall the three providers combined would still be sufficiently profitable for the new market structure to be viable.

- The *dynamic analysis* is the same as the static analysis, except that it also considers a number of dynamic price and volume effects that could arise in the future after entry (i.e. it is a forward-looking analysis that projects the market over the next four years). In particular, I assume that entry leads to an overall reduction in prices in the market, in line with the analysis of price effects as presented in section 4 of this report. I also assume an increase in demand in the in-flight catering market, in line with YVR's passenger forecasts for the period from 2018 to 2021.[93] It is worth noting that the demand growth in this scenario is externally driven, and I do not take account of any second-order effect of the reduction in price on demand (total demand for catering services at the airport may increase if prices go down). I consider that this is a reasonable approach, as the total demand for in-flight catering is likely to be fairly inelastic (i.e. not very responsive to price).

3.70 The logic behind both the static and dynamic analyses is as follows. In sections 3C and 3E, I established that the profitability of the in-flight catering market at YVR with two providers was [redacted] of the benchmark range for the EBITDA margin. In this section, I determine whether the

[93] This is the central case scenario. Vancouver Airport Authority, 'YVR 2037 Master Plan Phase 2: Check-in to the Future of YVR', p. 9.

combined profitability of the in-flight catering firms that operate at YVR is [redacted] the benchmark range once a third provider enters the market.

3.71 The entrant will add fixed costs (i.e. costs that do not vary with the level of output) to the market, as it needs its own production facilities. In the new situation there are therefore three providers, each with their own fixed costs of production facilities. The entrant will gain some market share from the two incumbents,[94] and as a result the incumbents will reduce their output and corresponding variable production costs, but cannot save on the fixed costs. The question is whether overall profits in the market will remain sufficient to cover the three sets of fixed costs.

3.72 I estimate the fixed costs of an entrant based on the management accounts from Gate Gourmet and CLS, and on the information from [redacted] described above.[95]

3.73 Figure 3.14 sets out my approach to identifying the fixed costs of a new entrant. Starting from the total operating expenses (Figure 3.14 uses the total operating expenses of [redacted] for illustration), I consider each cost item in order to identify the costs that a hypothetical entrant would need to incur each year in order to operate and maintain the required facilities, regardless of the level of output.

**Figure 3.14 Analysis of fixed costs of a new entrant**

[redacted]

Note: GG refers to Gate Gourmet

[94] As noted before, it is not critical to this analysis to determine precisely what market share the entrant gains from the incumbents.

[95] PAMC00002_00000706.

Source: Analysis based on data from Gate Gourmet.

3.74 Food and other material costs, vehicle costs, and bad debt expenses, for example, are variable costs that are directly related to producing output, and should not be considered fixed costs.[96] Some of the personnel, insurance, legal, and advertising and marketing costs, on the other hand, are partly fixed. A new entrant would need to incur some of these costs even if no output is produced.

3.75 Similarly, a new entrant might need to incur building costs and some property and utility expenses. The extent to which these costs need to be taken into account depends on the business model of the entrant (in particular, whether it has a kitchen on-airport). This is reflected in the two scenarios considered below.

3.76 Personnel costs accounted for almost [redacted]% of Gate Gourmet's operating costs in 2017. Most of these costs are likely to have been variable. Direct labour is likely to vary directly with output, whereas indirect labour may have some fixed component. Accounting or marketing roles, for example, may fall under indirect labour and might not be directly related to output.

3.77 Figure 3.15 provides an indication of the extent to which direct and indirect labour costs vary with output. It shows a scatter plot of direct and indirect labour against revenues, based on the data provided in [redacted].

[96] These costs are already included in the market-wide variable costs (which are captured in the sum of the total operating expenses of [redacted]).

**Figure 3.15 Relationship between direct labour costs, indirect labour costs and output**

[redacted]

Note: [redacted]

Source: Analysis based on data from Gate Gourmet.

3.78 As expected, Figure 3.15 confirms that there is a [redacted]. There is therefore a case for treating some indirect labour costs as variable costs.

3.79 I thus base my estimates for personnel costs on [redacted]. Figure 3.16 shows that [redacted]

**Figure 3.16 Assessment of the variability of indirect labour costs**

[redacted]

Source: PAMC00002_00000706, slide 22.

3.80 I also use the incremental recurring costs for [redacted] from Figure 3.16 in my analysis.

3.81 Two firms requested entry at YVR in 2014: Newrest and Strategic Aviation. I understand that Newrest wanted to operate in the catering and galley-handling markets, but with an off-airport kitchen, while Strategic Aviation wished to operate in the galley-handling market only. Therefore, in order to consider the different business models of potential entrants into the in-flight catering market at YVR, I consider two scenarios for the fixed costs of a hypothetical entrant.

- *'No kitchen' scenario*: this assumes that the new entrant would not require kitchen space on-airport. [redacted]. I therefore adopt a conservative assumption and include some costs for rent, property and utility expenses in my analysis under the assumption that the entrant would still require a logistics facility close to the airport (but not necessarily on the airport's premises).
- *'Kitchen' scenario*: this assumes that the business model of the new entrant would be similar to that of CLS and Gate Gourmet at YVR, and therefore that it requires on-airport kitchen space. For my analysis, I assume that the kitchen is on-airport, but, as noted earlier, Newrest was intending to operate a kitchen off-airport. Therefore, the costs estimated in this scenario may overstate the costs for the new entrant if it were able to obtain lower rent for an off-airport kitchen than the rent paid by CLS and Gate Gourmet for their on-airport facilities at YVR.

3.82 The two scenarios and the underlying assumptions are summarised in Figure 3.17. For each scenario, I estimate a lower bound ('low costs') and an upper bound ('high costs') for the fixed costs, making four scenarios in total.

**Figure 3.17 Fixed costs of a hypothetical entrant: overview of scenarios**

[redacted]

Note: GG refers to Gate Gourmet. SA refers to Strategic Aviation.

Source: Analysis based on data from Gate Gourmet, CLS and Strategic Aviation.

3.83 The rationale behind the assumptions in Figure 3.17 is as follows.

- **Personnel costs** are based on the information from [redacted] presented in Figure 3.16. The upper bound ('high costs') for the 'kitchen' case assumes that [redacted] listed in Figure 3.16 are fixed costs. The lower bound ('low costs') assumes that [redacted] The difference between the 'no kitchen' and 'kitchen' scenarios is that for the former I also remove the chef from the fixed costs (since no kitchen is needed).

- **Rent**: this is the first of the two categories where the 'kitchen' and 'no kitchen' scenarios differ significantly. In the 'kitchen low costs' scenario, I assume that the rent that the new entrant pays for kitchen space equals [redacted]. In the 'kitchen high costs' scenario I assume that the rent that the new entrant pays is equal to [redacted].[97] In the 'no kitchen' scenario, I assume that the new entrant would still require some form of logistics facility. The lower and upper bound are the same, and are based on the maximum of the respective line items that [redacted] pays across its operations at Canadian airports.

- **Utility and property expenses**: this is the second of the two categories where the 'kitchen' and 'no kitchen' scenarios differ significantly. For the 'no kitchen' scenario, I use the maximum of the respective line items that [redacted] for both the upper and lower bound.[98] For the 'kitchen' scenario, I use the minimum of the utility and property expenses from [redacted]. In all scenarios I implicitly assume that all these expenses observed in the management accounts are fixed. In reality, I would expect a proportion of them (especially utility expenses) to vary with output.

- **Incremental OPEX**: this line item consists of legal and consulting expenses, IT/ICT systems and telecommunications expenses. Incremental OPEX are the same in both scenarios. The lower bound is based on [redacted] (shown in Figure 3.16), while the upper bound equals [redacted] over the period for which data is available. The upper bound is therefore likely to be conservative as I do not attempt to separate out the fixed component.

- **Insurance** and **advertising and marketing** are the same in both scenarios. They are not considered in [redacted] but may nevertheless be relevant (buildings insurance would probably be required even if the kitchen does not produce any output). Since these line items are more variable over time, I use averages of the numbers observed in the management accounts. The lower bound is the average insurance and advertising and marketing expenses from [redacted], while the upper bound is based on [redacted]

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[97] I use the rent from [redacted], because I found that [redacted] (see section 3D.2) and [redacted]

[98] This is likely to be conservative, but given the magnitude of these items, it is unlikely to have a significant impact on my conclusions.

3.84 Taking all assumptions together allows me to derive estimates of the fixed costs for a new entrant. For a new entrant that does not require kitchen space, the estimated fixed costs are between $[redacted] and $[redacted]. For an entrant requiring kitchen space on-airport, the estimated fixed costs are $[redacted]–$[redacted].

### 3F.3 My analysis of the viability of a third entrant: results

***Static analysis***

3.85 Figure 3.18 and Figure 3.19 below show the range (based on the 'low costs' and 'high costs' scenarios) for the combined EBITDA margin after entry in the market for in-flight catering at YVR, for the 'no kitchen' and 'kitchen' scenarios respectively.

3.86 The average combined EBITDA margin over the period of the in-flight-catering market with three firms—Gate Gourmet, CLS, and a new entrant without kitchen space—is [redacted]% for the high cost scenario and [redacted]% for the low cost scenario. This is [redacted] the benchmark range for the EBITDA margin of [redacted]%. [redacted].

**Figure 3.18 Static analysis of effects of a new entrant without kitchen**

[redacted]

Source: Analysis based on data from Gate Gourmet and CLS.

3.87 In the scenario where the entrant requires kitchen space, the average joint EBITDA margin over the period is [redacted]% for the high cost scenario and [redacted]% for the low cost scenario. This is [redacted] my benchmark range. I also note that the yearly margins are [redacted] the benchmark range for [redacted] in all years since [redacted] (see Figure 3.19).

**Figure 3.19 Static analysis of effects of a new entrant with kitchen**

[redacted]

Source: Analysis based on data from Gate Gourmet and CLS.

3.88 Overall, this static analysis indicates that, based on levels of profitability in recent years, the market at YVR could sustain a third provider of in-flight catering services, either with or without on-airport kitchen space.

***Dynamic analysis***

3.89 Figure 3.20 and Figure 3.21 show the results from the dynamic analysis. This analysis is forward-looking and takes account of a price effect of entry and future growth in demand for in-flight catering services. These assumptions about price and volume effects are inherently uncertain, and the dynamic analysis is therefore indicative only. For the price effect, it is assumed that overall prices fall by [redacted]%. This is roughly in line with my estimated price effects following entry, as presented in section 4 of this report.[99] Volume

[99] In section 4 I find a price effect of [redacted]% for one airline (Jazz) that switched to the new entrant, and price effects of [redacted]% to [redacted]% for [redacted] airlines that did not switch. I find no price effects for [redacted] airlines that did not switch. My preferred estimates are the revenue-weighted estimates, as these are likely to take account of both the price and quantity effects caused by entry. These estimates provide a range of [redacted]% to [redacted]%. All things considered, an overall price effect of [redacted]% therefore seems reasonable as an assumption. It should also be borne in mind that my results in section 4 are predominantly for galley handling, not in-flight catering services as a whole.

growth is assumed to be 2% per year, in line with the central case of VAA's passenger forecasts.[100]

3.90 The dynamic analysis indicates that the market could sustain an entrant that did not require kitchen space. Figure 3.20 shows that the estimated range for the combined EBITDA margin is between [redacted]% and [redacted]%, which is [redacted] my benchmark range. This suggests that entry of a third firm without a kitchen would be viable.

**Figure 3.20 Dynamic analysis of effects of a new entrant without kitchen**

[redacted]

Source: Oxera.

3.91 In the case where the entrant requires on-airport kitchen space (see Figure 3.21), the average combined EBITDA margin is between [redacted]% and [redacted]%, which is [redacted] the benchmark range for the EBITDA margin. This suggests that entry of a third firm with a kitchen would also be viable.

[100] Vancouver Airport Authority (2016), 'YVR 2037 Master Plan Phase 2: Check-in to the Future of YVR', p. 9.

**Figure 3.21 Dynamic analysis of effects of a new entrant with kitchen**

[redacted]

Source: Oxera.

3.92 The assumptions in the dynamic analysis are conservative, for the following reasons.

- I assume that the costs of the kitchen for an entrant would be the same as the costs for [redacted], which has a kitchen on-airport. However, a new entrant might be able to operate an off-airport kitchen at a lower cost. I note that neither of the firms that requested entry at YVR proposed operating a kitchen on-airport—Newrest proposed operating an off-airport kitchen, while Strategic Aviation proposed operating only galley-handling services (and would therefore not require a kitchen).
- The cost structure is assumed to remain unchanged in my analysis, but the increase in competition may well place downward pressure on the incumbents' variable costs. Furthermore, the new entrant might be more efficient, as is also assumed in [redacted][101]

[101] This is consistent with a Witness Statement from Air Canada that was made available to me after I submitted my 15 November 2017 report: 'The presence, or potential presence, of alternative in-flight catering providers has been shown to create an environment of greater cost efficiency evaluation by caterers. [redacted], thus helping Air Canada to continue to innovate and offer its customers a superior onboard experience.' Supplemental Witness Statement of Mark Macvittie, 20 June 2018.

3.93 The potential impact of a reduction in market-wide variable costs (i.e. across all operators in the in-flight catering market at YVR) on the results from the dynamic analysis is illustrated in Figure 3.22. Starting from the 2018 values from Figure 3.22, if entry by a competitor that requires kitchen space leads to a decrease in total variable costs in the in-flight catering market at YVR of [redacted]% or more, the combined EBITDA margin would [redacted] my benchmark range for both the 'high costs' and 'low costs' scenarios.[102]

**Figure 3.22 Dynamic analysis of effects of a new entrant with kitchen: EBITDA margin after reduction in variable costs**

[redacted]

Source: Analysis based on data from Gate Gourmet and CLS.

## 3G Can the in-flight catering market sustain additional operators after dnata's entry in 2018?

3.94 As I noted above, following its analysis of the scope for entry, [redacted][103] [redacted] granted dnata a licence to operate at YVR. As a result, a relevant question

[102] The results hold regardless of how the decrease in total variable costs is distributed across the three operators.

[103] Vancouver International Airport (undated), 'Flight Kitchens at YVR Airport-Market Analysis Report', p. 21, YVR00024996. VAA's analysis considered the EBITDA margin of 5.2% from the 'Catering' business segment of Lufthansa Group from its 2016 annual report as a benchmark for YVR. [redacted]. From its breakeven analysis, VAA concludes that 'CLS and Gate Gourmet could withstand a 29% decrease from their 2016 sales levels and still achieve a breakeven profitability,' and that this demonstrates 'a reasonable level of resiliency of each operator to withstand a potential downturn but also their ability to contend with another entrant to the market'.

going forward is whether the market could sustain more than three firms after dnata's entry.

3.95 My forward-looking analysis projects the market over the next four years. It is similar to the dynamic analysis above in that it considers passenger forecasts, price effects and cost effects. Volume growth is assumed to be 2% per year, in line with the central case of VAA's passenger forecasts.[104] I also take account of a price effect of entry and consider the effect of a cost reduction. For the price effect, I assume that overall prices fall by [redacted]% relative to the situation with just Gate Gourmet and CLS in the market.[105]

3.96 In the forward-looking analysis below, I assume that the market initially contains three firms: Gate Gourmet, CLS and dnata. As dnata has not yet started operating, I add [redacted][106] to the fixed costs of CLS and Gate Gourmet to obtain a market-wide fixed costs figure. I take [redacted].[107] As in the analysis above, I make no assumption about market shares or quantity produced by each firm.

3.97 I consider three potential scenarios for the hypothetical fourth firm. In the first two scenarios, I estimate the fixed costs of the new entrant based on the two incumbents using the with and without kitchen scenarios, as I did for the dynamic analysis. This implicitly assumes that the new entrant is of a similar scale to the two incumbents. In the third scenario, I consider that the hypothetical entrant would operate a business model similar to [redacted].

104 Vancouver Airport Authority (2016), 'YVR 2037 Master Plan Phase 2: Check-in to the Future of YVR', p. 9. I note that VAA has significantly outperformed its 'most likely' scenario forecast over the past two years is now more than five years ahead of the original forecast made in 2017. I also note that, for the period 2017–22, [redacted] in passengers at YVR in its business case.

105 In the dynamic analysis I used a [redacted]% price change following entry of a third provider. The [redacted]% reflects the entry of a third and fourth provider. This is the estimate of the price effect when going from two firms in the market to four firms. This is likely to be an overestimate as it would be expected (based on standard economic models) that the price effect of a fourth entrant would be lower than the price effect of a third entrant. However, to simplify my analysis I double the price effect observed when going from two firms to three, which is therefore a conservative approach.

106 [redacted].

107 [redacted]. Therefore I estimate [redacted]. The only adjustment I have made to [redacted] I also assume that all other costs that occurred in 2018 are fixed costs.

3.98 If the fourth firm did not require an on-airport kitchen, as illustrated in Figure 3.23, the average combined EBITDA margin for the period is [redacted]% for the high costs scenario and [redacted]% for my low costs scenario. This lies [redacted] of the benchmark range.

**Figure 3.23 Forward-looking analysis of effects of a new entrant without kitchen**

[redacted]

Source: Analysis based on data from [redacted].

3.99 If the fourth firm required an on-airport kitchen, as illustrated in Figure 3.24 below, the average combined EBITDA margin for the period would be [redacted]% for the high costs scenario and [redacted]% for the low costs scenario, which is [redacted] my benchmark range.

**Figure 3.24 Forward-looking analysis of effects of a new entrant with kitchen**

[redacted]

Source: Analysis based on data from [redacted].

3.100 As I noted above, it is to be expected that an additional entrant would place pressure on the variable costs of both the entrant and the incumbent firms in the market.[108] To illustrate the importance of such an effect, I estimate that if entry by a firm requiring kitchen space leads to a decrease in total variable costs in the in-flight catering market at YVR of 2.5% or more, the combined EBITDA margin will [redacted] the benchmark range for both the high costs and low costs scenarios.[109] See Figure 3.25.

[108] I have assumed that [redacted]

[109] The results hold regardless of how the decrease in total variable costs is distributed across the three operators.

**Figure 3.25 Forward-looking analysis of effects of a new entrant with kitchen: EBITDA margin after reduction in variable costs**

[redacted]

Source: Analysis based on data from [redacted]..

3.101 Next I consider a scenario where a hypothetical entrant is targeting a similar scale to [redacted]. This scale is [redacted] than the hypothetical entrant that I modelled above, and incorporates an off-airport kitchen. Using [redacted], I have adjusted [redacted].[110]

3.102 The results are shown in Figure 3.26. For the forward-looking analysis with an entrant the size of dnata, the combined EBITDA margin over the period is [redacted]%. This is [redacted] the lower bound of my benchmark range and suggests that there is room for a fourth entrant of a similar size to [redacted].

[110] The only adjustment I have made to [redacted] I also assume that all other costs occurred in 2018 are fixed costs, which is likely to be conservative as there will be some variable costs incurred in year 1 of operation.

**Figure 3.26 Forward-looking analysis of the effects of a new entrant without kitchen and an entrant of a similar size to [redacted]**

[redacted]

Source: Analysis based on data from Gate Gourmet, CLS and dnata.

3.103 I note that, in its [redacted].[111] It is therefore possible that a fourth firm may produce at [redacted]

3.104 Such a market structure would be comparable to those at other Canadian airports where there are four in-flight catering firms. For example, at Toronto Airport market shares for the four in-flight catering firms range from [redacted]% to [redacted]%, while at Calgary Airport market shares range from [redacted]% to [redacted]%.[112] Therefore, having some large and some smaller providers of in-flight catering services would be consistent with the observed competitive dynamic at other airports.

## 3H Conclusions on the scope for entry at YVR

3.105 In this section I have assessed whether the market for in-flight catering at YVR would have been able to sustain a third firm in the past, and whether it could sustain additional entry going forward. I find that an additional firm can be

[111] [redacted]. [redacted]%. [redacted]%. This is based on my analysis of PGMH00001_00000011.
[112] Based on my analysis of invoice data used in Section 4. At Toronto, I combine Optimum and Strategic Aviation's market shares as Optimum outsources some of its contracted services to Strategic Aviation.

sustained in most scenarios. My assessment is rooted in profitability analysis using the EBITDA margin as a profitability measure.

3.106 I started by considering the EBITDA margins earned by Gate Gourmet and CLS at YVR over the last six years. I then established a benchmark based on information on the profitability of Gate Gourmet and CLS across their operations in Canada, and on the profitability of Gate Group and LSG Group globally. I concluded that a range of [redacted]% is a reasonable benchmark for the EBITDA margin to indicate the viability of entry.

3.107 The comparison shows that Gate Gourmet's current EBITDA margin at YVR ([redacted]% on average over the period for which data is available) is [redacted] the benchmark range, and that both CLS's margin ([redacted]% on average) and the combined EBITDA margin of both incumbents at YVR ([redacted]% on average) are [redacted] the benchmark range. Thus, current profitability levels with two providers in the market themselves suggest that entry would be possible.

3.108 I then assessed the effect of a new entrant on profitability, determining whether the combined profitability of the in-flight catering firms that operate at YVR would [redacted] the benchmark range once a third provider enters the market. The entrant would add fixed costs to the market (i.e. costs that do not vary with the level of output), as it would need its own production facilities. Therefore, in the new situation there would be three providers, each with their own fixed costs of production facilities. The question is whether overall profit margins in the market would remain sufficient to cover the three sets of fixed costs.

3.109 My analysis (both static and dynamic) suggests that from around 2014 the market was able to sustain an entrant that either requires or does not require on-airport kitchen space—i.e. the combined profit margin in this case would be within the indicative benchmark range.

3.110 My conclusion, that overall there would seem to be scope for viable entry at YVR, is supported by [redacted].

3.111 My conclusion is also consistent with [redacted] of the scope for entry, which concludes that [redacted]

[redacted][113] [redacted] also considered [redacted].[114] This is in line with the lower bound of my [redacted]% indicative benchmark range. [redacted] concludes that [redacted] and that this demonstrates [redacted].[115]

3.112 Indeed, [redacted], in 2018 VAA awarded an in-flight catering licence to dnata. Therefore, a relevant question going forward is whether the market can sustain a fourth firm.

3.113 My forward-looking analysis (following the commencement of operations of dnata in 2018) suggests that profitability in the market as a whole would remain sufficient for four viable operators if another provider that was similar in size to [redacted] were to enter the market from 2018. If a firm operating at a scale similar to [redacted] were to enter, the market-wide profitability would remain [redacted] my benchmark range. However, if the new entrant led to a small reduction in variable costs, the market would be able to sustain an additional entrant the size of CLS or Gate Gourmet.

3.114 My overall conclusion is that there would seem to be scope for viable entry at YVR, both from 2014 and going forward after dnata's entry in 2018.

3.115 Finally, it is worth noting that the competitive process itself is usually well placed to determine how many competitors can operate viably. The competitive process involves periodic entry and exit and, over time, the market will settle on a specific number (or range) of competitors, until demand or cost shocks change this again.

113 [redacted]

114 [redacted]

115 [redacted]

3.116 Even if, contrary to my conclusions in this section, there were room for only two providers in the market in the past, or three providers going forward, the competitive process would be well placed to determine which providers should be present in the market. Competition means that those competitors that are most efficient, innovative and/or responsive to customer demand are usually the ones that survive. It is not necessarily the incumbent providers that survive.

# 4 Analysis of the competition effects of restricting entry in the in-flight catering market

## 4A Overview of the three analyses of effects

4.1 An important question in this case is whether the downstream in-flight catering market at YVR has been substantially affected by VAA's refusal to grant airside access to Newrest and Strategic Aviation. Another way of putting this is whether the competitive dynamics and outcomes would have been improved to a significant degree if a new entrant had been allowed into the in-flight catering market at YVR.

4.2 The available data has allowed me to look in some detail at the effects of entry on switching and prices in the in-flight catering market at airports other than YVR. Specifically, the detailed price and sales data on catering and galley-handling services at various Canadian airports has allowed me to carry out empirical analyses to determine the effects of new entry. This is informative for understanding the competitive dynamics that would be likely to arise at YVR if entry were no longer restricted. I present the results in this section.

4.3 Determining the effects of VAA's actions on competition in the downstream market requires a comparison of the actual market situation that results from these actions on the one hand, and the situation that would be likely to arise absent the actions on the other—i.e. the counterfactual or 'but for' situation.

4.4 The actual market situation at the time of writing this report is that only two firms, Gate Gourmet and CLS, operate in the in-flight catering market at YVR. In the counterfactual situation, in the absence of VAA's actions, there would have been new entry from at least 2014 when other providers requested (but were refused) access to YVR, and competition would determine the number, and identity, of the firms operating in the market. The analyses presented in this section are therefore aimed at assessing what is likely to have happened had entry occurred at YVR.

4.5 I note that in 2018, one new firm, dnata, was awarded a licence for operating in-flight catering services at YVR.[116] Dnata is expected to commence operations at YVR in [redacted] 2018.[117] However, VAA still does not permit entry of any other providers of in-flight catering services seeking access to the

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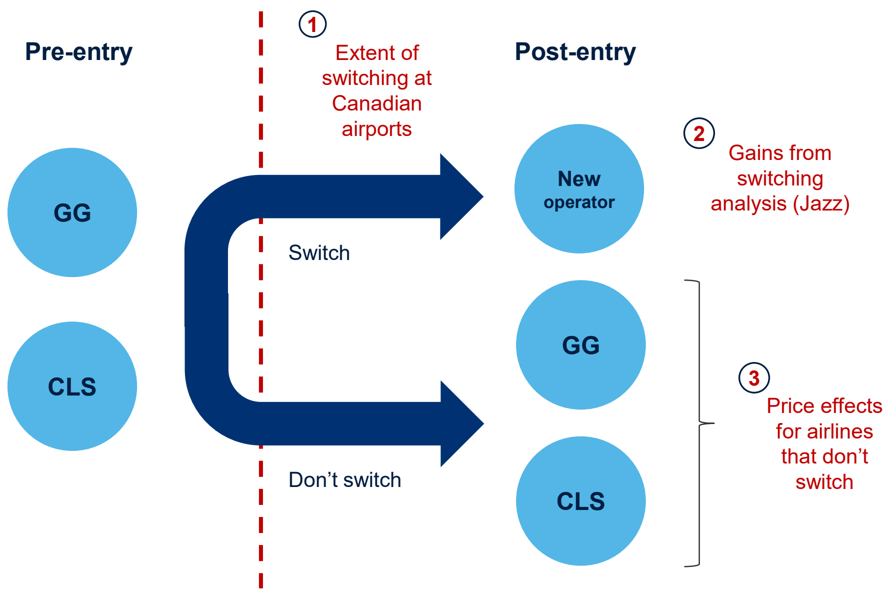
[116] VAA (2018), 'YVR Awards In-Flight Catering License to dnata', February, available at http://www.yvr.ca/en/media/news-releases/2018/dnata, accessed 14 June 2018.
[117] [redacted].

airport. The analyses in this section are therefore relevant both for considering what would be likely to have happened if entry had occurred in the period from 2014 (when new entrants sought access at YVR), and for considering what would happen if further entry were permitted at YVR in addition to dnata.

4.6 The analyses of effects presented in this section focus in part on in-flight catering services as a whole (galley handling and catering), and in part on galley handling only. This is driven mainly by data availability. My conclusion in section 2 was that the precise delineation of the downstream market (galley handling and catering separately, or in a combined market) could be left open, because VAA's refusal to grant airside access could negatively affect downstream competition regardless of the precise market definition. The activity of galley handling relies on airside access, so the harm to competition would be most likely to be felt there, as discussed in section 2. Therefore, in analysing the effects on downstream competition in this section, it does not make a difference to the conclusions whether I consider only galley handling, or catering and galley handling together.

4.7 I undertake three pieces of analysis, which are set out in Figure 4.1 and further explained below. Each piece of analysis considers the effect of entry at airports other than YVR, to determine the potential effect of entry at YVR in the counterfactual situation without VAA's refusal to grant access.

**Figure 4.1 Overview of the three analyses of effects of new entry**




Note: GG refers to Gate Gourmet.

4.8 As a first step, I consider whether (as VAA argues) there has been vigorous competition between Gate Gourmet and CLS at YVR, with shifts in the share of the galley-handling and catering business between them.[118] I agree with VAA that airlines can and do change between existing galley-handling and catering providers at an airport in response to price and service competition. However, the analysis of the rates of switching that I present in section 4C below, and which is the first strand of analysis in Figure 4.1 above, indicates that [redacted]

4.9 This contrasts with [redacted] switching between catering and/or galley-handling providers at other airports in Canada. This switching has been driven primarily by [redacted], and in some cases [redacted]

4.10 The next step—and the second strand of analysis in Figure 4.1 above—is to consider whether airlines that change in-flight catering providers gain from switching in the form of lower prices. This would be consistent with [redacted].[119] It would also be consistent with the commercial logic that airlines are unlikely to switch provider unless there are some benefits, potentially in the form of lower prices or higher service quality.

4.11 In undertaking this analysis I focus on Jazz. Jazz has switched providers at multiple airports across Canada over the years, which comprise a significant proportion of its operations, and I have sufficient data available to approximate the gains that Jazz has obtained from these switches. Jazz has also made public statements about the extent to which it has made savings from switching providers. For reasons explained below, for other airlines I am unable to draw meaningful conclusions from such an analysis. This analysis of the gains from switching for Jazz is presented in section 4D.

4.12 The two pieces of analysis described above focus on airlines that switch provider. However, many airlines do not switch, either because they choose not to or because they are unable to do so in the short term (for example, due

[118] Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 12 and 89.
[119] For example, see [redacted]

to existing contracts). In a competitive market, however, one would expect that some of the benefits of competition would also flow to firms that do not switch provider (for example, they might negotiate better terms with their existing provider by threatening to switch). In section 4E I therefore consider whether there are any effects on the prices charged in the galley-handing market for airlines that do not switch provider. I do this by comparing the evolution of prices for galley handling before and after entry has occurred at an airport.

4.13 I first provide an overview, in section 4B, of the data that was made available for the three analyses (with more detail being provided in Appendix A4, and the full dataset and my workings being included in an electronic file accompanying this report).

## 4B Overview of data

4.14 In analysing the effects of entry in the in-flight catering market, I use data disclosed in these proceedings by five caterers: Gate Gourmet, CLS, Strategic Aviation, Newrest and Optimum.

4.15 Each caterer dataset includes [redacted]

4.16 Table 4.1 summarises the data provided. Further detail on each of the data sources is set out below.

**Table 4.1 Overview of caterer data**

[redacted]

Note: [redacted]. [1] For a list of airports and their corresponding IATA codes, see Appendix A4.

Source: Caterer data.

4.17 I include further details on the data in Appendix A4, and provide, alongside this report, my electronic data files that contain the data used in my analysis as well as my underlying workings.

4.18 The data provided by Gate Gourmet is in [redacted]

4.19 [redacted]

[redacted][120]

4.20 I imported all of the data provided by Gate Gourmet and [redacted]

4.21 CLS provided [redacted]

4.22 Newrest provided [redacted].

4.23 Optimum provided [redacted]. Optimum holds the contract with Air Transat for the provision of catering and galley-handling services, while sub-contracting the galley handling to Strategic Aviation. The Optimum data [redacted]

4.24 Strategic Aviation provided [redacted]

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[120] [redacted]

[121] [redacted]

[122] [redacted]

[redacted]

4.25 I have also used data on airline traffic across various airports from the OAG airline schedules database.

4.26 Before conducting any analysis, I performed a number of standard reliability checks on the data provided by the caterers, as is normally performed in such data analysis. For example, I started with around 40m observations [redacted], and excluded 1m observations [redacted], and which preserves a sufficiently large sample before and after entry by Strategic Aviation and Newrest at various airports.[124] I excluded approximately 1m duplicate observations. For each of the analyses presented in this section I then carried out a number of further data checks specific to that analysis. I provide further detail on this below and in Appendix A4.

## 4C Analysis of switching by airlines among providers of in-flight catering services

### 4C.1 Determining switching rates

4.27 Rates of switching are one indicator of the extent of competition in a market, and of customers exercising choice. High rates of switching usually indicate a healthy degree of competition. If consumers rarely switch between providers, this could indicate that providers are not competing effectively.

4.28 However, there are a number of other reasons why customers might not regularly switch, and that do not necessarily point to ineffective competition. For example, in the current case, some airlines may have [redacted]

[123] Although Strategic Aviation provides galley-handling services only, it also partners with caterers to provide a suite of catering and galley-handling services to airlines. [redacted]

[124] I am missing data on [redacted]. Some of the missing data appears to coincide with [redacted]. I am missing data for: [redacted]

[redacted].[125] In addition, airlines may seek to use the same catering provider across all airports at which they operate.[126] Therefore, if only a small number of in-flight catering firms operate at all airports where an airline operates, that airline has more limited options to switch provider at any of the individual airports. I discuss this further in section 4E.

4.29 In this section I investigate the extent of switching at various Canadian airports over the period 2013–17, and the proportion of sales at a given airport that switches provider in a given year.

4.30 In order to identify airlines that have switched provider at a given airport I first combine the datasets of the five caterers described in section 4B. My analysis identifies a caterer switch as being in either catering, galley handling, or both. I calculate each airline's total expenditure on in-flight catering for each airport, month and caterer, based on the data that was provided to me. This allows me to identify instances where an airline used more than one provider at a given airport over the sample period. There are [redacted] such instances, of which I classify [redacted] as actual switches.[127]

4.31 I have received data for the five largest in-flight catering firms operating in the Canadian market. I have complete billings for the providers in the in-flight catering market at YVR (i.e. Gate Gourmet and CLS), which enables me to determine all switches that have occurred between providers at YVR. For other airports, there may be providers for which I have not received a transactions dataset. My analysis would therefore not be able to identify switches to or from these providers, as I consider a switch to be an instance where an airline appears in the datasets of more than one of the five firms for which I have been provided with data. However, this is unlikely to affect my overall conclusions, as I understand that I have received data for the caterers that

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[125] I understand that airlines typically have contracts with in-flight catering firms of between [redacted] years, although in some cases contract durations may be shorter or longer than this. For example, see [redacted]

[126] For example, see [redacted]

[127] I have classified as a switch only those instances where there is an overlap of no more than one month between the two caterers being used at an airport. Thus, I have excluded [redacted] instances where an airline appears to be using two caterers at an airport over a longer period: [redacted].

make up approximately [redacted]% of the Canadian in-flight catering market, based on sales figures.[128]

## 4C.2 Extent of switching

4.32 I first present a summary of the number of switches. Table 4.2 provides the details of the [redacted] switches that I have identified based on the available data.

**Table 4.2 Identified caterer switches by airlines at Canadian airports over the period 2013–17**

[redacted]

Note: [1] GG refers to Gate Gourmet. [2] n.a. indicates that I do not have information about the exact date of entry for [redacted] so I am unable to determine whether the switch occurred within one

[128] [redacted], PAMC00002_00008842. [redacted]

month of entry. [3] For data-related reasons, this switch has been identified by manual inspection of [redacted] invoice data. For further details, see PEHK00004_00000064.

Source: Analysis based on data from Gate Gourmet, CLS, Newrest, Strategic Aviation and Optimum.

4.33 As indicated above, I find [redacted] instance of an airline switching in-flight catering firms at YVR in the sample period—[redacted]. This suggests a lack of vigorous competition between Gate Gourmet and CLS at YVR, as would have been shown by significant shifts in the share of the galley-handling and catering business between them.[129]

4.34 Further, across the airports considered, I find that switches are often [redacted]. Of the [redacted] switches outside YVR, [redacted] were to [redacted], and [redacted] were to [redacted]. Of the [redacted] switches to [redacted], [redacted] were from [redacted]. Interestingly, at both of these airports there were also switches from [redacted], indicating a healthy degree of competition between these providers.

4.35 As set out in Table 4.2 above, in the cases for which I have information on when a caterer entered at a particular airport, I find that [redacted]. In particular, of the [redacted] switches that took place at airports other than YVR and to caterers other than [redacted],[130] [redacted] took place within [redacted]. This indicates that [redacted]. On the one hand, [redacted]. On the other hand, the wider evidence also indicates that [redacted].[131]

4.36 In all, regardless of whether there is strong competition between CLS and Gate Gourmet at YVR, my analysis indicates that there would be higher rates of

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[129] VAA has expressed the view that competition between the two caterers at YVR has been vigorous. Response of Vancouver Airport Authority, *Commissioner of Competition v. Vancouver Airport Authority*, CT-2016-15, paras 12 and 89.

[130] I have not been able to conduct this analysis for switches to [redacted], as I am unable to determine [redacted] entry dates based on the Optimum invoice data.

[131] For example, [redacted] YVR00005312.

switching and greater competitive dynamics if VAA did not refuse to grant airside access to new providers.

### 4C.3 Proportion of in-flight catering sales switched

4.37 I use the results set out above on the number of switches across airports to calculate the proportion of the in-flight catering market at an airport that switched providers in each year. This controls for the possibility that many of the switches are by airlines with small operations at the airport.

4.38 I focus on the four largest airports (i.e. airports with over 10m passengers per annum)—Vancouver, Toronto, Montreal and Calgary. I also present the results for five smaller airports for which data is available—Winnipeg, Regina, Ottawa, Halifax, and Edmonton.

4.39 In order to determine the percentage of the total in-flight catering business that has switched in any one year, I calculate the total value of all sales for each year at each airport. I then calculate the total value of sales from airlines that I previously identified as having switched, and divide this by the total sales at an airport.

4.40 Figure 4.2 shows the average percentage of total airline spend on in-flight catering services that switched over the five years of the sample period. It can be seen that the level of switching at YVR is lower than that at other Canadian airports.

**Figure 4.2 Average yearly percentage of total airline spend on in-flight catering services that switched between providers in the period 2013–17**

[redacted]

Note: I account only for the percentage of sales switched in the year immediately after the switch occurred. In other words, if an airline switched provider in 2014, I include only the proportions of sales switched in 2014 and do not also account for the proportions in 2015, 2016 or 2017.

Source: Analysis based on data from Gate Gourmet, CLS, Newrest, Strategic Aviation and Optimum.

4.41 Figure 4.3 shows the percentage of in-flight catering sales that switched in-flight catering firms between 2013 and 2017 at Vancouver, Toronto, Montreal and Calgary airports. This similarly indicates that the percentage of total expenditure on in-flight catering that switched providers was much lower at YVR than at the other large Canadian airports.

Figure 4.3 **Percentage of total airline spend on in-flight catering services that switched between providers at large airports: 2013–17**

[redacted]

Source: Analysis based on data from Gate Gourmet, CLS, Newrest, Strategic Aviation and Optimum.

4.42 Figure 4.4 sets out the results for the smaller Canadian airports. Similar to the results in Figure 4.3, the percentage of sales that switches caterers at these airports is higher than that at YVR. These results are driven by [redacted], and [redacted], as also indicated in Figure 4.3 above. [redacted].

**Figure 4.4 Percentage of total airline spend on in-flight catering services that switched between providers at small airports: 2013–17**

[redacted]

Note: [redacted]. For data-related reasons, the [redacted] is not presented in this figure. This is because it has not been possible to accurately identify the value of [redacted].

Source: Analysis based on data from Gate Gourmet, CLS, Newrest, Strategic Aviation and Optimum.

4.43 Based on the analysis set out above, I conclude that the extent of switching by airlines between in-flight catering firms at YVR is significantly lower than that at other airports. The total proportion of sales that switches between caterers is lower at YVR than at all other Canadian airports for each year considered in the analysis.

4.44 I also find evidence that there is not a significant degree of switching between [redacted] at airports, and that the majority of switching is [redacted]. This last point strongly suggests that, to choose an in-flight catering firm that best fits their needs, airlines require that airports permit entry.

## 4D Gains from switching: analysis of Jazz

### 4D.1 Focus on Jazz

4.45 As outlined in section 4C above, switching rates, and the proportion of sales that switch between providers at YVR, are lower than those at other Canadian airports. Furthermore, many switches are associated with [redacted]—a large proportion of switches are [redacted]. In this section, I assess whether those airlines that did switch spent less on in-flight catering as a result.

4.46 It would be reasonable to assume that airlines that switch gain some benefits from doing so, potentially in the form of lower prices. Indeed, airlines at YVR have stated that they choose to procure services from new entrant firms in order to realise substantial cost savings (and other benefits).[132]

4.47 With the data made available to me I can quantify the gains from switching for Jazz. As shown in Table 4.2 above, in late 2014 and early 2015, Jazz switched from Gate Gourmet to Newrest at Toronto, Montreal and Calgary airports, and from Gate Gourmet to Strategic Aviation at Edmonton, Halifax, Ottawa, Regina and Winnipeg airports. Switching at multiple airports helps in assessing whether there are any patterns in the gains from switching across airports. Flights to and from these airports constitute [redacted]. In addition, the two providers that Jazz switched to at the other airports—Newrest and Strategic Aviation—are also the ones that sought access at YVR (Newrest for galley handling with an off-airport kitchen, and Strategic Aviation for galley handling only). This analysis therefore gives an indication of the gains from switching that could be made if new entry were allowed at YVR.

4.48 A similar analysis cannot be sensibly conducted for the international airlines that switched in-flight catering provider in Canada shown in Table 4.2 above—in particular, [redacted]. For these airlines, the Canadian airports represent only a small proportion of total operations and therefore catering expenditure.[133] Often when airlines look for potential in-flight catering providers, they consider the savings that they would make in aggregate across all of the airports at which they operate.[134] The savings that they make at these specific Canadian airports where they switched may therefore not be representative of the savings they

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[132] For example, Jazz wrote a letter to [redacted]. See [redacted], YVR00005312.
[133] To illustrate, flights to and from Canada accounted for [redacted]% and [redacted]% of global traffic for [redacted] in 2015, respectively (Analysis, based on OAG data).
[134] Witness Statement of Barbara Steward, on behalf of Air Transat A.T. Inc., paras 29 and [redacted]; and Witness Statement of Rhonda Bishop, Jazz Aviation LP, paras 42 and 50.

make in total from switching provider, or may not be the main driver behind the decision to switch.

4.49 As also shown in Table 4.2 above, Air Transat switched its in-flight catering provider across a number of airports [redacted]. Air Transat is comparable to Jazz in the sense that it does significant business in Canada. One significant difference, however, is that Air Transat switched to Optimum Strategies, which provides catering services only, and partners with other providers for galley handling—this is a different service offering from what Newrest and Strategic Aviation were intending to offer at YVR.[135]

4.50 I have not been able to conduct a meaningful analysis of the gains that Air Transat made from these switches to Optimum, due to data-related issues. As in my analysis for Jazz, at airports where Air Transat switched, I can compare its total spend with Gate Gourmet prior to the switch to its total spend with Optimum after the switch. In the nine months following its switch to Optimum [redacted] at various airports, Air Transat spent approximately [redacted], when compared with aggregate spending with Gate Gourmet in the nine months prior to the switch.

4.51 However, it is then not possible to reliably determine a consistent measure of Air Transat's spend per flight across the entrant and incumbent, because of issues around the comparability of the Gate Gourmet and Optimum data.

4.52 Air Transat's previous arrangement with Gate Gourmet included [redacted]. The Gate Gourmet and Optimum data account for Air Transat's [redacted] in different ways. While Gate Gourmet's [redacted], Optimum's data [redacted]. This means that it is difficult to ensure that any analysis of the gains from switching is comparing like with like.

4.53 I therefore cannot carry out an analysis of the gains from switching for Air Transat similar to the one for Jazz.

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[135] Optimum uses Sky Café to provide the galley-handling services at a number of airports at which it operates. See Witness Statement of Geoff Lineham, Optimum Stratégies Inc., para 16.

### 4D.2 Methodology for analysing the gains from switching

4.54 I estimate the gains from switching by comparing the costs incurred in the situation where a switch occurred to the costs that would have been incurred in a hypothetical situation in which Jazz stayed with Gate Gourmet. Specifically, I adopt the following approach:

- I calculate the cost per departure for each aircraft type flown (also referred to as a 'rating');[136]
- I then calculate savings by taking the difference in ratings between the old provider (Gate Gourmet) and the new provider, and multiply this by the number of departures served by the new provider.

4.55 This approach compares outturn costs with the new provider against historical costs with the old provider, controlling for differences in traffic between years. In particular, it calculates the savings that Jazz made relative to a hypothetical situation in which Jazz remained with its old provider, while purchasing services for the same number of flights served by the new provider. The approach therefore identifies an effect on savings through prices. Below I set out the details of the methodology that I adopt in terms of the airports, time period and markets considered.

- **Airports**. I consider gains at all eight airports at which Jazz switched providers.[137]
- **Time period**. Jazz switches occurred in late 2014 and early 2015. I calculate savings per departure in 2015 by taking the difference in ratings between Jazz's 2014 provider (Gate Gourmet) and the 2015 provider (Gate Gourmet at YVR, and Strategic Aviation or Newrest elsewhere), and multiplying these by the number of departures served by the 2015 provider.
- **Services**. I calculate all-in ratings including both catering and galley handling. I also look at galley handling only, since that is the service that relies on airside access and is therefore potentially most affected by the refusal to

[136] When airlines consider the costs of in-flight catering providers (and when in-flight catering firms provide quotes to airlines), they tend to consider costs in terms of price per aircraft, which is consistent with the approach that I use in this analysis. For example, see [redacted]; and [redacted].

[137] Jazz began purchasing catering services at [redacted]. However, it did not purchase catering services at this airport beforehand with any of the other providers for which I have data. As a result, I cannot ascertain whether a switch took place, and if one did, I cannot calculate any gains from switching at this airport as no information on counterfactual prices is available. Therefore, I do not consider [redacted] in my analysis.

grant airside access (as discussed in section 2). How to [redacted] and therefore the galley-handling-only result should be interpreted with care.

4.56 I present further details on the methodology for the gains from switching analysis in Appendix A4.

### 4D.3 Results for gains from switching

4.57 I present the results of my analysis below. All savings are expressed as the difference between the dollars paid in the situation where a switch occurred and the dollars that would have been paid in a situation in which Jazz stayed with Gate Gourmet at each respective airport.

4.58 I find that, across the eight airports where Jazz switched providers, it saved approximately $[redacted] in the year following the switch. As indicated in Figure 4.5 below, the majority of gains from switching are at [redacted], although there are also significant gains at [redacted] and small savings at [redacted] The majority of the savings are also driven by a particular aircraft type, the [redacted]. The [redacted] makes up approximately [redacted]% of Jazz's fleet, [redacted].[138]

**Figure 4.5 Jazz gains from switching analysis**

[redacted]

[138] Based on Jazz's website. For further details, see http://www.flyjazz.ca/en/home/aircanadaexpress/fleet.aspx, accessed 6 June 2018.

Source: Analysis based on caterer data.

4.59 When I consider the savings made by Jazz for galley handling only, I find that [redacted]. This result needs to be interpreted with some care because I cannot be certain that [redacted]. The cost saving [redacted] represents approximately [redacted]% of what Jazz would have paid to Gate Gourmet in the absence of a switch.

4.60 Out of the eight switches made by Jazz, six of these were to a new entrant.[139] In these cases, the cost saving at the airport can be said to reflect an effect of both switching and entry, as these switches would not have occurred in the absence of entry.

4.61 As a sensitivity test, I assess whether Gate Gourmet's prices would have been likely to have fallen had switching not occurred, by conducting a similar exercise with reference to YVR, where Jazz remained with Gate Gourmet throughout the period while switching at other Canadian airports at which it operates. This analysis gives an indication of what would have been likely to happen to Jazz's prices at the other airports had Jazz remained with Gate Gourmet instead of switching. For example, if Jazz's prices at YVR decreased significantly from 2014 to 2015, the results I describe above could have been plausibly driven by an industry-wide decline in prices. [redacted].

## 4E Price effects for airlines that do not switch providers

4.62 The above analysis sets out the price effects for Jazz, an airline that switched in-flight catering provider. However, there could also be price effects for airlines that do not switch providers. If some of an in-flight catering firm's clients switch away, this may encourage the incumbent firm to reduce its prices to other airlines in order to prevent further switching.

4.63 I therefore compare the prices of galley handling before and after entry by Strategic Aviation and Newrest, for airlines that did not switch to the new entrants. I consider airlines using Gate Gourmet and CLS, as these are the two

[139] Switches to a new entrant occurred at YYZ, YEG, YHZ, YOW, YQR, and YWG.

firms that operate at YVR. I also focus on [redacted]. The focus of this analysis is on galley handling, since that is the service that relies on airside access and is therefore potentially most affected by the refusal to grant airside access (as discussed in section 2).

### 4E.1 Methodology for the price effects analysis

4.64 I use item codes to uniquely identify products and to consider the variation in the prices of those products over time and across airports. This allows me to compare prices at airports before entry with prices at airports after entry.

4.65 I focus my analysis on galley handling. I use the [redacted] in the Gate Gourmet [redacted] dataset to exclude entries that do not relate to galley-handling products. [redacted], which are not informative for the purposes of this analysis as entry takes place from late 2014 onwards.

4.66 In the CLS data, there are [redacted]

4.67 I aggregate the [redacted] galley-handling data [redacted]. In order to obtain a monthly average price for a product, I divide the [redacted]. The prices at airports prior to entry can then be compared with the prices at airports after entry, in order to estimate a price effect associated with entry.

4.68 I treat each product as distinct, observed at different points in time and across different airports. I can therefore exploit (i.e. make use of for the modelling) the

[140] As an example, the description [redacted] that is specified for certain line items does not provide enough information for me [redacted].

variation in prices of products over time and across airports, accounting for inherent differences in the products.

4.69 Figure 4.6 sets out an example of the data, aggregated at the monthly level. It shows how the price level for a particular handling product at YVR varies over time.

**Figure 4.6 Example of Gate Gourmet data used in the price effects analysis**

[redacted]

Note: [1] [redacted] is the IATA code for [redacted]. [2] The material code is associated with the following description: [redacted].

Source: Analysis based on Gate Gourmet data.

4.70 Approximately [redacted] unique products are included in my analysis. Approximately [redacted] of these products exhibit changes in price over the sample period, while [redacted] do not exhibit variation in price.[141]

4.71 I identify entry dates at each airport for both Newrest and Strategic Aviation by taking the first month in which that airport appears in the caterer's dataset. Figure 4.7 below shows the dates of Strategic Aviation's entry at [redacted] data, where 0 indicates that Strategic has not yet entered, and 1 indicates entry. Figure 4.7 does not include the entry dates for Newrest, as there is only a single Newrest entry in my sample [redacted]. As illustrated below, Strategic Aviation entry occurs at [redacted]. There is no entry at YVR in the period under consideration.

[141] This excludes the observations for [redacted] for reasons explained below.

**Figure 4.7 Strategic Aviation's entry dates at airports at which Gate Gourmet operates**

[redacted]

Note: [redacted].

Source: Analysis based on data from Strategic Aviation and Optimum.

## 4E.2 Model specification for the price effects analysis

4.72 I investigate the effect on galley-handling prices for airlines that do not switch providers by running a regression of the (logged) price against indicators for the entry of Strategic Aviation and Newrest, while controlling for various other factors that influence price.

4.73 The baseline specification of my model is as follows, where $a$ denotes the airport, *c* denotes the client, *p* denotes the product, and *t* denotes the month:

$$\ln(price)_{acpt} = \alpha_{acp} + \beta_t + \delta_a t + \gamma SA_{at} + \mu NR_{at} + \varepsilon_{acpt}$$

- α is an airport-client-product fixed effect, as described above. This prevents the model from attributing changes in price that are due to a shifting product portfolio to entry instead.
- ß represents month fixed effects, which capture common shocks to prices across airports.

- $\delta_a t$ represent airport-specific time trends. These ensure that the estimated impact of entry is not due to a pre-existing trend at the airport (such as general price reductions at a given airport over time).

- $\gamma$ is the coefficient on a dummy variable representing Strategic Aviation's entry at the airport. This variable captures how prices respond to Strategic Aviation's entry.[142]

- $\mu$ is the coefficient on a dummy variable representing Newrest's entry at the airport. This variable captures how prices respond to Newrest's entry.

4.74 I have used the logged value of prices as the dependent variable. This allows me to calculate an unbiased estimate of the price effect of entry in percentage terms.[143] The log transformation also attenuates the impact that any outliers might have on the estimates, which is a standard approach in this kind of analysis.

4.75 The econometric analysis that I conduct aims to measure the impact of entry on the price charged by [redacted]. This requires a comparison of prices before and after entry. As there are factors that affect the pricing decisions of [redacted] that cannot be properly controlled for (such as changes in local regulations over time or city-specific cost shocks), this comparison may not be appropriate when undertaken over too long a time period, where the environment in which the firm operates may have substantially changed.

4.76 Therefore, to analyse the effect of entry on price in 'like-for-like' situations, I restrict my analysis at each airport to a four-year window around the point of entry. This means that, for each airport, I compare prices two years before entry occurred against prices two years after entry occurred, thereby ensuring a reliable measure of the price effect.[144]

### 4E.3 Results of the price effects analysis

4.77 As a first step, as [redacted] [redacted] largest airline customers ([redacted] [redacted]) make up [redacted] proportion of

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[142] This dummy variable is an indicator variable that takes the value 0 prior to Strategic Aviation's entry at the airport, and 1 following Strategic Aviation's entry, corresponding to Figure 4.7 above.
[143] Subject to a Kennedy correction. The Kennedy correction is a technical adjustment in regressions of this form (with a logged dependent variable) that yields an unbiased estimate of the percentage effect on the dependent variable (i.e. the price). For further details, see Garderen, K.J. van, and Shah, C. (2002), 'Exact interpretation of dummy variables in semilogarithmic equations', *Econometrics Journal*, **5**, pp. 149–159.
[144] Within event study analysis, it is common practice to consider data within a defined window around the date that an event took place.

revenues, I consider whether these airlines experience a reduction in price as a result of entry. I find [redacted] largest customers in revenue terms over the period 2013–17.

4.78 However, when excluding these [redacted] airlines and focusing on [redacted] smaller airline customers, I estimate that [redacted] galley-handling prices to airlines that do not switch provider [redacted].[145] This result is statistically significant.[146] [redacted] is statistically insignificant, suggesting that [redacted].

4.79 Therefore, although [redacted]. The latter, in aggregate, represent approximately [redacted] of the traffic (in terms of the number of flights) at YVR.[147] There are various reasons why this might be the case.

- [redacted].[148] [redacted].[149]
- [redacted]

[145] I also exclude a further two airlines from the analysis at this point—[redacted]. These airlines face [redacted] in price on a number of items throughout the sample period. These [redacted] appear to be driven by data-related issues. For example, the [redacted] are driven by [redacted]. This [redacted]. As a result, I exclude [redacted] from my analysis. Although the price effects for [redacted] are [redacted], I also exclude this airline from my analysis.

[146] It is significant at the 5% level. Statistical significance means that the results are highly unlikely to have occurred by chance.

[147] Analysis, based on caterer datasets and OAG data.

[148] See [redacted], PAMC00002_00000969. [redacted]. See: Air France-KLM Group Request for Proposal—Inflight Catering Tender, July 2014, MMFF00003_00000442.

[149] See letter from Newrest to British Airways, February 2015, MMFF00004_00000002. [redacted]

- Jazz and Air Transat switched at various non-YVR airports in the course of my sample, so they may not provide good examples of price effects on airlines that do not switch, considering that these airlines no longer figure in the [redacted] dataset after switching away.

4.80 [redacted]. This is because this estimate gives equal weight to price changes for products that are purchased in large quantities and price changes for products that are purchased in small quantities. Furthermore, the estimate also gives equal weight to price changes for different products, irrespective of the value of sales that each product accounts for. In order to account for these issues, as a sensitivity, I carry out a weighted regression analysis. This analysis assigns more importance to the prices of products that are purchased in large quantities, or products that represent a high value of sales. I consider two sensitivities.

- **Quantity-weighting**: price series (i.e. product-airport-client combinations) are assigned a weighting that is proportional to the average quantity of that product purchased each month. This weighting assigns more importance to the prices for products that are purchased in larger quantities.
- **Revenue-weighting**: price series (i.e. product-airport-client combinations) are assigned a weighting that is proportional to the average sales of that product each month. This weighting assigns more importance to the prices for products that make up a large proportion of sales.

4.81 Further details on the weighted analyses are presented in Appendix A4.

4.82 The results of these sensitivities are presented in Table 4.3 below. As shown in the table, [redacted], with both results being statistically significant. [redacted] remains statistically insignificant. Detailed regression results are presented in Appendix A4.

### Table 4.3 Results of regression analysis for small airlines

[redacted]

Note: A positive number indicates a price decrease post entry. A negative number indicates a price increase post entry. * denotes statistical significance at the 10% level, ** denotes statistical significance at the 5% level, and *** denotes statistical significance at the 1% level.

Source: Analysis based on caterer datasets and OAG.

4.83 I have undertaken a number of additional sensitivity analyses, as follows.

- Accounting for the fact that prices may be 'sticky', [redacted]. For this sensitivity test I look for a month after entry where the proportion of prices that change from the previous month is unusually high, and if there is such a month, I adjust the analysis by assessing changes in prices before and after this [redacted]
- Ensuring that the [redacted] correctly identify unique products, by using the [redacted] to identify unique products over time and across airports rather than the [redacted].[150]
- Adding a control for the number of flights (expressed in logs for modelling reasons) for a given airline from a given airport each month, taken from OAG flight data. The number of flights controls for a demand effect on prices, and for potential quantity discounts offered by caterers. For example, if an airline increases traffic significantly at an airport over time, one might expect this to affect galley-handling prices. I also test the sensitivity of my results to inflation and wage controls. In particular, I consider the inclusion of a city-specific CPI price index (in logs) and a province-specific Labour Force Survey ('LFS') wage index.

4.84 My results presented above are robust to these sensitivity tests, and therefore do not require adjustment.[151] I present the results of various sensitivity tests in Appendix A4.

[150] This analysis makes use of string-matching techniques to group products that appear to be the same product, but are named slightly differently.
[151]As noted above in para 4.76, I use a four-year window for my analysis. I also test the sensitivity of my results to using a six-year window, with three years of pre- and post-entry data. In this sensitivity, the effect

4.85 Overall, I therefore find robust evidence of [redacted] I do not place particular weight on [redacted]. Based on Table 4.3 above, [redacted]

4.86 These results provide evidence that [redacted]. This is consistent with [redacted], discussed in section 3, in which [redacted].

4.87 [redacted]

## 4F Conclusions on the competition effects of restricting entry into the in-flight catering market at YVR

4.88 The available data has allowed me to look in detail at the effects of entry on switching and prices in the in-flight catering market at airports other than YVR. This is informative for understanding the competitive dynamics that could arise at YVR if entry were no longer restricted.

4.89 I find [redacted] instance of an airline switching in-flight catering firms at YVR between 2013 and 2017—[redacted]. In contrast, I find [redacted] switches at non-YVR airports. Moreover, these switches are often [redacted]. Of the [redacted] switches

on price of [redacted] but is not statistically significant. I note, however, that if I were to conduct a one-sided t-test, an alternative method to test for statistical significance, the estimated coefficient would be significant at the 10% level. It is standard in econometrics to test whether an estimated effect is different from zero (two-sided test). However, in cases where one has a strong prior belief regarding the direction of a relationship, it is appropriate to test whether the effect runs in the expected direction (one-sided test). When analysing the impact of entry on prices, there is a strong presumption that entry places downward pressure on incumbent prices. Therefore, the use of a one-sided test—which tests whether entry results in price reductions—is appropriate in this case.

outside YVR, [redacted] were to either [redacted]. [redacted] of the remaining switches are from [redacted] (at both of these airports there were also switches from Gate Gourmet to Newrest, indicating a healthy degree of competition between these providers). A significant proportion of switches occurred [redacted], indicating that [redacted]

4.90 These results suggest [redacted]. Specifically, I conclude that there would be [redacted] at YVR if VAA did not refuse airside access to new providers.

4.91 I also analysed the gains from switching at airports accruing to Jazz. These switches were to Newrest and Strategic Aviation, the two firms that sought to provide in-flight catering services at YVR. Due to data limitations I could not undertake this analysis for the other airlines. I find that Jazz saved approximately $[redacted] across the airports where it switched providers, in the year following these switches. This saving is largely attributable to [redacted]. It represents approximately [redacted]% of what Jazz would have paid [redacted] had it remained with Gate Gourmet at the various airports. This result suggests that airlines that switch to new-entrant in-flight catering firms could achieve significant savings.

4.92 Finally, I find robust evidence of [redacted]. I estimate that [redacted] airlines that do not switch provider [redacted]. This suggests that entry can also benefit airlines that do not switch. [redacted]. In all, these results are a further indication of the enhanced competition and customer benefits that would arise if new entry were allowed at YVR.

# 5 Overall conclusions

## 5A Conclusions on relevant markets and dominance

5.1 It is relevant to consider a number of markets in this case.

- The **airports market**, in which airports compete for airlines and passengers.
- The **airside access market** at an airport, which involves access to certain infrastructure at the airport to provide catering and galley-handling services to airlines.
- The **catering and galley-handling market(s)**, which are the downstream markets where competition is potentially prevented or lessened as a result of a refusal to grant airside access to new providers.

5.2 I have considered whether YVR is dominant in the airports market by looking at the competitive constraint imposed on YVR by other airports. I have assessed the airports market based on two passenger groups: O&D passengers, and transfer passengers.

5.3 For O&D passengers, the results indicate that BLI is the only other airport within YVR's catchment area. However, it offers only eight US destinations in common with YVR, and there is no overlap in Canadian or international destinations. Additionally, there are surface access constraints associated with BLI and the two other nearest airports (YYJ and SEA), involving either the need for ferry transport or a Canada–USA border crossing.

5.4 My assessment of transfer passengers is focused on transfer traffic from the Pacific Rim, as VAA has stated that YVR faces significant competition from US West Coast hub airports for this customer segment. I conclude that competition from other airports for Pacific Rim (transfer) traffic does not pose a significant constraint on YVR.

5.5 I therefore conclude that YVR faces limited competitive constraints in the airports market.

5.6 As the operator of YVR, VAA has responsibility for controlling access to the airport's facilities. This includes airside access for providers of in-flight catering services. VAA also controls the land on the airport's premises where the current providers of in-flight catering services (Gate Gourmet and CLS) have their production facilities.

5.7 I find that self-supply and double catering are to some extent (for certain types of flight and routes) alternatives to procuring in-flight catering services at VAA, but not by a sufficient degree for them to pose a significant competitive constraint on VAA when providing airside access. These alternatives therefore do not change my conclusion that VAA is dominant in the market for airside access at the airport.

5.8 The precise delineation of the downstream markets—in particular, whether galley-handling and catering services at YVR are separate markets or a single market—can be left open. This is because VAA's refusal to grant airside access may lessen downstream competition regardless of the precise downstream market definition.

5.9 Specifically, the refusal to grant airside access has an impact on the activity of galley handling, which relies on airside access. Therefore, if there were separate downstream catering and galley-handling markets, there would be a potential lessening of competition in galley handling because new entry is prevented. That would be sufficient for an economic theory of harm from the refusal to grant access, and it would be less important to consider the effect on the downstream catering market in detail.

5.10 Finally, I note that a theory of harm of foreclosure of downstream competition through a refusal to grant access to an upstream input requires the firm in question to be dominant upstream, but does not require it to be dominant downstream, or even to be directly active downstream.

5.11 Where the dominant upstream firm is vertically integrated into the downstream activity, it may have a clear economic interest to distort downstream competition—i.e. it may wish to favour its own downstream operations at the expense of downstream competitors. However, even if the firm is not vertically integrated, as is the case for VAA, it may have a financial stake in the outcome of competition in the downstream market, and therefore an economic motive to influence this competition.

## 5B Conclusions on the scope for entry in the in-flight catering market at YVR

5.12 In this section I have assessed whether the market for in-flight catering at YVR would have been able to sustain a third firm in the past, and whether it could sustain additional entry going forward. I find that an additional firm can be sustained in most scenarios. My assessment is rooted in profitability analysis using the EBITDA margin as a profitability measure.

5.13 I started by considering the EBITDA margins earned by Gate Gourmet and CLS at YVR over the last six years. I then established a benchmark based on information on the profitability of Gate Gourmet and CLS across their operations in Canada, and on the profitability of Gate Group and LSG Group globally. I concluded that a range of [redacted]% is a reasonable benchmark for the EBITDA margin to indicate the viability of entry.

5.14 The comparison shows that Gate Gourmet's current EBITDA margin at YVR ([redacted]% on average over the period for which data is available) is [redacted] the benchmark range, and that both CLS's margin ([redacted]% on average) and the combined EBITDA margin of both incumbents at YVR ([redacted]% on average) are [redacted] the benchmark range. Thus, current profitability levels with two providers in the market themselves suggest that entry would be possible.

5.15 I then assessed the effect of a new entrant on profitability, determining whether the combined profitability of the in-flight catering firms that operate at YVR would [redacted] the benchmark range once a third provider enters the market. The entrant would add fixed costs to the market (i.e. costs that do not vary with the level of output), as it would need its own production facilities. Therefore, in the new situation there would be three providers, each with its own fixed costs of production facilities. The question is whether overall profit margins in the market would remain sufficient to cover the three sets of fixed costs.

5.16 My analysis (both static and dynamic) suggests that from around 2014 the market was able to sustain an entrant that either requires or does not require on-airport kitchen space—i.e. the combined profit margin in this case would be within the indicative benchmark range.

5.17 My conclusion, that overall there would seem to be scope for viable entry at YVR, is supported by [redacted]

5.18 My conclusion is also consistent with [redacted] of the scope for entry, which concludes that [redacted][152] [redacted]

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[152] [redacted]

[redacted][153] This is in line with the lower bound of my [redacted]% indicative benchmark range. [redacted] concludes that [redacted] and that this demonstrates [redacted].[154]

5.19 Indeed, [redacted], in 2018 VAA awarded an in-flight catering licence to dnata. Therefore, a relevant question going forward is whether the market can sustain a fourth firm.

5.20 My forward-looking analysis (following the commencement of operations of dnata in 2018) suggests that profitability in the market as a whole would remain sufficient for four viable operators if another provider that was similar in size to [redacted] were to enter the market from 2018. If a firm operating at a scale similar to [redacted] were to enter, the market-wide profitability would remain [redacted] my benchmark range. However, if the new entrant led to a small reduction in variable costs, the market would be able to sustain an additional entrant the size of CLS or Gate Gourmet.

5.21 My overall conclusion is that there would seem to be scope for viable entry at YVR, both from 2014 and going forward after dnata's entry in 2018.

5.22 Finally, it is worth noting that the competitive process itself is usually well placed to determine how many competitors can operate viably. The competitive process involves periodic entry and exit and, over time, the market will settle on a specific number (or range) of competitors, until demand or cost shocks change this again.

5.23 Even if, contrary to my conclusions in this section, there were room for only two providers in the market in the past, or three providers going forward, the competitive process would be well placed to determine which providers should

153 [redacted]

154 [redacted]

be present in the market. Competition means that those competitors that are most efficient, innovative and/or responsive to customer demand are usually the ones that survive. It is not necessarily the incumbent providers that survive.

### 5C Conclusions on the competition effects of restricting entry in the in-flight catering market

5.24 The available data has allowed me to look in detail at the effects of entry on switching and prices in the in-flight catering market at airports other than YVR. This is informative for understanding the competitive dynamics that could arise at YVR if entry were no longer restricted.

5.25 I find [redacted] instance of an airline switching in-flight catering firms at YVR in the sample period—[redacted].

5.26 I also find that switches at other airports are [redacted]. Of the [redacted] switches outside YVR, [redacted] were to [redacted]. [redacted] other switches from [redacted] (at both of these airports there were also switches from [redacted], indicating a healthy degree of competition between these providers). A significant proportion of switches occurred [redacted], indicating that [redacted].

5.27 In all, I conclude that there would be [redacted]

5.28 I analysed the gains from switching at airports accruing to Jazz. These switches were to Newrest and Strategic Aviation, the two firms that sought to provide galley-handling services at YVR. Due to data limitations I could not undertake this analysis for the other airlines. I find that Jazz saved approximately $[redacted] across the airports where it switched provider. This saving is largely attributable to [redacted]. It represents approximately [redacted]% of what Jazz would have paid on [redacted] had it remained with Gate Gourmet at the various airports.

5.29 Finally, I find robust evidence of [redacted]

[redacted]. This suggests that entry can also benefit airlines that do not switch. [redacted]. In all, these results are a further indication of the enhanced competition and customer benefits that would arise if new entry were allowed at YVR.

## A1 CV and list of publications of Dr Gunnar Niels

Dr Niels leads Oxera's work in competition policy and litigation, with 25 years' experience in the field covering mergers, agreements, abuse of dominance, damages and state aid. He has advised companies such as Deutsche Bahn, Liberty Global, Mars, ConocoPhillips and Mastercard, as well as government bodies and the European Commission. Dr Niels has provided expert testimony before courts in a range of jurisdictions, including the UK, the Netherlands, Austria, Finland, Spain, South Africa and New Zealand, and has presented at oral hearings in European Commission inquiries.

Dr Niels is currently a non-governmental adviser ('NGA') to the International Competition Network ('ICN') Working Group on Unilateral Conduct. He is author of *Economics for Competition Lawyers* (Oxford University Press, second edition, 2016). He is on the boards of the *Competition Law Journal*, *Oxford Competition Law* and *Markt en Mededinging*, has been guest editor for the *Antitrust Bulletin*, and has published in many leading journals. Before joining Oxera in 1999, Dr Niels was deputy head of the Economics Directorate at Mexico's Federal Competition Commission. He is listed in *The International Who's Who of Competition Lawyers & Economists 2017*, and was among the five nominees for Economist of the Year in the *Global Competition Review* Awards in 2011, 2013, 2015 and 2017.

**Selected project experience**

- Advice to AMP Capital on its acquisitions of Leeds Bradford Airport and Luton Airport (2017–18)
- Expert testimony for the Commission for Communications Regulation (Ireland) in dispute with Eir on methodologies for setting fines (2016–18)
- Advice to a US pharmaceutical company on a tax state aid investigation (2018)
- Expert testimony for Mastercard in the interchange fees damages claims in UK courts by various retailers (2014–17)
- Expert testimony for Unwired Planet in IP litigation with Samsung and Huawei in the UK and Germany (2015–17)
- Advice to Liberty Global on a European Commission inquiry into its joint venture with Vodafone (2016)

- Court-appointed expert in an abuse of dominance case before the Court of Amsterdam involving property search websites (2015–17)
- Advice to Liberty Global on the European Commission phase two inquiries into its acquisitions of Ziggo and De Vijver Media (2014–15)
- Advice to Skyscanner in its successful appeal before the UK Competition Appeal Tribunal in the online hotel bookings case (2014)
- Economic advice to Royal Bank of Scotland in the European Commission Article 101 investigation into the credit default swaps ('CDS') market (2013–15)
- Court-appointed expert in an abuse of dominance case before the Austrian Cartel Court involving long-term 'take-or-pay' gas contracts (2013–15)
- Advice to a major retailer in relation to a UK Office of Fair Trading investigation into retail price maintenance in sports bras (2013–14)
- Expert testimony for Arriva in the UK High Court for an abuse of dominance case against Luton Airport (2013)
- Directed Oxera's study on behavioural economics and competition policy for the Netherlands Authority for Consumers and Markets (2013)
- Advice to Ryanair on Aer Lingus phase two takeover inquiries by the European Commission and UK Competition Commission (2012–13)
- Expert in an arbitration case in Spain for a German manufacturing company (2012)
- Economic expert for Cardiff Bus in a damages claim before the UK Competition Appeal Tribunal, following an abuse of dominance finding (2011–12)
- Advice to the UK Office of Fair Trading on private healthcare (2011)
- Expert testimony before the New Zealand High Court for the Commerce Commission's prosecution of the air cargo cartel (2011)
- Economic expert for Mars in an abuse of dominance claim by Nestlé before a Dutch court (2011–12)
- Advice to Belgacom in its phase two merger with The Phone House (2011)

- Economic advice to a defendant in a damages claim in the UK and the Netherlands following a European Commission cartel finding (2010–12)
- Economic expert in an international arbitration case in the IT and mobile telephony sector (2010)
- Led the work on Oxera's influential report for the European Commission on quantifying damages (2008–10)
- Advice to Telefónica during an inquiry by the Spanish Competition Commission into agreements in the broadband and pay-TV market (2009)
- Expert testimony for the liquidators of Nationwide Airlines in an abuse-of-dominance case before the Competition Tribunal in South Africa (2009)
- Advice and testimony for Angel Trains during the UK Competition Commission market investigation into rolling stock leasing (2007–09)

**Qualifications**

- PhD Economics, Erasmus University Rotterdam, Netherlands
- MSc Economics, Erasmus University Rotterdam, Netherlands

**List of publications**

***Journal publications***

Déchamps, P. and Niels, G. (2018), 'The one billion euro question for Intel: Moore's Law or Murphy's Law?', Journal of European Competition Law & Practice, 9:2, p. 124-130.

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Granatstein, M. and Niels, G. (2015), ‘Ground rules on airport access: The Arriva v Luton case’, Competition Law Journal, 14:1, pp. 59–64.

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Niels, G., Barnes, F. and Kavanagh, R. (2011), 'The status quo is not an option: How do you improve competition in the audit market?', Competition Law Insight, 10:7, pp. 3–4.

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**Referee and editorial roles**

Referee for:

- Journal of Antitrust Enforcement
- Journal of Regulatory Economics
- Review of Industrial Organization
- Journal of International Trade and Economic Development
- Investigación Económica

Editorial roles:

- Review Board of Oxford Competition Law (Oxford University Press; 2012 to date)
- Editor of Agenda (Oxera's monthly electronic publication; 2005 to date)
- Editorial Board of Markt en Mededinging (2014 to date)
- Advisory Board of Competition Law Journal (2002 to 2015)
- Guest Editor of Antitrust Bulletin (2004)

## A2 My instructions

**Department of Justice Canada**

**Ministère de la Justice Canada**

Competition Bureau
Legal Services

Services juridiques Bureau
de la Concurrence

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Cote de sécurité – Security classification

**PROTÉGÉ B – PROTECTED B**

Notre référence – Our file

**No. : CA-2215-200**

Date : 17-10-23 (AA/YY-MM-JJDD)

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PRIVILEGED AND CONFIDENTIAL

Dr. Gunnar Niels
Oxera Consulting LLP
40/41 Park End Street
Oxford, UK
OX1 1JD

VIA EMAIL

**Re: Commissioner of Competition v Vancouver Airport Authority (CT-2016-015)**

Dear Dr. Niels:

As you know, the Commissioner of Competition (the “Commissioner”) has retained you and your firm, Oxera Consulting LLP (collectively, “you”), to provide independent expert economic opinion and analysis in connection with the above-referenced matter. Further to our discussions, the following are the specific questions in respect of which the Commissioner seeks your opinion:

- Whether Vancouver Airport Authority (“VAA”) substantially or completely controls (i.e., is dominant) in one or more markets relating to the supply of one or more components of in-flight catering at Vancouver International Airport (“YVR”) and, more specifically:
    - Whether VAA is dominant in a market for access to the airside at YVR for the supply of one or more components of in-flight catering and, in this regard, whether any market power by VAA in such a market is or would likely to be constrained as a result of competition between YVR and other airports, or otherwise.

- Whether there exist any justifications from an economic perspective that could apply to a decision by VAA to refuse to permit additional competition at YVR in respect of one or more components of in-flight catering and, more specifically:
    - Whether only two providers of in-flight catering services can operate profitably at YVR.

- Whether VAA's refusal to permit additional competition at YVR in respect of one or more components of in-flight catering, or VAA's practice of tying authorization to access the airside at YVR to provide one or more components of in-flight catering to a firm locating its in-flight catering facility on YVR property, has had, is having or is likely to have the effect of preventing or lessening competition substantially in a relevant market.

Regards,

Jonathan Hood

Jonathan Hood

cc.: Alicia Foster, Competition Bureau
Antonio Di Domenico, Fasken Martineau DuMoulin LLP
Katherine Rydel, Competition Bureau Legal Services
Ryan Caron, Competition Bureau Legal Services

**Department of Justice Canada**

**Ministère de la Justice Canada**

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VIA EMAIL

**Re: Commissioner of Competition v Vancouver Airport Authority (CT-2016-015)**

Dear Dr. Niels:

Further to my letter to you dated October 23, 2017, and because of the Competition Tribunal's Order Amending the Scheduling Order dated March 21, 2018, please provide the Commissioner of Competition with an update to your expert report dated November 15, 2017 that incorporates information provided to you after November 15, 2017.

In addition, as VAA has entered a licence agreement with dnata Catering Services Ltd. to provide in-flight catering services at YVR, please provide your opinion on:

(1) whether additional providers of in-flight catering services can operate profitably at YVR; and

(2) whether VAA's continuing policy to restrict entry at YVR in respect of one or more components of in-flight catering, is having or is likely to have the effect of preventing or lessening competition substantially in a relevant market.

Regards,

Jonathan Hood

Jonathan Hood

cc.: Alicia Foster, Competition Bureau
Antonio Di Domenico, Fasken Martineau DuMoulin LLP
Katherine Rydel, Competition Bureau Legal Services
Ryan Caron, Competition Bureau Legal Services

## A3 List of airports referred to in my analysis

This Appendix is as presented in my expert report of 15 November 2017. The airport information has been updated to 2017 data. As noted in section 2, I have used OAG data rather than airport websites for this 2017 update. The list of airports referred to in my updated analysis can therefore be found in my datapack, rather than in this Appendix.

### National Airports System ('NAS') airports

| Airport name (as listed) | Airport code | Total passengers, enplaned and deplaned, 2015 |
|---|---|---|
| Calgary International Airport | YYC | 14,578,929 |
| Charlottetown Airport | YYG | 310,823 |
| Edmonton International Airport | YEG | 7,466,141 |
| Greater Fredericton Airport | YFC | 337,289 |
| Gander International Airport | YQX | 171,898 |
| Halifax-Robert L. Stanfield International Airport | YHZ | 3,601,850 |
| Iqaluit Airport | YFB | 156,633 |
| Kelowna International Airport | YLW | 1,550,649 |
| London International Airport | YXU | 477,584 |
| Greater Moncton International Airport | YQM | 628,054 |
| (Montréal) Mirabel International Airport | YMX | (not listed in top 50 airports) |
| Montréal Pierre Elliott Trudeau International Airport | YUL | 14,753,247 |
| Ottawa International Airport | YOW | 4,428,542 |
| Prince George International Airport | YXS | 431,851 |
| (Québec City) Jean Lesage International Airport | YQB | 1,489,384 |
| Regina International Airport | YQR | 1,241,818 |
| St. John's International Airport | YYT | (not listed in top 50 airports) |
| Saint John Airport | YSJ | 1,444,479 |
| Saskatoon John G. Diefenbaker International Airport | YXE | 1,422,350 |
| Thunder Bay International Airport | YQT | 732,136 |
| (Toronto) Lester B. Pearson International Airport | YYZ | 39,638,841 |
| Vancouver International Airport | YVR | 19,690,515 |
| Victoria International Airport | YYJ | 1,661,789 |
| Whitehorse International Airport | YXY | 286,407 |
| Winnipeg James Armstrong Richardson International Airport | YWG | 3,572,907 |
| Yellowknife International Airport | YZF | 392,130 |

Source: Accessed 23 October 2017 from http://www.cacairports.ca/canadas_airports; and Statistics Canada (2015), 'Air carrier traffic at Canadian airports', Table 1-1.

### List of YVR destinations, 2015/16

| Airport name (as listed by YVR) | Airport code | Country |
|---|---|---|
| Calgary | YYC | CA |
| Edmonton | YEG | CA |
| Fort McMurray | YMM | CA |

| | | |
|---|---|---|
| **Montreal** | YUL | CA |
| **Ottawa** | YOW | CA |
| **Regina** | YQR | CA |
| **Saskatoon** | YXE | CA |
| **Toronto** | YYZ | CA |
| **Whitehorse** | YXY | CA |
| **Winnipeg** | YWG | CA |
| **Anchorage** | ANC | US |
| **Atlanta** | ATL | US |
| **Chicago** | ORD | US |
| **Dallas** | DFW | US |
| **Denver** | DEN | US |
| **Detroit** | DTW | US |
| **Honolulu** | HNL | US |
| **Houston** | IAH | US |
| **Kahului (Maui)** | OGG | US |
| **Kona (Hawaii)** | KOA | US |
| **Las Vegas** | LAS | US |
| **Lihue** | LIH | US |
| **Los Angeles** | LAX | US |
| **Minneapolis** | MSP | US |
| **New York** | JFK | US |
| **Newark** | EWR | US |
| **Orange County** | SNA | US |
| **Orlando (new)** | MCO | US |
| **Orlando (new)** | SFB | US |
| **Palm Springs** | PSP | US |
| **Phoenix** | PHX | US |
| **Portland** | PDX | US |
| **Salt Lake City** | SLC | US |
| **San Diego (new)** | SAN | US |
| **San Francisco** | SFO | US |
| **San Jose (new)** | SJC | US |
| **Seattle** | SEA | US |
| **Washington DC** | IAD | US |
| **Abbotsford** | YXX | CA |
| **Anahim Lake** | YAA | CA |
| **Bella Bella / Coola** | QBC | CA |
| **Campbell River** | YBL | CA |
| **Castlegar** | YCG | CA |
| **Comox** | YQQ | CA |
| **Cranbrook** | YXC | CA |
| **Dawson Creek** | YDQ | CA |
| **Fort Nelson** | YYE | CA |
| **Fort St. John** | YXJ | CA |
| **Gulf Islands** | (Gulf Islands) | CA |
| **Kamloops** | YKA | CA |

| | | |
|---|---|---|
| **Kelowna** | YLW | CA |
| **Masset** | ZMT | CA |
| **Nanaimo** | YCD | CA |
| **Nanaimo Habour** | ZNA | CA |
| **Pentiction** | YYF | CA |
| **Port Hardy** | YZT | CA |
| **Powell River** | YPW | CA |
| **Prince George** | YXS | CA |
| **Prince Rupert** | YPR | CA |
| **Qualicum Beach** | YQU | CA |
| **Quesnel** | YQZ | CA |
| **Sandspit** | YZP | CA |
| **Sechelt** | YHS | CA |
| **Smithers** | YYD | CA |
| **Terrace** | YXT | CA |
| **Tofino** | YAZ | CA |
| **Trail** | YZZ | CA |
| **Victoria** | YYJ | CA |
| **Victoria Habour** | YWH | CA |
| **Williams Lake** | YWL | CA |
| **Cancun** | CUN | INT |
| **Huatulco** | HUX | INT |
| **Ixtapa/Zihuatanejo** | ZIH | INT |
| **Manzanillo** | ZLO | INT |
| **Mazatlan** | MZT | INT |
| **Mexico City** | MEX | INT |
| **Puerto Vallarta** | PVR | INT |
| **San Jose Del Cabo** | SJD | INT |
| **Beijing** | PEK | INT |
| **Guangzhou** | CAN | INT |
| **Hong Kong** | HKG | INT |
| **Manila** | MNL | INT |
| **Osaka** | KIX | INT |
| **Seoul** | ICN | INT |
| **Shanghai/Kunming** | PVG | INT |
| **Shenyang/Chengdu** | SHE | INT |
| **Taipei** | TPE | INT |
| **Tokyo (Haneda)** | HND | INT |
| **Tokyo (Narita)** | NRT | INT |
| **Auckland** | AKL | INT |
| **Brisbane (new)** | BNE | INT |
| **Sydney** | SYD | INT |
| **Amsterdam** | AMS | INT |
| **Dublin (new)** | DUB | INT |
| **Frankfurt** | FRA | INT |
| **Glasgow** | GLA | INT |
| **London (Gatwick)** | LGW | INT |

| | | |
|---|---|---|
| **London (Heathrow)** | LHR | INT |
| **Manchester** | MAN | INT |
| **Munich** | MUC | INT |
| **Paris** | CDG | INT |
| **Reykjavik** | KEF | INT |
| **Rome (new)** | CFCO | INT |
| **Zurich** | ZRH | INT |
| **Santa Clara, Cuba** | SNU | INT |
| **Varadero, Cuba** | VRA | INT |

Source: YVR, 'Non-stop destinations 2015/16', accessed 10 August 2016 from http://www.yvr.ca/-/media/yvr/documents/air-services/destinations-brochure_2016.pdf?la=en.

## BLI destinations, 2016

| Airport name (as listed by BLI) | Airport code | Country |
|---|---|---|
| **Honolulu** | HNL | US |
| **Las Vegas** | LAS | US |
| **Maui** | OGG | US |
| **Portland** | PDX | US |
| **Seattle** | SEA | US |
| **Palm Springs** | PSP | US |
| **Los Angeles** | LAX | US |
| **Oakland** | OAK | US |
| **Phoenix-Mesa** | PHX | US |
| **Reno** | RNO | US |
| **San Diego** | SAN | US |
| **British Columbia** | YVR | CA |
| **Olympia** | OLM | US |
| **Point Roberts** | 1RL | US |
| **Point Angeles** | CLM | US |
| **Port Townsend** | TWD | US |
| **San Juan Islands** | San Juan islands (no airport code found) | US |
| **Tacoma** | SEA | US |

Source: Accessed 10 August 2016 from https://www.portofbellingham.com/84/Commercial-Aviation.

## List of SEA destinations, 2015

| Airport name (as listed by SEA) | Airport code | Country |
|---|---|---|
| **Vancouver, BC, British Columbia** | YVR | CA |
| **Calgary, Alberta** | YYC | CA |
| **Victoria, British Columbia** | YYJ | CA |
| **Edmonton, Alberta** | YEG | CA |
| **Seoul** | ICN | INT |
| **London** | LHR | INT |
| **Kelowna, British Columbia** | YLW | CA |
| **Tokyo** | NRT | INT |

| | | |
|---|---|---|
| **Beijing** | PEK | INT |
| **Toronto, Ontario** | YYZ | CA |
| **Dubai** | DXB | INT |
| **Amsterdam** | AMS | INT |
| **Shanghai** | PVG | INT |
| **Frankfurt** | FRA | INT |
| **Reykjavik** | KEF | INT |
| **Taipei** | TPE | INT |
| **Paris** | CDG | INT |
| **Hong Kong** | HKG | INT |
| **San Jose del Cabo** | SJD | INT |
| **Puerto Vallarta** | PVR | INT |
| **Tokyo** | HND | INT |
| **Cancun** | CUN | INT |
| **San Francisco Bay area, CA** | SFO | US |
| **San Francisco Bay area, CA** | OAK | US |
| **San Francisco Bay area, CA** | SJC | US |
| **Los Angeles area, CA** | LAX | US |
| **Los Angeles area, CA** | SNA | US |
| **Los Angeles area, CA** | LGB | US |
| **Los Angeles area, CA** | BUR | US |
| **Los Angeles area, CA** | ONT | US |
| **Portland, OR** | PDX | US |
| **Spokane, WA** | GEG | US |
| **Anchorage, AK** | ANC | US |
| **Denver, CO** | DEN | US |
| **Phoenix, AZ** | PHX | US |
| **Las Vegas, NV** | LAS | US |
| **Chicago, IL** | ORD | US |
| **Chicago, IL** | MDW | US |
| **San Diego, CA** | SAN | US |
| **Sacramento, CA** | SMF | US |
| **Boise, ID** | BOI | US |
| **New York City area, NY** | EWR | US |
| **New York City area, NY** | JFK | US |
| **Salt Lake City, UT** | SLC | US |
| **Dallas/Ft Worth, TX** | DFW | US |
| **Minneapolis, MN** | MSP | US |
| **Atlanta, GA** | ATL | US |
| **Houston, TX** | IAH | US |
| **Houston, TX** | HOU | US |
| **Pasco, WA** | PSC | US |
| **Detroit, MI** | DTW | US |
| **Washington, DC** | IAD | US |
| **Washington, DC** | DCA | US |
| **Honolulu, HI** | HNL | US |
| **Bellingham, WA** | BLI | US |

| | | |
|---|---|---|
| **Reno, NV** | RNO | US |
| **Boston, MA** | BOS | US |
| **Albuquerque, NM** | ABQ | US |
| **Austin, TX** | AUS | US |
| **Baltimore, MD** | BWI | US |
| **Billings, MT** | BIL | US |
| **Bozeman, MT** | BZN | US |
| **Charleston, SC** | CHS | US |
| **Charlotte, NC** | CLT | US |
| **Cincinnati, OH** | CVG | US |
| **Cleveland, OH** | CLE | US |
| **Colorado Springs, CO** | COS | US |
| **Dallas, TX** | DAL | US |
| **Eugene, OR** | EUG | US |
| **Fairbanks, AK** | FAI | US |
| **Fresno, CA** | FAT | US |
| **Ft Lauderdale, FL** | FLL | US |
| **Great Falls, MT** | GTF | US |
| **Hayden, CO** | HDN | US |
| **Helena, MT** | HLN | US |
| **Jackson Hole, WY** | JAC | US |
| **Juneau, AK** | JNU | US |
| **Kahului, HI** | OGG | US |
| **Kalispell, MT** | FCA | US |
| **Kansas City, MO** | MCI | US |
| **Ketchikan, AK** | KTN | US |
| **Kona, HI** | KOA | US |
| **Lewiston, ID** | LWS | US |
| **Lihue, HI** | LIH | US |
| **Medford, OR** | MFR | US |
| **Miami, FL** | MIA | US |
| **Milwaukee, WI** | MKE | US |
| **Missoula, MT** | MSO | US |
| **Nashville, TN** | BNA | US |
| **New Orleans, LA** | MSY | US |
| **Oklahoma City, OK** | OKC | US |
| **Omaha, NE** | OMA | US |
| **Orlando, FL** | MCO | US |
| **Palm Springs, CA** | PSP | US |
| **Philadelphia, PA** | PHL | US |
| **Pullman, WA** | PUW | US |
| **Raleigh/Durham, NC** | RDU | US |
| **Redmond, OR** | RDM | US |
| **San Antonio, TX** | SAT | US |
| **Santa Barbara, CA** | SBA | US |
| **Santa Rosa, CA** | STS | US |
| **Sitka, AK** | SIT | US |

| | | |
|---|---|---|
| **St Louis, MO** | STL | US |
| **Sun Valley/Hailey, ID** | SUN | US |
| **Tampa, FL** | TPA | US |
| **Tucson, AZ** | TUS | US |
| **Walla Walla, WA** | ALW | US |
| **Wenatchee, WA** | EAT | US |
| **Yakima, WA** | YKM | US |

Source: OAG (2015), 'Domestic destinations from SEA-TAC airport', OAG (2015), 'Top 25 domestic destinations from SEA-TAC airport'; OAG (2015), 'International destinations from SEA-TAC airport', accessed 10 August 2016 from http://www.portseattle.org/Sea-Tac/Pages/default.aspx.

### List of YYJ destinations, 2016

| Airport name (as listed by YYJ) | Airport code | Country |
|---|---|---|
| **Abbotsford** | YXX | CA |
| **Calgary** | YYC | CA |
| **Cancun** | CUN | INT |
| **Edmonton** | YEG | CA |
| **Kamloops** | YKA | CA |
| **Kelowna** | YLW | CA |
| **Las Vegas** | LAS | US |
| **Los Cabos** | SJD | INT |
| **Nanaimo** | YCD | CA |
| **Prince George** | YXS | CA |
| **Puerto Vallarta** | PVR | INT |
| **San Francisco** | SFO | US |
| **Seattle** | SEA | US |
| **Tofino** | YAZ | CA |
| **Toronto** | YYZ | CA |
| **Vancouver** | YVR | CA |
| **Winnipeg** | YWG | CA |

Source: Accessed 10 August 2016 from http://www.victoriaairport.com/non-stop-destinations.

# A4 Appendix to section 4: analysis of the competition effects of restricting entry in the in-flight catering market

## A4A Introduction

A4.1 This appendix sets out additional details of the methodology adopted in the gains from switching analysis in section 4D, and the analysis of price effects for airlines that do not switch in section 4E. It also presents the detailed outputs of my regression analysis, including the results of various sensitivity analyses.

## A4B Gains from switching analysis

### A4B.1 Overall approach

A4.2 I estimate the gains from switching by comparing the costs incurred in the situation where a switch occurred with the costs that would have been incurred in a situation in which Jazz remained with Gate Gourmet at the respective airports. Specifically, I adopt the following approach:

- I first calculate the cost per departure for each aircraft type flown (also referred to as a 'rating');
- I then calculate savings by taking the difference in ratings between the old provider (Gate Gourmet) and the new provider, and multiplying this by the number of departures served by the new provider.

A4.3 This approach compares outturn costs with the new provider against historical costs with the old provider, controlling for differences in traffic between years. In particular, it calculates the savings that Jazz made relative to a hypothetical situation in which Jazz remained with its old provider, while purchasing services for the same number of flights served by the new provider. The approach therefore identifies an effect on savings through prices.

A4.4 The approach is illustrated in Figure A4.1 below, which sets out my calculation of the savings that Jazz made on [redacted]. As shown in the figure, I first estimate that Jazz was saving approximately $[redacted] by switching to Newrest. This is calculated as the difference between the amount that Gate Gourmet charged at [redacted], and the corresponding Newrest charge in [redacted]. I then multiply this saving per flight by the number of [redacted] flights actually served by Newrest in [redacted], in order to estimate the savings that Jazz made.

Figure A4.1 Illustration of Jazz savings on [redacted]

[redacted]

Source: Analysis based on caterer datasets.

### A4B.2 Approach to calculating ratings

A4.5 As part of this analysis, I compare the ratings that Jazz paid to Gate Gourmet with the ratings that Jazz paid to either Newrest or Strategic Aviation. In order to calculate the average rating for a given aircraft type in a given month, I require information on the total spend on that aircraft type, as well as the number of aircraft served in that month. This information is extracted from the caterer datasets. However, these datasets record information in different ways, and therefore the approach to calculating ratings differs in each case.

- **Gate Gourmet**: [redacted].
- **Newrest**: [redacted]
- **Strategic Aviation**: [redacted]

### A4B.3 Imputation required to complete the gains from switching analysis

A4.6 In a few cases, the aircraft used at a particular airport differed before and after Jazz switched provider. For example, [redacted]. Therefore, the rating for the aircraft served by the new provider in 2015 does not always exist in the Gate Gourmet data for 2014.

A4.7 As shown in Figure A4.1 above, I compare ratings at an airport for the same month across different years. In that example, I compared the rating for June 2015 with that for June 2014. If the rating for a given aircraft is missing in the 2014 data for a particular month, but is available for other months in 2014, I impute the missing data by using the average rating for months in which the ratings are available (i.e. months in which Jazz used that aircraft type at the airport in 2014).

A4.8 In cases in which Jazz did not use the aircraft type at the airport throughout 2014, I impute the rating by using the most similar aircraft type (in terms of seat capacity) for which 2014 ratings are available.[155] In particular, [redacted]. I do the same for the [redacted] aircraft types. I make an additional adjustment to reflect the fact that there is generally a difference in ratings between these aircraft types.[156]

## A4C Price effects for airlines that do not switch providers

### A4C.1 Weighted sensitivity analysis

A4.9 As explained in section 4E, I carry out a sensitivity analysis that places additional weight on the prices of products that are purchased according to quantity or value.

A4.10 The weighted analysis that I carry out does not change the regression specification used, but amends the underlying data. In the case of quantity weights, for each product that I consider, this analysis creates duplicate observations of the price series associated with this product, such that the number of duplicates created is equal to the average quantity of that product that is sold in a given month. In this way, the number of observations

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155 [redacted].

156 This adjustment is calculated as the percentage difference in average ratings between the matched aircraft types [redacted]) in the [redacted].

associated with a product is proportional to the quantity sold. As an example, if a product is purchased relatively often and is subject to a large price decrease post entry, the regression analysis takes into account the fact that a significant number of duplicated price series show a price decrease post entry. If another product is purchased only once a month and is subject to a price increase after entry, the regression analysis considers this price increase only once, and so does not place as much weight on it. In this way, products purchased in larger quantities are given additional importance by the regression analysis.

A4.11 In contrast to the quantity-weighted analysis, the revenue-weighted analysis takes into account both differences in quantities and differences in prices across products. For illustrative purposes, further sensitivity testing that I carry out is based on the revenue-weighted analysis.

### A4C.2 Detailed results of my econometric analysis

A4.12 In this section, I present the detailed results of my econometric analysis. In particular, I show the results for the analysis of the price effects on handling services purchased by [redacted].

### Table A4.1 Regression estimates for small clients and galley-handling services

[redacted]

Note: Month fixed effects and airport-specific time trends are also included in all specifications, but are omitted here for presentation purposes. Two-sided p-values are given in square brackets. $R^2$ is known as the 'goodness of fit' of a statistical model, and represents how much of the variation in prices is explained by the explanatory variables in the model. For example, an $R^2$ of 100% indicates that the statistical model perfectly predicts all of the data. * denotes statistical significance at the 10% level, ** denotes statistical significance at the 5% level, and *** denotes statistical significance at the 1% level. [1] The price effect is calculated using the Kennedy adjustment. As an example, under the revenue-weighted regression, the coefficient estimate on the [redacted] dummy is [redacted]. Applying the Kennedy adjustment, this translates into a price decrease of [redacted]%. The price effect is calculated using the formula $PE = e^{\beta - \frac{1}{2}\sigma^2} - 1$, where β is the coefficient estimate on the [redacted] dummy. A negative price effect indicates that prices fell on average after entry.

A4.13 The first three columns of Table A4.1 are discussed in section 4E, so I focus here on a discussion of the last three columns of the table, which include the results of further sensitivity analysis. I test the following three main sensitivities.

- **Demand control**: this is a control for the number of flights (expressed in log terms) for a given airline from a given airport in each month. This data has been extracted from the OAG database. The number of flights controls for a demand effect on prices. It can also capture the effect of any quantity discounts associated with a larger number of flights.

- **City-specific CPI index**: I include a control for the city-level Consumer Price Index ('CPI'). I match this data to airports based on the city in which the airport is located. This index is published by Statistics Canada. This variable controls for general inflation within each city.
- **Province-specific wage rates**: I include a control for the provincial average hourly wage rate for employees in the services sector (also expressed in log terms). These are estimates from the Labour Force Survey ('LFS') published by Statistics Canada. As this is province-level data, this information is assigned to airports based on the province in which the airport is located. This variable controls for changes in the labour costs faced by caterers in each province.

A4.14 As shown in Table A4.1 above, the estimate associated with [redacted]

A4.15 I undertake one further sensitivity test, in which I assess the robustness of the results to the exclusion of individual airline customers from the analysis. I run multiple regressions, each time excluding one customer from the regression analysis. Across all these regressions, [redacted]

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# TAB 5

## Excluded on the basis of confidentiality

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# TAB 6

## Excluded on the basis of confidentiality

7

# TAB 7

## Excluded on the basis of confidentiality

8

# TAB 8

## Excluded on the basis of confidentiality

9

CT-2016-015

# THE COMPETITION TRIBUNAL

**IN THE MATTER OF** the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

**AND IN THE MATTER OF** certain conduct of Vancouver Airport Authority relating to the supply of in-flight catering at Vancouver International Airport;

**AND IN THE MATTER OF** an application by the Commissioner of Competition for one or more orders pursuant to section 79 of the *Competition Act*.

**BETWEEN:**

COMPETITION TRIBUNAL
TRIBUNAL DE LA CONCURRENCE
FILED / PRODUIT
CT-2016-015
September 29, 2016
Jos LaRose for / pour
REGISTRAR / REGISTRAIRE
OTTAWA, ONT | # 1

**COMMISSIONER OF COMPETITION**

**Applicant**

**– and –**

**VANCOUVER AIRPORT AUTHORITY**

**Respondent**

I hereby certify this to be a true copy of the original document/
Je certifie par la présente que ceci est une copie conforme au document original

Dated this / Fait ce 29th of September 2016

Jos LaRose

For Registrar, Competition Tribunal /
Pour Registraire, Tribunal de la concurrence

## NOTICE OF APPLICATION

**TAKE NOTICE** that the Applicant, the Commissioner of Competition (the "**Commissioner**"), will make an application to the Competition Tribunal (the "**Tribunal**"), on a day and place to be determined by the Tribunal, pursuant to section 79 of the *Competition Act*, R.S.C. 1985, c. C-34, as amended (the "**Act**"), for:

(a) an order pursuant to subsections 79(1) and 79(2) of the Act:

(i) prohibiting the Respondent, Vancouver Airport Authority ("**VAA**"), from directly or indirectly engaging in the practice of anti-competitive acts set out in the Statement of Grounds and Material Facts ("**SGMF**"), below;

(ii) requiring VAA to issue authorization, on non-discriminatory terms, to any firm that meets customary health, safety, security and performance requirements, so as to entitle that firm to access the airside at Vancouver International Airport (the "**Airport**"), from one or more facilities used by the firm whether located on Airport property or off Airport property, for the purposes of supplying Galley Handling (defined in paragraph 12 of the SGMF); and

(iii) otherwise requiring VAA to take any action, or to refrain from taking any action, as may be required to give effect to the foregoing prohibitions and requirements;

(b) an order directing VAA to pay costs;

(c) an order directing VAA to establish, and thereafter maintain, a corporate compliance program consistent with the Commissioner's bulletin entitled "Corporate Compliance Programs", as such bulletin may be revised from time-to-time; and

(d) such further and other relief as the Commissioner may request and this Tribunal may consider appropriate.

**AND TAKE NOTICE** that if you do not file a response with the Registrar of the Tribunal within 45 days of the date upon which this Application is served upon you, the Tribunal may, upon application by the Commissioner and without further notice, make such order or orders as it may consider just, including the orders sought in this Application.

**AND TAKE FURTHER NOTICE** that the Commissioner will rely on the SGMF in support of this Application and on such further or other material as counsel may advise and the Tribunal may permit.

**AND TAKE FURTHER NOTICE** that a concise statement of the economic theory of the case is attached as Schedule "A" to the SGMF.

**THE ADDRESSES FOR SERVICE ARE**:

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The Applicant proposes that the hearing of this matter be held in the City of Ottawa, Ontario and be heard in English. The Applicant proposes that documents be filed electronically.

## STATEMENT OF GROUNDS AND MATERIAL FACTS

### I. OVERVIEW AND GROUNDS

1. The Vancouver Airport Authority has abused its dominant market position by excluding and denying the benefits of competition to the In-flight Catering marketplace at Vancouver International Airport. It has no legitimate explanation to justify the substantial prevention or lessening of competition that has resulted in higher prices, dampened innovation and lower service quality.

2. New-entrant firms have sought, and continue to seek, to provide In-flight Catering, comprising Catering and Galley Handling (each as defined in paragraph 12, below), at the Airport. Airlines operating commercial passenger air transportation services wish to procure In-flight Catering at the Airport from these new-entrant firms, to realize substantial cost savings and other benefits. Standing as a wall between these buyers and sellers of In-flight Catering is VAA.

3. VAA substantially or completely controls the market for access to the airside at the Airport for the supply of Galley Handling. Without VAA's authorization to access the airside, firms cannot supply Galley Handling at the Airport. VAA thus also substantially or completely controls the market for the supply of Galley Handling at the Airport.

4. Despite repeated requests from new-entrant firms seeking to provide In-flight Catering at the Airport, and unlike other airport authorities in Canada, VAA unjustifiably refuses to authorize their access to the airside. VAA also requires firms providing In-flight Catering at the Airport to lease land from VAA for the operation of Catering kitchen facilities, as a condition of

authorizing access to the airside. VAA's conduct is a practice of anti-competitive acts, the purpose and effect of which is to exclude new-entrant firms from providing In-flight Catering or Galley Handling at the Airport.

5. VAA's practice with respect to airside access for the supply of Galley Handling has had, is having and is likely to have the effect of preventing or lessening competition substantially in the market for the supply of Galley Handling at the Airport. But for VAA's practice, the market for the supply of Galley Handling at the Airport would be substantially more competitive, including by way of lower prices, enhanced innovation and/or more efficient business models, and higher service quality.

6. Ultimately, what the Commissioner seeks in this case is to maintain and encourage competition, by allowing airlines and In-flight Catering firms that wish to do business with each other to do so, such that all In-flight Catering firms – both incumbents and new-entrants – are afforded an opportunity to succeed or fail on the basis of their respective ability to compete. In these circumstances, an order of the Tribunal is necessary and appropriate.

## II. THE PARTIES

### A. THE COMMISSIONER

7. The Applicant, the Commissioner, is an officer appointed by the Governor in Council pursuant to section 7 of the Act and is responsible for the administration and enforcement of the Act.

### B. VAA

8. The Respondent, VAA, is a not-for-profit corporation continued under the *Canada Not-for-profit Corporations Act*. VAA operates the Airport pursuant to a Ground Lease entered into in 1992 with the Government of

Canada, as represented by the Minister of Transport (the "**Ground Lease**").

9. In the fiscal year ended 31 December 2014, VAA generated consolidated revenue of $465.6 million, and had an excess of revenue over expenses for the year of $105.6 million. In the fiscal year ended 31 December 2015, VAA generated consolidated revenue of $485.5 million, and had an excess of revenue over expenses of $131.5 million.

## III. VAA HAS ABUSED A DOMINANT MARKET POSITION, IN CONTRAVENTION OF SECTION 79 OF THE ACT

10. VAA has engaged in and continues to engage in an abuse of a dominant market position relating to the supply of In-flight Catering at the Airport.

### A. VAA SUBSTANTIALLY OR COMPLETELY CONTROLS THE MARKET FOR AIRPORT AIRSIDE ACCESS FOR THE SUPPLY OF GALLEY HANDLING, AS WELL AS THE MARKET FOR GALLEY HANDLING AT THE AIRPORT

#### *(i) Relevant Markets*

11. Two markets are relevant for purposes of the Commissioner's Application – the market for the supply of Galley Handling at the Airport, and the market for Airport airside access for the supply of Galley Handling.

<u>Market for the Supply of Galley Handling at the Airport</u>

12. **In-flight Catering** comprises two principal bundles of products and services purchased by airlines operating commercial passenger air transportation services – Catering and Galley Handling. **Catering** consists primarily of the preparation of meals for distribution, consumption or use on-board a commercial aircraft by passengers and crew, and includes buy-on-board offerings and snacks. **Galley Handling** consists primarily of the loading and unloading of Catering, commissary products (typically non-food items and non-perishable food items) and ancillary products

(such as duty-free products, linen and newspapers) on a commercial aircraft, including in relation thereto: warehousing; inventory management; assembly of meal trays and aircraft trolley carts (including bar and boutique assembly); transportation of Catering, commissary and ancillary products between aircraft and warehouse or Catering kitchen facilities; equipment cleaning; handheld point-of-sale device management; and trash removal.

13. Historically, both Catering and Galley Handling have been provided in Canada by full-service In-flight Catering firms, namely Gate Gourmet Canada Inc. ("**Gate Gourmet**"), at most airports nationally, and CLS Catering Services Ltd. (**"CLS**"), in Toronto and Vancouver. In 2009, another full-service In-flight Catering firm, Newrest Servair Holding Canada Inc., began operating in Canada, and is now present in Calgary, Montreal and Toronto.

14. The way in which In-flight Catering is provided in Canada has changed in recent years, as airlines have sought to reduce costs, including the cost of In-flight Catering. Freshly-prepared meals, once served to all passengers, are now largely reserved for those travelling in business or first class. In their place, economy class passengers are increasingly served lower-cost frozen meals, sourced in many cases on a national basis from foodservice firms.

15. With airline demand driving change in In-flight Catering service requirements, Catering and Galley Handling can be, and are, provided by separate firms. Today, a variety of firms specialize in Catering, such as by manufacturing large volumes of frozen meals, or by sourcing freshly-prepared meals from local restaurants proximate to airports. Other firms specialize in Galley Handling, such as by leveraging their existing airport infrastructure or expertise. Catering products are delivered to Galley

Handling firms or full-service In-flight Catering firms, which, as part of their suite of Galley Handling services, load the meals onto aircraft. The separate supply of Catering and Galley Handling can deliver efficiencies to service providers and savings to airline customers.

16. Airlines periodically select a provider of In-flight Catering (or Catering or Galley Handling), principally based on price and service. Airlines can, and do, obtain In-flight Catering from different service providers at different airports. At some airports, the value proposition to an airline can be enhanced by the generally lower-cost "off-airport" location of the In-flight Catering firm, on land not leased from the airport authority. Airlines may select an In-flight Catering firm not presently serving a particular airport, conditional on that firm obtaining authorization from the airport authority to provide service at the airport.

17. Airlines have the option of self-supplying all or a portion of their In-flight Catering needs. This includes so-called "double catering", or transporting extra meals and ancillary supplies from one airport for service during a flight departing a second airport. Self-supply, including double catering, is not a feasible or preferable substitute for In-flight Catering for most airlines in Canada, including for logistical and financial reasons.

18. Galley Handling constitutes a relevant product market. The relevant sellers or suppliers in this market are Galley Handling or In-flight Catering firms, while the relevant purchasers are airlines operating commercial passenger air transportation services.

19. A sole profit-maximizing seller (*i.e.*, a hypothetical monopolist) would profitably impose and sustain a small but significant and non-transitory increase in price in the sale or supply of Galley Handling. For the vast

majority of airlines, there are no acceptable substitutes to the purchase of Galley Handling.

20. The Airport is the relevant geographic market for the sale or supply of Galley Handling. For the vast majority of airlines, there are no acceptable substitutes to the purchase of Galley Handling at the Airport.

21. One relevant market is therefore the supply of Galley Handling at the Airport.

<u>Market for Airport Airside Access for the Supply of Galley Handling</u>

22. Access to the airside is required to provide Galley Handling at an airport. The airside generally comprises that portion of an airport's property that lies inside the security perimeter. It includes runways and taxiways, as well as the apron, where, among other things, an aircraft is parked, Catering products and ancillary supplies, as well as baggage and cargo, are loaded and unloaded, and passengers board.

23. Airport authorities are the only entities in Canada from which a Galley Handling or In-flight Catering firm may obtain authorization to access the airside. Typically, airport authorities grant access to the airside by way of agreements or arrangements. Under the terms of these agreements or arrangements, firms generally pay a fee to the airport authority in exchange for authorization to access the airside to provide Galley Handling. The fee is commonly set as a percentage of the gross revenue generated by a firm from supplying Catering or Galley Handling at or from the airport. In-flight Catering firms usually pass on all or a part of this airport charge as a "port fee" to their airline customers.

24. Access to the airside for the supply of Galley Handling also constitutes a relevant product market. The relevant sellers or suppliers in this market

are airport authorities, while the relevant purchasers are Galley Handling or In-flight Catering firms.

25. A sole profit-maximizing seller (*i.e.*, a hypothetical monopolist) would profitably impose and sustain a small but significant and non-transitory increase in price in the sale or supply of access to the airside for the supply of Galley Handling. There are no acceptable substitutes to access to the airside for the supply of Galley Handling.

26. The Airport is the relevant geographic market for the sale or supply of access to the airside for the supply of Galley Handling. There are no acceptable substitutes to access to the airside at the Airport for the supply of Galley Handling.

27. A second relevant market is therefore access to the Airport airside for the supply of Galley Handling.

### *(ii) VAA Substantially or Completely Controls the Relevant Markets*

28. VAA substantially or completely controls the market for access to the Airport airside for the supply of Galley Handling, as well as the market for the supply of Galley Handling at the Airport.

<u>Market for Airport Airside Access for the Supply of Galley Handling</u>

29. VAA has a substantial degree of market power in the market for access to the Airport airside for the supply of Galley Handling.

30. VAA is a monopolist in the market for access to the Airport airside for the supply of Galley Handling. VAA is the only entity from which a Galley Handling or In-flight Catering firm may obtain access to the Airport airside; there are no other sellers or suppliers of access to the Airport airside.

31. Barriers to entry and expansion in the market for access to the Airport airside for the supply of Galley Handling are absolute. No entity other than VAA may sell or supply access to the Airport airside. Entry of an alternative source of supply of access to the Airport airside simply is not possible.

32. VAA is generally able to dictate the terms upon which it sells or supplies access to the Airport airside for the supply of Galley Handling. For example, in 2010-2011, VAA was able to impose and sustain a more than 40% increase in the fee it charges firms under Airport airside access agreements to provide In-flight Catering at the Airport. Similarly, VAA is able to require firms providing In-flight Catering Services at the Airport to lease land from VAA for the operation of Catering kitchen facilities, as a condition of authorizing access to the Airport airside (as explained in greater detail at paragraph 42, below).

33. VAA's substantial degree of market power in the market for access to the Airport airside for the supply of Galley Handling is not constrained by Galley Handling or In-flight Catering firms or otherwise.

Market for the Supply of Galley Handling at the Airport

34. By virtue of its control over access to the Airport airside – a necessary input to the supply of Galley Handling – VAA also has a substantial degree of market power in the market for the supply of Galley Handling at the Airport.

35. VAA has considerable latitude to determine or influence price and non-price dimensions of competition in the market for the supply of Galley Handling at the Airport, including the terms upon which Galley Handling and In-flight Catering firms carry on business in this market. For example, VAA has the power to exclude, and has excluded, new-entrant Galley

Handling and In-flight Catering firms from supplying services at the Airport, by refusing to grant those firms access to the Airport airside.

**B. VAA'S REFUSAL TO GRANT AIRSIDE ACCESS TO ADDITIONAL IN-FLIGHT CATERERS AND ITS TYING OF AIRSIDE ACCESS TO LAND LEASING IS A PRACTICE OF ANTI-COMPETITIVE ACTS**

36. VAA has engaged in and is engaging in a practice of anti-competitive acts (the "**Practice**") through: (i) its ongoing refusal to grant access to the Airport airside to new-entrant firms for the supply of Galley Handling at the Airport; and (ii) its continued tying of access to the Airport airside for the supply of Galley Handling to the leasing of Airport land from VAA for the operation of Catering kitchen facilities. The purpose and effect of VAA's Practice is an intended negative effect on competitors that is exclusionary.

***(i) VAA's Refusal to Grant Airside Access to Additional In-flight Caterers***

37. Gate Gourmet and CLS are currently the only firms authorized by VAA to provide In-flight Catering at the Airport. They (or their predecessors) have operated at the Airport since at least 1992, when VAA entered into the Ground Lease with the Government of Canada. VAA has never conducted a request for proposals or similar competitive process to select one or more firms to supply Galley Handling and/or Catering at the Airport, and has no immediate plans to do so. As such, no new entry in the In-flight Catering marketplace at the Airport has occurred in more than 20 years. The businesses of Gate Gourmet and CLS at the Airport are profitable.

38. In 2014, VAA refused requests from two new-entrant firms for authorization to access the airside to provide In-flight Catering at the Airport. While these firms would be new entrants to the In-flight Catering marketplace in Vancouver, they are both well-established businesses that

provide In-flight Catering at other airports in Canada. In this regard, airport authorities in Edmonton, Calgary, Regina, Winnipeg, Ottawa, Toronto, Montreal and Halifax have granted one or more of these firms access to the airside at airports in those cities.

39. Today, VAA continues to refuse to permit anyone other than Gate Gourmet and CLS to provide In-flight Catering at the Airport. VAA does so over the objections of several airlines, which have expressed to VAA their desire to see greater In-flight Catering competition at the Airport.

40. VAA has consistently and purposely intended to exclude new-entrant firms from the market for the supply of Galley Handling at the Airport, by refusing to grant such firms access to the Airport airside. Since access to the Airport airside is required to supply Galley Handling at the Airport, it was and is reasonably foreseeable or expected that the effect of VAA's refusal to grant access to the airside to new-entrant firms for the supply of Galley Handling would be an exclusionary effect on those firms. In fact, VAA's ongoing refusal to grant airside access to new-entrant In-flight Catering firms has resulted in the total and complete exclusion of such firms from the Airport.

41. VAA's refusal to grant access to the Airport airside to new-entrant firms for the supply of Galley Handling at the Airport has negatively impacted the businesses of excluded firms, including by way of lost contracts with airlines, reduced revenues, higher costs and delayed entry and expansion in Canada.

### *(ii) VAA's Tying of Airside Access to Land Leasing*

42. In addition to its outright refusal to authorize new-entrant firms to access the airside to provide Galley Handling or In-flight Catering at the Airport, VAA's practice with respect to incumbent providers of In-flight Catering at

the Airport has been to tie their authorization to access the Airport airside for the supply of Galley Handling to their leasing of Airport land from VAA for the operation of Catering kitchen facilities. In other words, VAA does not permit a firm to access the Airport airside for the supply of Galley Handling if that firm does not operate a Catering kitchen located on Airport property (i.e., if the firm's kitchen were to be located on land not managed by VAA). VAA's airside access agreements with Gate Gourmet and CLS terminate if and when Gate Gourmet or CLS ceases to rent land from VAA for the operation of Catering kitchens on Airport property.

43. VAA has consistently and purposely intended to exclude new-entrant firms from the market for the supply of Galley Handling at the Airport by requiring that any firms accessing the airside to supply Galley Handling also lease Airport land for the operation of Catering kitchen facilities. It was and is reasonably foreseeable or expected that the effect of VAA's tying, of access to the Airport airside for the supply of Galley Handling to the leasing of Airport land from VAA for the operation of Catering kitchen facilities, would be an exclusionary effect on competitors. In-flight Catering firms are not permitted to locate their Catering kitchens on less expensive off-Airport land, and firms that may wish to provide only Galley Handling are excluded from operating at the Airport altogether.

44. VAA's tying of Airport airside access to the leasing of Airport land for the operation of Catering kitchens has negatively impacted the businesses of excluded firms, including by way of lost contracts with airlines, reduced revenues, higher costs and delayed entry and expansion in Canada.

### *(iii) VAA's Competitive Interest in Excluding Competition*

45. VAA has a competitive interest in the market for the supply of Galley Handling at the Airport, and in insulating the incumbent In-flight Catering firms at the Airport from new sources of competition.

46. Each of Gate Gourmet and CLS rents land from VAA, pursuant to lease agreements, for the operation of Catering kitchens located on Airport property. Gate Gourmet and CLS pay VAA several million dollars per year, representing rent payments under these lease agreements, as well as fees under airside access agreements. In recent years, VAA has increased both the land lease rates and the amount of the percentage-based airside access fee it charges to Gate Gourmet and CLS.

47. VAA thus shares in the revenue generated from the supply of Galley Handling and In-flight Catering at or from the Airport, and benefits financially, through the lease and access fees, from the protection from competition it confers on the incumbent In-flight Catering firms at the Airport.

### *(iv) Absence of a Legitimate Business Justification*

48. After deciding to exclude new-entrant firms from supplying Galley Handling at the Airport, VAA put forth a variety of factors that, it claims, justify its anti-competitive conduct. None of VAA's explanations constitute a legitimate business justification; they are not credible efficiency or pro-competitive rationales for VAA's Practice that are independent of the anti-competitive effects of its conduct, and in any event, they do not outweigh VAA's subjective intent to exclude or the reasonably foreseeable or expected exclusionary effects of the Practice.

49. Moreover, VAA's conduct with respect to airside access for the supply of In-flight Catering is opposite to its policy concerning airside access for the supply of ground handling (such as baggage handling) at the Airport. VAA places no restriction on the number of firms it permits to access the airside to supply ground handling to airlines at the Airport.

50. Firms seeking authorization from VAA to access the airside to supply In-flight Catering at the Airport are well-established businesses that provide In-flight Catering at other airports in Canada, where they have been permitted to operate by the relevant airport authority.

51. The overall character or purpose of VAA's Practice is anti-competitive.

### C. VAA's Conduct Has Had, is Having and is Likely to Have the Effect of Preventing and/or Lessening Competition Substantially in the Market for Galley Handling at the Airport

52. VAA's ongoing refusal to grant access to the Airport airside to new-entrant firms for the supply of Galley Handling at the Airport, and its continued tying of access to the Airport airside for the supply of Galley Handling to the leasing of Airport land from VAA for the operation of Catering kitchen facilities, has had, is having and is likely to have the effect of preventing or lessening competition substantially in the market for the supply of Galley Handling at the Airport. But for this ongoing practice of anti-competitive acts, the market for the supply of Galley Handling at the Airport would be substantially more competitive.

53. In the absence of VAA's Practice, significant new entry into the market for the supply of Galley Handling at the Airport would likely occur. New entrants have already sought authorization to access the airside to provide In-flight Catering at the Airport, and would be likely to begin operations at the Airport in the absence of VAA's Practice.

54. VAA's conduct insulates the incumbent In-flight Catering firms at the Airport from these new sources of competition, enabling those firms to exercise a materially greater degree of market power, through materially higher prices and materially lower levels of service quality, than would otherwise prevail in the absence of VAA's practice.

55. Enhanced rivalry from new entry would result in a substantially more competitive market for the supply of Galley Handling at the Airport. The ability of airlines seeking Galley Handling or In-flight Catering at the Airport to contract with alternatives to the incumbent providers would result in materially lower prices for the supply of Galley Handling at the Airport and materially greater service and product quality. Airlines have already realized these benefits at airports in Canada where new entry has been permitted to occur.

56. New entry would also bring to the Airport the introduction of innovative and/or more efficient Galley Handling business models. For example, airlines would gain the ability to choose to procure Galley Handling at the Airport from other than a full-service In-flight Catering firm, or from an In-flight Catering firm with a lower-cost off-Airport location, delivering efficiencies to service providers and savings to airlines.

57. In sum, but for VAA's practice of anti-competitive acts, the market for the supply of Galley Handling at the Airport would be substantially more competitive, including by way of materially lower prices, materially enhanced innovation and/or materially more efficient business models, and materially higher service quality.

## IV. A TRIBUNAL ORDER IS NECESSARY

58. An order of the Tribunal is necessary and appropriate in the circumstances, including for the following reasons:

a. VAA's ongoing refusal to grant access to the Airport airside to new-entrant firms for the supply of Galley Handling at the Airport, and its continued tying of access to the Airport airside for the supply of Galley Handling to the leasing of Airport land from VAA for the operation of Catering kitchen facilities, has had, is having and is likely to have the effect of preventing or lessening competition substantially in the market for the supply of Galley Handling at the Airport;

b. an order, and more particularly, the relief sought by the Commissioner herein, is reasonable and necessary to overcome the anti-competitive effects of VAA's practice in the market for the supply of Galley Handling at the Airport and to restore or stimulate competition in the market;

c. an order ensures an enforceable mechanism is in place to prevent VAA from engaging in the same or similar conduct likely to have the effect of preventing or lessening competition substantially in the market for the supply of Galley Handling at the Airport; and

d. an order will indicate to the Canadian marketplace more broadly that the practices described by the Commissioner herein are anti-competitive.

## V. RELIEF SOUGHT

59. The Commissioner therefore seeks an order of the Tribunal:

a. pursuant to subsections 79(1) and 79(2) of the Act:

i. prohibiting VAA from directly or indirectly engaging in the practice of anti-competitive acts set out in this Application, namely: (i) VAA's ongoing refusal to grant access to the

Airport airside to new-entrant firms for the supply of Galley Handling at the Airport; and (ii) VAA's continued tying of access to the Airport airside for the supply of Galley Handling to the leasing of Airport land from VAA for the operation of Catering kitchen facilities;

ii. requiring VAA to issue authorization, on non-discriminatory terms, to any firm that meets customary health, safety, security and performance requirements, so as to entitle that firm to access the airside at the Airport, from one or more facilities used by the firm whether located on Airport property or off Airport property, for the purposes of supplying Galley Handling; and

iii. otherwise requiring VAA to take any action, or to refrain from taking any action, as may be required to give effect to the foregoing prohibitions and requirements;

b. directing VAA to pay costs;

c. directing VAA to establish, and thereafter maintain, a corporate compliance program consistent with the Commissioner's bulletin entitled "Corporate Compliance Programs", as such bulletin may be revised from time-to-time; and

d. containing such further and other relief as the Commissioner may request and this Tribunal may consider appropriate.

**DATED AT** Gatineau, Quebec, this 29th day of September, 2016

John Pecman
Commissioner of Competition

# SCHEDULE "A"

## CONCISE STATEMENT OF ECONOMIC THEORY

1. Despite requests from both airlines and In-flight Catering firms, VAA refuses to grant authorization to new-entrant firms to access the Airport airside to supply Galley Handling at the Airport. VAA also ties access to the Airport airside for the supply of Galley Handling to the leasing of Airport land from VAA for the operation of Catering kitchen facilities, by requiring firms providing In-flight Catering at the Airport to lease land from VAA for the operation of Catering kitchen facilities as a condition of authorizing access to the airside.

2. VAA's conduct is anti-competitive, having the purpose and effect of an intended negative effect on competitors that is exclusionary. VAA's exclusionary conduct has negatively impacted, and is likely to negatively impact, the businesses of firms that provide Galley Handling or In-flight Catering, leading to, among other things, lost contracts with airlines, reduced revenues, higher costs and delayed entry and expansion in Canada.

3. VAA's anti-competitive conduct has had, is having and is likely to have the effect of preventing or lessening competition substantially in the market for the supply of Galley Handling at the Airport.

### MARKET POWER

4. The relevant product markets are: (i) access to the airside for the supply of Galley Handling; and (ii) Galley Handling. The Airport is the relevant geographic market for both product markets.

5. VAA substantially or completely controls the market for access to the Airport airside for the supply of Galley Handling, as well as the market for the supply of Galley Handling at the Airport.

6. VAA has a substantial degree of market power in the market for access to the Airport airside for the supply of Galley Handling. In fact, VAA is a monopolist in this market, being the only entity from which a Galley Handling or In-flight Catering firm may obtain access to the Airport airside. As a monopolist, VAA is generally able to dictate the terms upon which it sells or supplies access to the Airport airside for the supply of Galley Handling. Barriers to entry and expansion in the market for access to the Airport airside for the supply of Galley Handling are absolute. Entry of an alternative source of supply of access to the Airport airside simply is not possible. VAA's substantial degree of market power in the market for access to the Airport airside for the supply of Galley Handling is not constrained by Galley Handling or In-flight Catering firms or otherwise.

7. By virtue of its control over access to the Airport airside – a necessary input to the supply of Galley Handling – VAA also has a substantial degree of market power in the market for the supply of Galley Handling at the Airport. VAA has considerable latitude to determine or influence price and non-price dimensions of competition in the market for the supply of Galley Handling at the Airport, including the terms upon which Galley Handling and In-flight Catering firms carry on business in this market.

**ANTI-COMPETITIVE CONDUCT**

8. VAA has engaged in and is engaging in a practice of anti-competitive acts through: (i) its ongoing refusal to grant access to the Airport airside to new-entrant firms for the supply of Galley Handling at the Airport; and (ii) its continued tying of access to the Airport airside for the supply of Galley

Handling to the leasing of Airport land from VAA for the operation of Catering kitchen facilities. The purpose and effect of VAA's conduct is an intended negative effect on competitors that is exclusionary.

9. VAA has a competitive interest in the market for the supply of Galley Handling at the Airport, and in insulating the incumbent In-flight Catering firms at the Airport from new sources of competition. VAA shares in the revenue generated from the supply of Galley Handling and In-flight Catering at or from the Airport, and benefits, through lease and access fees, from the protection from competition it confers on the incumbent In-flight Catering firms at the Airport.

**Substantial Lessening and/or Prevention of Competition**

10. VAA's ongoing refusal to grant access to the Airport airside to new-entrant firms for the supply of Galley Handling at the Airport, and its continued tying of access to the Airport airside for the supply of Galley Handling to the leasing of Airport land from VAA for the operation of Catering kitchen facilities, has had, is having and is likely to have the effect of preventing or lessening competition substantially in the market for the supply of Galley Handling at the Airport.

11. In the absence of VAA’s anti-competitive conduct, the market for the supply of Galley Handling at the Airport would be substantially more competitive. Significant new entry would likely occur, enhancing rivalry with incumbent suppliers of In-flight Catering and resulting in materially lower prices for the supply of Galley Handling at the Airport, materially enhanced innovation and/or materially more efficient business models, and materially higher service quality.

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CT-2016-015

**THE COMPETITION TRIBUNAL**

**IN THE MATTER OF** the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

**AND IN THE MATTER OF** certain conduct of Vancouver Airport Authority relating to the supply of in-flight catering at Vancouver International Airport;

**AND IN THE MATTER OF** an application by the Commissioner of Competition for one or more orders pursuant to section 79 of the *Competition Act*.

**BETWEEN:**

**COMMISSIONER OF COMPETITION**

**Applicant**

**—and—**

**VANCOUVER AIRPORT AUTHORITY**

**Respondent**

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**AMENDED RESPONSE OF VANCOUVER AIRPORT AUTHORITY**

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**PART I - OVERVIEW**

1. Pursuant to its statutorily-derived mandate, the Vancouver Airport Authority (referred to hereinafter as the “**Authority**”) is charged with operating the Vancouver International Airport (the “**Airport**” or “**YVR**”) – Canada’s second largest airport – in a safe and efficient manner, to generate economic development for Vancouver, and more broadly, for British Columbia and the rest of Canada, in furtherance of the public interest. The fulfilment of that mandate involves countless operational decisions, requiring the application of the Authority’s experience and expertise in exercising its business judgment relating

to such matters as how best to assist in the movement of people and goods between Canada and the rest of the world.

2. In order for the Authority to achieve its goals, it must be able to compete with other similarly-situated airports (such as San Francisco and Seattle) in attracting the business of major international airlines to the Airport. Despite its relatively small size (as compared to some of its competitors), the Authority has succeeded in attracting major international airlines to YVR as a gateway to the Pacific Rim. The Authority has done so, in large part, by taking an active approach to managing the Airport with an eye to maximizing efficiency and value for all airlines and other stakeholders. The Airport's ability to compete depends upon a number of factors, including the services that are available at YVR. Among the services demanded by many airlines on numerous routes is the supply of catering and related services. Such services and, in particular, the provision of high quality, fresh catered meals are an important requirement for first-class and business class passengers, who, in turn, are key to airline profitability and the viability of existing and future airline routes to and from YVR. Given YVR's geographic location and unique ground access issues, in order to ensure delivery of such high quality, fresh meals on a timely and flexible basis, it is necessary that catering firms be located at the Airport.

3. Accordingly, it is particularly important for the Airport to ensure that the full range of catering and related services, including high quality, fresh catered meals, are available to airlines operating out of YVR. At the same time, the provision of catering services involves substantial capital investment, such that a departing catering firm cannot be easily (or quickly) replaced. In addition, to the best of the Authority's knowledge, the demand for catering and related services at the Airport is not sufficient to support additional entry at this time. As a result, the Authority believes that the entry of additional catering firms would imperil the continued viability of the operations of the two existing catering firms at the Airport. The Authority is particularly concerned about the significant disruptions of service that would follow the exit of either of the catering firms from the Airport.

4. It was for these reasons, in order to ensure that the Airport continues to be served by two competitive, on-site catering firms, that the Authority decided that it would not be in the public interest to permit an additional firm to operate at the Airport at this time. This decision was based on the Authority's experience and expertise having regard to the consideration of all relevant factors in operating one of the Canada's largest airports and in ensuring that the Airport, which is uniquely situated as Canada's primary gateway to the Pacific Rim, can compete with larger airports on the US west coast. Thus, far from committing any anti-competitive acts, the Airport has at all times acted in a manner designed to foster competition and ensure the overall efficiency of the Airport's operations.

5. Notwithstanding the Authority's expertise and experience in navigating the complex set of considerations at play in the operation of an airport such as YVR, the Commissioner of Competition (the "**Commissioner**") has brought the within proceeding and seeks an order substituting the Commissioner's judgment for that of the Authority as to what would best serve the public interest. Indeed, the very content of the order being sought by the Commissioner, which would require the Authority "to issue authorization, on non-discriminatory terms, to any firm that meets customary health, safety, security and performance requirements, so as to entitle that firm to access the airside at [YVR]" incorrectly assumes away the myriad factors the Authority must take into consideration when exercising its public interest mandate to provide access to the Airport, particularly airside.

6. As is discussed more fully below, the proceeding suffers from a number of fundamental flaws and should be dismissed by the Tribunal.

7. First, the proceeding wholly fails to take into account the fact that, at all times, the Authority as the regulator of access at the Airport has been acting in accordance with its statutory mandate to operate the Airport in furtherance of the public interest. Accordingly, section 79 of the *Competition Act* (the "**Act**") as a matter of fact and law does not apply to the actions of the Authority that are at issue, having regard to the application of the regulated conduct exemption.

8. Second, the Authority does not substantially or completely control the alleged market for access to the Airport airside for the purpose of providing “Galley Handling” (defined below), contrary to the allegations made in the Commissioner’s Notice of Application and Statement of Material Grounds and Facts (“**SMGF**”) (together, the “**Application**”).

9. Third, with respect to the market for Galley Handling (which is inaccurately defined by the Application and which is accurately defined below), the Authority does not itself provide Galley Handling or have a commercial interest in any entity providing Galley Handling at YVR. The Authority does not have market power in, and does not control – let alone substantially or completely control – that market.

10. Fourth, the Authority doesn’t represent entities involved in the provision of Galley Handling at YVR, nor does it have any plausible competitive interest in the market for Galley Handling, in respect of which it is alleged to have committed anti-competitive acts. This case is clearly distinguishable from, and represents an unwarranted attempt by the Commissioner to extend the reach of section 79 well beyond what was articulated in, the *Toronto Real Estate Board* case (“***TREB***”).

11. Fifth, as noted above, far from having an anti-competitive purpose, the Authority was at all times motivated by a desire to preserve and foster competition, and had a valid business justification that was both pro-competitive and efficiency-enhancing.

12. Sixth, the conduct of the Authority will not, and is not likely to, lessen or prevent competition substantially. On the contrary, the Authority’s conduct has ensured continuing vigorous competition between the two existing in-flight caterers. Moreover, the ability of airlines to self-supply, including by “ferrying” food and snacks from other airports, effectively limits the ability of the existing catering firms from imposing a significant, non-transitory increase in prices.

13. The Authority therefore respectfully requests that the Tribunal dismiss the Application, with costs.

## PART II – ADMISSIONS AND DENIALS

14. Except as expressly admitted below, the Authority denies all allegations contained in the SMGF.

15. The Authority admits paragraphs 7, 8 and the first two sentences of paragraph 17, the first sentence of paragraph 38, and the first two sentences of paragraph 46 of the SMFG.

## PART III – MATERIAL FACTS UPON WHICH THE AUTHORITY RELIES

### (a) The Authority and its Public Interest Mandate

16. The Airport is located on Sea Island, approximately 12 kilometres from downtown Vancouver. It is the second busiest airport in Canada by aircraft movements and passengers. It is also an important driver of economic growth for Vancouver and, more broadly, for British Columbia and the rest of Canada, as it serves to connect Vancouver to other cities around the world and, in particular, serves as a gateway between Asia and the Americas.

17. The federal government decided in the early 1990s to cede operational control of major airports in Canada to not-for-profit, community-based organizations. To that end, the Authority was created pursuant to Part II of the *Canada Corporations Act*, R.S.C. 1970, c. C-32 (and, in 2013, continued under the *Canada Not-for-profit Corporations Act*, S.C. 2009, c. 23.) The Authority's Articles of Continuance set out a "Statement of Purposes of the Corporation", which include:

    a) to acquire all of, or an interest in, the property comprising the Vancouver International Airport to undertake the management and operation of the Vancouver International Airport in a safe and efficient manner for the general benefit of the public;

b) to undertake the development of the lands of the Vancouver International Airport for uses compatible with air transportation; and

c) to generate, suggest and participate in economic development projects and undertakings which are intended to expand British Columbia's transportation facilities, or contribute to British Columbia's economy, or assist in the movement of people and goods between Canada and the rest of the world.

18. Most of the members of the Authority's Board of Directors are nominated by various levels of government and local professional organizations, including the Government of Canada, the City of Vancouver, the City of Richmond, Metro Vancouver, the Vancouver Board of Trade, the Law Society of British Columbia, the Institute of Chartered Accountants of British Columbia, and the Association of Professional Engineers and Geoscientists of British Columbia. In addition, there are currently five members who serve as "at large" directors (one of whom is the Authority's Chief Executive Officer; the others are local business people).

19. By Order-in-Council No. P.C. 1992-18/501,[1] the Minister of Transport was authorized to enter into an agreement to transfer operational control of the Airport to the Authority. To that end, the Minister of Transport entered into a ground lease dated June 30, 1992 with Authority. Among other things, the lease provides that the Authority shall "manage, operate, and maintain the Airport …in an up-to-date and reputable manner befitting a First Class Facility and a Major International Airport, in a condition and at a level of service to meet the capacity demands for airport services from users within seventy-five kilometres."

20. Since that time, the operation of the Airport has been carried out by the Authority, which is a not-for-profit corporation and which re-invests all revenues net of expenses back into the Airport. Any excess of revenue over expenses that may

[1] The Order-in-Council was made pursuant to the authority under the *Airport Transfers (Miscellaneous Matters) Act* (S.C. 1992, c. 5) which permits the Minister of Transport to designate a body to which the Minister is to "sell, lease or otherwise transfer an airport."

accrue in any given year are re-invested in capital projects for the Airport, pursuant to the Authority's public interest mandate.

21. The not-for-profit nature of the Authority reinforces its mandate to manage the Airport in the public interest, all as reflected in its "mission", "vision" and "values" which are as follows: mission: connecting British Columbia proudly to the world; vision: a world-class sustainable gateway between Asia and the Americas; and values: safety, teamwork, accountability and innovation.

22. The Authority grants licences and permits to businesses that wish to operate at the Airport and that comply with applicable regulations (relating to health & safety, security and otherwise), including airlines and related airline service businesses (such as ground handling, de-icing, fueling, maintenance and in-flight catering services). In deciding whether to grant any given licence or permit, the Authority carefully considers whether the addition of the particular business to the Airport would be consistent with, and further, the Authority's mandate to operate the Airport in the best interests of the public. Accordingly, the Authority cannot agree to any and all requests for access.

**(b) Catering and Galley Handling at YVR**

23. The Authority does not provide catering services or Galley Handling (defined below), or any other related service at YVR or elsewhere, nor does it have a commercial interest in, or represent, entities involved in providing any such service.

24. Virtually all commercial airlines operating out of YVR offer some type of food and drink service on virtually every flight. The level of food and drink service varies by airline, by route and by seat class, with the offerings ranging from drinks and peanuts or pretzels, at one extreme, to freshly prepared meals, including hot entrées, at the other extreme. For the vast majority of flights operated out of YVR, freshly cooked meals are offered in only two situations: on overseas flights; and to business/first class passengers (who are particularly important to airlines' profitability).

25. The Airport's ability to ensure the availability of a competitive choice of freshly prepared meals is very important to its efforts to attract new airlines and routes and retain existing flights and routes at the Airport. Asia-based airlines, in particular, place a premium on the availability of a competitive choice of freshly prepared meals.

26. There are currently two companies offering freshly prepared meals for airlines at the Airport, Gate Gourmet Canada Inc. ("**Gate Gourmet**") and CLS Catering Services Ltd. ("**CLS**"). Each company operates a full kitchen, in respect of which each has made significant investments on-site at the Airport.

27. In addition to the fresh meals, Gate Gourmet and CLS each provide a full range of other perishable food (such as fresh snacks and other buy-on-board offerings). They also provide a full range of non-perishable food items (chips and peanuts and the like) and drinks.

28. And, each of Gate Gourmet and CLS offers an additional service: the loading and unloading of all food and drink products onto aircraft, as well as ancillary services, such as the assembly of meal trays and aircraft trolley carts and the transportation of food and drink products between the warehouse or kitchen facility and aircraft.

29. In this Response, the preparation and loading onto aircraft of fresh meals and other perishable food offerings is referred to as "**Catering**", while the provision and loading onto aircraft of non-perishable food items and drinks, as well as other items such as duty free products are referred to collectively as "**Galley Handling**". The Authority specifically denies the market definitions set out at paragraph 12 of the SMFG.

30. Gate Gourmet and CLS compete with each other to meet the Catering and Galley Handling needs of airlines operating at YVR.

31. As acknowledged by the Commissioner, airlines also have the option of meeting all or a portion of their Catering and Galley Handling needs through self-supply or

"double catering". ("Double catering", also sometimes called "ferrying", refers to the practise of transporting extra meals and supplies from one airport for service during a flight departing a second airport.)

32. The Authority specifically denies the Commissioner's allegation, in the third sentence of paragraph 13 of the SMFG, that such self-supply or double catering is not a "feasible or preferable" substitute for in-flight catering for most airlines in Canada.

33. With respect to self-supply, all airlines are free to self-supply at YVR without being granted specific access for this purpose by the Authority. This includes the option for airlines to source meals and provisions from wherever they choose and to load all meals and provisions onto their aircraft at YVR themselves. WestJet, Canada's second largest airline, with the second most flights serving YVR, self-supplies from its own facility at the Airport.

34. In addition, Alaska Airlines and Horizon both use double catering to fulfill their in-flight catering needs at YVR. And Air Canada, Canada's largest airline with the most flights serving YVR, double caters, bringing into YVR frozen main course economy class meals prepared by a flight kitchen located at the Montréal airport. To the Authority's knowledge, self-supply and double catering are widespread not only at YVR, but also at other airports throughout Canada.

35. Gate Gourmet and CLS (and their respective predecessors) have operated at YVR since approximately 1970 and 1983 respectively, under long term leases first entered into by the Minister of Transport and later assumed by the Authority.

36. The Authority charges competitive rents to Gate Gourmet and CLS, based in large part on the market value of the land occupied by their respective operations, as determined through an arbitration mechanism under each lease. The land rents charged to Gate Gourmet and CLS reflect the opportunity cost of the land being used at the Airport, which is in high demand given the prime location. The Authority would have no difficulty in finding other tenants at similar market rates for the space used by these two firms at the Airport.

37. In addition, like all suppliers at YVR with access to the airside, Gate Gourmet and CLS also entered into licence agreements with the Authority, setting out the terms and conditions under which they operate and obtain access to the airside. Under the licence agreements, Gate Gourmet and CLS pay to the Authority a percentage of their respective revenues from the sale of Catering and Galley Handling Services, as well as a percentage of the revenues earned from off-Airport catering services.

38. Gate Gourmet (including its predecessors) first occupied land at YVR in or about 1970. It operates pursuant to both a licence agreement and lease. The licence agreement, dated June 1, 1996, provides for a fee on revenues at a rate no higher than 3.5% until January 1, 2002. From January 1, 2002 to December 31, 2010, the Authority was able to increase the percentage rate under the licence agreement, provided it raised it for all operators. A supplemental agreement was entered into effective June 1, 1996 whereby off-airport sales were made subject to a lower percentage rate (i.e. 1.143% on the first $4 million of revenues, 1.643% on revenues between $4 million and $6 million and 2.143% on revenues above $6 million). The Authority increased the percentage rate for sales at the Airport on January 1, 2010, to 4.5%, and on January 1, 2011, to 5%.

39. CLS (including its predecessors) first occupied land at YVR in or about 1983. It operates pursuant to both a license agreement and lease. Its licence agreement, dated September 15, 1998, and its supplemental agreement effective September 15, 1998, provide for the same fee percentages and structure as described above in respect of Gate Gourmet's licence agreement. For CLS, as for Gate Gourmet, the Authority increased the percentage rate for sales at the Airport on January 1, 2010, to 4.5%, and on January 1, 2011, to 5%.

40. Gate Gourmet currently operates under a lease dated April 1, 2002. At that time, Gate Gourmet's predecessor leased, in addition to the land previously occupied by it, an additional 8.78 acres of adjacent land (the "Expansion Lands") for the purpose of building new and expanded facilities. Effective November 1, 2007, the Authority agreed to take back 4.54 acres of the Expansion Lands. Effective

October 1, 2012, the Authority agreed to take back a further 2.03 acres from Gate Gourmet. On July 1, 2013, Gate Gourmet agreed to take 0.22 acres of this land back from the Authority, by way of an easement to install a security fence.

41. Gate Gourmet's current rent of $937,190.25 per annum became effective April 1, 2012, and is applicable to the five year rent review period from April 1, 2012 to March 31, 2017.

42. CLS currently occupies a smaller piece of land than Gate Gourmet where it operates under a lease dated July 1, 2008. The current rent of $271,066.78 became effective July 1, 2013 and is applicable to the lease's five year rent review period from July 1, 2013 to June 30, 2018.

43. These lease agreements and licence agreements generate revenues that are, relatively speaking, *de minimis* as a fraction of the Authority's total revenues, amounting to approximately 1% of the Authority's total revenues.

44. It is efficient for each of Gate Gourmet and CLS to provide both Catering Services and Galley Handling, using its same facilities, equipment and personnel.

45. It is also efficient for Gate Gourmet and CLS and, more particularly, for their respective kitchens to be located on-site at YVR. Sea Island, on which the Airport is located, is only accessible from the City of Vancouver by one bridge, and from the City of Richmond by three bridges. These bridges often act as bottlenecks, significantly slowing access to the Airport, particularly during rush hour traffic. In addition, vehicles that access the Airport airside must first pass through a security check-point and individuals in the vehicle are also subject to security checks. Given the unique ground access issues at YVR arising from it being located on an island and the importance of fresh food being provided to aircraft on a timely basis, and given that flight manifests are subject to last-minute changes, it is not desirable for Catering services to be located off-airport at YVR. On-airport Catering facilities provide the best assurance of an ability to meet such last-minute demands, thereby limiting the possibility either of

dissatisfied passengers (and, accordingly, dissatisfied airlines) or delayed flights. In that regard, it should be noted that the costs of flight delays are borne not only by the airline in question and its passengers, but also by other airlines and their respective passengers, as the delay of one flight at one gate can create a "domino effect" resulting in further delays at the Airport.

46. In addition, given the substantial investment required to set up a commercial kitchen, companies that provide Catering services from on-airport facilities are more committed to staying at the Airport even if business conditions deteriorate in the short term, which provides the Authority with greater assurance of the continuity of supply of such services and the avoidance of service disruptions.

**(c) Declining Demand for In-flight Catering Services at YVR**

47. In 1992, when the Authority took over responsibility for operating the Airport, there were three companies offering Catering and Galley Handling services at the Airport: Gate Gourmet, CLS and a third company, LSG Sky Chefs. However, LSG Sky Chefs exited the Airport following the acquisition of Canadian Airlines by Air Canada in 2003, due (to the best of the Authority's knowledge) to a lack of demand.

48. The first decade of this century saw the commercial aviation industry experience a number of significant challenges, including 9-11 in 2001, the outbreak of SARs in 2003-2004 and the recession of 2007-2009. During this period, the market for Catering services changed dramatically in North America, with carriers eliminating meal service to the economy cabin and replacing it with "buy on board" offerings. Service of fresh meals became restricted to overseas flights and to the premium cabins.

49. As a result of this shrinking demand for Catering services, the revenues of the Catering operations at YVR declined. That drop in revenues persisted even when the number of passengers using the Airport experienced significant growth towards the end of the decade.

50. Over that ten-year period, although the Authority had the right under the terms of its licences with Gate Gourmet and CLS to raise the concession fees, it chose not to do so. Rather, over the period from the mid-to-late 1990s up until 2010, the concession fee rates were kept below comparable rates at other airports. When the Authority finally did increase the rates in 2010-2011, it raised them only to the bottom of the prevailing range charged at other Canadian airports, i.e., to 4.5% and then 5% of revenues earned from Catering and Galley Handling. Moreover, for revenues generated from off-Airport catering, it agreed to continue to hold the concession fees to below market rates. As described above, the Authority from time to time also allowed Gate Gourmet to surrender significant portions of the land it leased at YVR from the Authority, and to reduce its rent accordingly. The Authority took these measures in order to ensure the continued viability of the two companies' operations at the Airport and thereby to ensure continued competition for Catering services at YVR.

51. The Authority therefore specifically denies the Commissioner's inaccurate allegation, at paragraph 32 of the SMFG, that in 2010-2011, the Authority was able to impose and sustain a more than 40% increase in the fee it charges.

**(d) Requests by Potential New Entrants**

52. In or about December 2013, the Authority was contacted by a representative of Newrest Canada ("**Newrest**"), seeking a licence to access the airside at the Airport for the purpose of providing both Galley Handling and Catering services. With respect to the Catering services that it wished to provide at the Airport, Newrest was proposing to do so from a kitchen located off-Airport.

53. In or about April 2014, the Authority was contacted by a representative of Strategic Aviation Services Ltd. ("**Strategic**"), seeking a licence to access the airside at the Airport for the purpose of providing Galley Handling services.

54. Upon being contacted by Newrest and Strategic, the Authority applied its experience and expertise to carefully review the markets for Catering and Galley Handling at YVR, with a view to determining whether there was sufficient

demand to permit new entry without jeopardizing the existing operational excellence and competition for the full range of services, including the provision of meals freshly-prepared on-site at the Airport.

55. Ultimately, the Authority concluded and advised Newrest and Strategic that the licences requested would not be granted at that time. As Newrest and Strategic were advised, the reasons included: the presence of two competitive flight kitchen operations at YVR; the fact that a third – LSG SkyChef – had left the Airport in 2003 for reasons that the Authority understood were due to the size of the market at YVR; and the setbacks that the airline industry had undergone since that time, including the declining market for Catering services. The Authority advised Newrest and Strategic that it believed that the local market demand was simply not able to support the addition of a new entrant.

56. At all times, representatives of the Authority explained that, while the Authority was of the view that additional entry was not warranted at that time, the Authority would review the situation from time-to-time. It was further explained that if, upon such review, a different conclusion was reached, the Authority would likely issue a Request for Proposal ("**RFP**") for the selection of an additional provider or providers of Galley Handling and Catering services at YVR.

57. In 2015, the Authority received one further request for a licence for airside access from each of Newrest and Strategic. The Authority has not received any other requests for licences to provide either Galley Handling or Catering services at the Airport.

58. The Authority has continued to assess the advisability of issuing a RFP for additional Catering and/or Galley Handling-service providers at YVR.

59. In 2015, the Authority removed the restriction on the number of ground handling operators at YVR, in favour of a policy to license all those providers who could meet the Authority's requirements. The Authority's decision to open ground handling in this manner was based on its experience and its expertise, involving consideration of a wide range of considerations specific to the market for ground

handling, including, among other factors, the merger of two non-airline providers of ground handling services, the ability of ground handlers to enter or exit the market because they can easily move their equipment and operations among airports, and the Authority's desire to incentivize environmentally-friendly performance in the provision of these services.

60. In or about February, 2016, Strategic was among the companies granted a licence to provide ground handling at YVR.

**(e) <u>The Authority Grants a Licence to a Third Caterer</u>**

61. <u>In 2017, the Authority carefully reviewed the markets for Catering and Galley Handling at YVR, with a view to determining whether there was sufficient demand to permit new entry without jeopardizing the existing operational excellence and competition for the full range of services, including the provision of meals freshly-prepared on-site at the Airport. As a result of that review, the Authority concluded that there was sufficient demand to permit new entry.</u>

62. <u>Accordingly, following a Request for Proposals process, the Authority entered into a licence agreement with dnata Catering Services Ltd ("**dnata**"), which grants to dnata "non-exclusive privileges to operate in-flight catering services at the Airport". The licence agreement, which is dated January 22, 2018, has a commencement date of February 1, 2018 and has a term of 15 years.</u>

63. <u>Neither the licence agreement nor any other agreement requires dnata to lease land at the Airport. Moreover, to the best of the Authority's knowledge, dnata does not intend to lease land at the Airport.</u>

**PART IV – STATEMENT OF THE GROUNDS ON WHICH THE APPLICATION IS OPPOSED**

**(a) Section 79 of the Act Does Not Apply to the Authority's Decision Not to Permit Additional Firms to Offer Galley Handling Services at the Airport**

64. Section 79 of the Act does not apply to a regulator acting pursuant to a validly enacted legislative or regulatory mandate. Accordingly, section 79 does not

apply as a matter of fact and law to the Authority when exercising its public interest mandate pursuant to legislative enactment, including the applicable Order in Council.

**(b) In the Alternative, the Requirements of Section 79 Are Not Made Out**

65. In the alternative, if section 79 of the Act does apply to the Authority's decision not to permit additional firms to offer Galley Handling services at the Airport, then the requirements under paragraphs 79(1)(a), (b) and (c) of the Act have not been met.

***(i) The Authority does not Substantially or Completely Control Either the Market for Airport Airside Access for the Supply of Galley Handling or the Market for Galley Handling***

66. The Authority denies that it substantially or completely controls either the market for access to the YVR airside for the supply of Galley Handling, or the market for the supply of Galley Handling.

67. The Authority denies that it substantially or completely controls the market for access to the Airport airside for the supply of Galley Handling. The Authority is not generally able to dictate the terms upon which it sells or supplies access to the Airport airside for the supply of Galley Handling, among other reasons, because airlines are free to meet their Galley Handling needs through self-supply or double catering and, accordingly, do not need to obtain access to the Airport airside for that purpose.

68. As well, the Authority, which competes with other airports to attract airlines, including through offering an efficient mix of services to those airlines, is constrained in its ability to dictate the terms upon which it sells or supplies access to the Airport airside for the supply of Galley Handling. The fact that the Authority chose not to raise the rates of the concession fees it charges to Gate Gourmet and CLS for more than a 10-year period demonstrates that it was, and continues to be, constrained in its ability to dictate terms upon which it sells or supplies access to the airside for the supply of Galley Handling.

69. The Authority further denies that it substantially or completely controls the market for Galley Handling. Because airlines can meet their Galley Handling needs through self-supply or double catering, the relevant geographic market for Galley Handling is broader than the Airport.

70. The Authority does not provide Galley Handling and does not own any interest in, or represent, any provider of Galley Handling.

71. The Authority does not have any market power in the market for Galley Handling. Contrary to the Commissioner's allegation, the Authority does not have "considerable latitude" to determine or influence price and non-price dimensions of competition in the market for Galley Handling. In the alternative, if the Authority did have such latitude (which is denied), that would not amount to market power in the relevant product market.

72. In the further alternative, if a provider of an input into a downstream market can be viewed as having market power in that downstream market, then the Authority does not have market power in that market, for the same reasons cited above at paragraphs 64 and 65 – it does not completely or substantially control the market for access airside at the Airport for providing Galley Handling.

### *(ii) The Authority Has Not Engaged in a Practice of Anti-Competitive Acts*

73. The Authority has not engaged in a practice of anti-competitive acts, within the meaning of paragraph 79(1)(b) of the Act.

74. The Authority has at all times acted, and continues to act, for the purpose of fulfilling its public interest mandate in operating the Airport and for no anti-competitive or other improper purpose.

<u>The Authority's Purpose</u>

75. The Authority did not at any time have any anti-competitive purpose. On the contrary, it had (and continues to have) a valid, efficiency-enhancing, pro-competitive business justification for not permitting new entry at this time.

76. In the exercise of its business judgement, informed by its expertise and experience, the Authority was (and remains) concerned that there is insufficient demand to justify the entry of additional firms providing Galley Handling services at the Airport.

77. The Authority carefully considered the complex set of factors affecting its decision in the unique context of YVR's competition with other airports – including major U.S. airports such as San Francisco and Seattle – to attract flights and grow as a gateway to the Pacific Rim and other destinations of major international long-haul carriers.

78. In view of the importance of Catering services to these carriers, the Authority acted to ensure that the existing companies providing Catering and Galley Handling services are able to operate efficiently at the Airport by, among other things, each sharing its costs over both the Catering and the Galley Handling services it provides. Having experienced the exit of one firm providing Catering and Galley Handling services at the Airport, the Authority is concerned that, if one or more new firms were permitted to provide Galley Handling services at the Airport, one or both of the two existing firms – who provide both Catering and Galley Handling – would no longer be viable. Such an eventuality would eliminate the existing choice of, and competition between, at least two Catering providers at the Airport. Moreover, if one or both of these Catering firms were to exit the market, the Authority believes that it would be difficult to attract another on-Airport provider to provide Catering services at YVR, thereby affecting quality and service levels.

79. The decision made by the Authority was therefore directed at fulfillment of its public interest mandate, including ensuring to the greatest extent possible, the competitiveness of the Airport.

80. Thus, the Authority's purpose was at all times to ensure that it is able to retain and attract additional airline business to the Airport, by providing these airlines –

in particular, long-haul carriers – with a competitive choice of at least two Catering companies at YVR.

81. Further, there is no factual or legal foundation for, and the Authority specifically denies, the Commissioner's allegations of "tying" set out at paragraphs 42 through 44 of the SMFG regarding the Authority's requirement for firms providing Catering services to be located on-site at YVR.

82. At all material times, the Authority had a valid business justification for requiring Catering firms to be located on-site at the Airport. The Authority reasonably believes that the presence of Catering firms on-site at the Airport is important to ensure optimal levels of quality and service, which, in turn, are important to ensuring the efficient operation of the Airport as a whole, including achieving its public interest mandate, mission and vision.

83. Any exclusionary negative effect on Newrest and/or Strategic, which is not admitted but denied, was never the goal of the Authority. Moreover, any such effect (which is denied) is outweighed by the Authority's legitimate business justification for refusing entry to an additional Galley Handling operation, at this time.

<u>No Plausible Competitive Interest in Adversely Impacting Competition</u>

84. As described above, unlike the respondent in prior cases decided by the Tribunal under section 79 of the Act, the Authority is not involved in the business in question, and does not have any similar commercial interest in the relevant markets as has been reflected in prior section 79 cases.

85. In any event, for the reasons discussed below, the Authority specifically denies that it has any plausible competitive interest in adversely impacting competition in the market for Galley Handling such as would be necessary to a finding that the Authority had committed anti-competitive acts within the meaning of paragraph 79(1)(b) of the Act.

86. The Authority specifically denies that a landlord and tenant relationship, such as that between the Authority on the one hand, and Gate Gourmet and CLS on the other hand, is of such a nature as to give rise to a plausible competitive interest in adversely impacting competition in the market in which the tenant competes.

87. In the alternative, as explained in further detail in the Authority's Concise Statement of Economic Theory set out in Schedule "A" to this Response, even if one assumes that the Authority was acting as a sole profit-maximizing monopolist with respect to control over airside access at the Airport, in order to maximize the revenues it earns from complementary service providers, such as from Galley Handling firms at the Airport, as alleged by the Commissioner, a monopoly supplier of access to the Airport airside for the purpose of supplying Galley Handling would have an interest in ensuring the most efficient market structure for the provision of Galley Handling at the Airport. Therefore, it follows that, even on the Commissioner's theory, the Authority would have no plausible interest in adversely affecting competition in Galley Handling.

88. In any event, as outlined above, the Authority had a number of efficiency-enhancing and pro-competitive reasons for refusing further entry at this time.

### *(iii) No Substantial Lessening or Prevention of Competition*

89. The Authority denies that its refusal to permit any additional companies to offer Galley Handling services at the Airport at this time has lessened or prevented, or is likely to lessen or prevent, competition for Galley Handling substantially.

90. First, because there is insufficient demand at the Airport to sustain additional entry at this time, if the Authority had permitted additional entrants to provide Galley Handling services at the airport, the likely result would have been less competition at the Airport for the provision of Catering services.

91. Second, the Authority's impugned acts in this case have not enabled, and are unlikely to enable, Gate Gourmet and CLS to exercise materially greater market power than they would have exercised in the absence of the acts.

92. There is vigorous competition between Gate Gourmet and CLS at the Airport as evidenced by significant shifts in the share of Galley Handling business and Catering business between them. Airlines can and do change Galley Handling and Catering firms at any given airport in response to price and service competition. The presence of only two Galley Handling and Catering firms at YVR is consistent with the number of such competitors located at other comparable North American airports.

93. In addition, the airlines, which are increasingly joining together in large international alliances, have considerable negotiating power with Galley Handling firms and exercise countervailing market power to play one Galley Handling provider off against the other in order to drive down prices and increase service levels.

94. The airlines' negotiating power is increased (and the Galley Handling firms' market power is correspondingly decreased) by the fact that they have the option of self-supplying or double catering all or a portion of their Galley Handling needs.

95. In any event, the Authority's judgment that providers of Catering and Galley Handling should be located on-site at the Airport cannot have had any "but for" effect on competition since the Authority determined that, in any event, no additional entry was warranted at this time.

96. Finally, the Authority's impugned acts have not had, and are unlikely to have, an impact on the existing providers' market power that extends through a material part of the market for Galley Handling, as to the best of the Authority's understanding, only Jazz and, possibly, Air Transat have sought to contract with a new entrant supplier of Galley Handling at the Airport.

97. <u>In the alternative, if the Authority's refusal to grant Newrest and Strategic a licence to offer Galley Handling services at YVR has at any time, or was, or is likely to, lessen or prevent competition for Galley Handling substantially (which is</u>

denied), the licensing of dnata eliminates such lessening or prevention of competition.

## PART V – STATEMENT OF ECONOMIC THEORY

98. The Authority's Concise Statement of Economic Theory is set out in Schedule "A" to this Response.

## PART VI – RELIEF SOUGHT

99. The Authority requests an Order dismissing the Application with costs payable to the Authority. The Authority submits that the circumstances warrant the awarding of costs to the Authority on a full indemnity basis.

## PART VII – PROCEDURAL MATTERS

100. The Authority agrees that the Application be heard in English. The Authority proposes that the Application by heard in the City of Vancouver in addition to Ottawa. The Authority agrees with the Commissioner's proposal that documents be filed electronically.

All of which is respectfully submitted this 14th day of November, 2016.

Amended this 16th day of April, 2018.

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## Schedule A - Concise Statement of Economic Theory

1. The Authority is a non-profit corporation operating in the public interest. Part of its mandate is to maximize traffic at the Airport by providing attractive services at the lowest possible fees to airlines and airline passengers. To accomplish that objective, it is in the interest of the Authority to ensure that its complementary service providers, including firms supplying Catering and Galley Handling, operate as efficiently as possible.

2. The Authority derives no benefit from restricting competition among firms providing Catering and Galley Handling, if the resulting market structure is inefficient. On the contrary, even if one assumes that the Authority was acting as a sole profit-maximizing monopolist with respect to control over airside access at the Airport as alleged by the Commissioner, such a monopoly supplier of access to the Airport airside for the purpose of supplying Galley Handling would have an interest in ensuring the most efficient market structure for the provision of Galley Handling at the Airport, as that would enable such a monopolist to maximize the revenues it earns from complementary service providers, including Catering and Galley Handling service providers.

### Market Power

3. One of the key responsibilities of the Authority in executing its public interest mandate is to control access to the Airport airside. In addition to ensuring safety at the airport, this control allows the Authority to authorize an efficient number of providers across the full range of complementary service providers, including Catering and Galley Handling.

4. The Airport is the relevant geographic market for the provision of Catering to airlines using the Airport. The relevant geographic market for Galley Handling is broader than the Airport. Airlines can and do self-supply Galley Handling. Accordingly, Galley Handling services are not required at every airport. For example, Galley Handling may occur at any of the origin, destination or connecting airports. A number of airlines at the Airport meet their respective

needs for Galley Handling for flights to and from Vancouver through services offered by third party suppliers at other airports or by providing those services themselves.

5. Airside access is an input to Catering at the Airport. Airside access is also an input to any Galley Handling that occurs at the Airport. However, airside access in Vancouver is not required to provide airlines with Galley Handling services since airlines can use multiple airports for Galley Handling services. The Authority charges fees for airside access to providers of Galley Handling and Catering, just as the Authority charges fees for airside access to other complementary service provides operating at the Airport.

6. The Authority does not supply any Galley Handling or Catering services. The Authority does not compete with any Galley Handling or Catering firms, and does not provide services that are a substitute for Galley Handling and Catering services. The Authority has no market power in any market for Galley Handling or Catering services.

7. Any influence that the Authority has on the prices charged by Galley Handling or Catering services to airlines is through the fees that the Authority charges for airside access. This is no different from the influence that a shopping mall owner has on the retail prices charged by its tenants to consumers for merchandise purchased at the shopping mall, when tenant rent is set as a percentage of retail revenues. The total revenues earned by the Authority from fees charged for airside access to Galley Handling and Catering services firms are a very small fraction of the Authority's total revenues.

**The Authority's Conduct is Pro-Competitive**

8. Catering and Galley Handling are complementary products to the services offered by the Authority. Therefore, it is in the Authority's interest that the markets for these complementary products be as competitive and efficient as possible, in order to maximize the value of the package of services offered by the Authority to airlines and passengers.

9. Any inefficiency in the provision of Catering or Galley Handling at the Airport reduces the fees that the Authority can recover from those services while still maintaining attractive pricing to airlines.

10. It is well established in the economics literature that entry may not be "socially efficient" even if it is profitable for the entrant. With respect to services offered at the Airport, "social efficiency" means maximizing the value of services offered to airlines and passengers net of the total cost of providing those services. It is in the Authority's interest to ensure that only socially efficient entry takes place in complementary markets, since socially efficient complementary markets will allow the Authority to maximize the value of its offering to airlines and passengers.

11. It is the Authority's experience that having three Catering service providers at the Airport was not efficient, as one provider exited and the market for Catering services has been in decline. Further, it is the Authority's experience that timely, high-quality Catering services can only be provided at YVR with on-site kitchen facilities.

12. If it were socially efficient to alter its conditions of airside access for a third supplier of Galley Handling and Catering at the Airport, it would be in Authority's interest to do so because the Authority would benefit from the improved efficiency of its complementary service providers.

13. Requiring Catering suppliers to lease facilities at the Airport provides no additional exclusionary power to the Authority beyond that associated with limiting the number of Catering suppliers that have airside access. As a result, there is no possible exclusionary purpose for tying airside access to the condition of operating a catering kitchen on-site. Rather, the on-site requirement for Catering services at the Airport is necessary to guarantee timely service to airlines.

14. If Catering service could be provided at lower cost from an off-airport location while meeting the same service requirements such as timely and flexible

delivery, it would be in the Authority's interest to allow suppliers to operate off-airport, since then the Authority could generate the same total revenues from Catering services while prices paid by airlines for Catering services would be reduced.

**No Substantial Lessening of Competition**

15. Incumbent Catering suppliers operating at the Airport rely on Galley Handling revenues to contribute to covering the shared fixed costs of providing Catering and Galley Handling services at the Airport. The Authority has determined that giving airside access to a firm offering only Galley Handling services would not be efficient because it would not allow current Catering and Galley Handling providers to cover costs, forcing one to exit, thereby eliminating competition for Catering services at the Airport. Similarly, given the Authority's past experience, it expects that entry by a third Catering service provider would cause the subsequent exit of one Catering supplier, thereby resulting in no increase in competition but with the Authority bearing some of the costs of such exit. Thus the decision not to authorize airside access for additional Catering and Galley Handling firms has not resulted in a substantial lessening of competition.

16. But-for the Authority's restrictions on airside access at the Airport, there would not be substantially more competition for Catering services at the Airport as there would remain either the same number of Catering firms or one fewer. But-for the Authority's requirements related to Galley Handling at the Airport, there would not be substantially more competition for Galley Handling services since airside access at the Airport is not required for airlines to have these services.

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**CT–2016– 015**

**THE COMPETITION TRIBUNAL**

**IN THE MATTER OF** the *Competition Act*, R.S.C. 1985, c. C-34, as amended;

**AND IN THE MATTER OF** certain conduct of Vancouver Airport Authority relating to the supply of in-flight catering at Vancouver International Airport;

**AND IN THE MATTER OF** an application by the Commissioner of Competition for one or more orders pursuant to section 79 of the *Competition Act*.

**BETWEEN:**

**COMMISSIONER OF COMPETITION**

**Applicant**

**– and –**

**VANCOUVER AIRPORT AUTHORITY**

**Respondent**

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**REPLY OF THE COMMISSIONER OF COMPETITION**

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## I. OVERVIEW

1. To justify its abuse of dominance – dominance that has substantially harmed competition for Galley Handling at Vancouver International Airport – VAA attempts to cloak itself as acting in the "public interest". In seeking to do so, VAA ignores its obligation to comply with the *Competition Act*, a law of general application that has as its purpose to maintain and encourage competition in Canada, to the benefit of all Canadians.

2. VAA also makes the illogical argument it needs to *restrict* competition in the market for Galley Handling at the Airport to *preserve* competition. To try and support this argument, VAA makes allegations that have no evidentiary basis and also misapprehends the applicable legal test to evaluate VAA's abusive conduct.

3. The fact is that VAA has abused its dominant market position by excluding and denying the benefits of competition to the Galley Handling market at the Airport. It has no legitimate explanation to justify the substantial prevention or lessening of competition that has resulted in higher prices, dampened innovation and lower service quality. In these circumstances, an order of the Tribunal to grant the relief sought by the Commissioner is necessary and appropriate.

4. The Commissioner repeats and relies upon the allegations in the Notice of Application, Statement of Grounds and Material Facts and Concise Statement of Economic Theory (the "**Application**") and, except as hereinafter expressly admitted, denies each of the allegations in the Response of the Vancouver Airport Authority (the "**Response**"). Capitalized terms used herein are as defined in the Application.

## II. THE *COMPETITION ACT* APPLIES TO VAA

5. Contrary to the allegations in the Response, section 79 of the Act applies to VAA's conduct. No "regulated conduct exemption" is available to VAA.

6. First, VAA is not a regulator. It is a corporation under the *Canada Not-for-profit Corporations Act* that has entered into a Ground Lease with the Minister of Transport to operate the Airport. The federal statute – *Airport Transfers (Miscellaneous Matters) Act* – that permits the Minister of Transport to enter into the Ground Lease does not confer a regulatory function on VAA.

7. Second, no provision in any Act of Parliament or any statutory instrument specifies that the *Competition Act* shall not apply, in whole or in part, to the activities of VAA. To the contrary, section 8.06.01 of the Ground Lease specifically requires VAA to observe and comply with any applicable law. VAA is a "person" within the meaning of section 79 of the Act, such that the Act's abuse of dominance provisions apply to VAA.

8. Third, there is no operational conflict or inconsistency between the application of the Act and VAA's operation of the Airport pursuant to the Ground Lease. VAA has the ability to carry out the operation of the Airport pursuant to the Ground Lease while simultaneously complying with the Act, and VAA's compliance with the Act would in no way frustrate the fulfillment of any Parliamentary intent.

9. VAA, by its conduct, acknowledges that its licensing of firms to access the Airport's airside is subject to the Act. Section 8.12 of VAA's standard-form "Ground Handling Licence" agreement specifically provides that nothing in that agreement applies or is enforceable to the extent it would be contrary to the Act.

## III. NO LEGITIMATE BUSINESS JUSTIFICATIONS

10. To justify its abusive conduct, VAA relies on several alleged business justifications. As described below, VAA's explanations for its conduct in this case do not constitute legitimate business justifications for the purposes of section 79 of the Act. None of VAA's explanations are credible efficiency or pro-competitive rationales for VAA's Practice that are *independent* of the anti-competitive effects of its conduct. Even if credible justifications exist, which is denied, VAA's justifications are insufficient to outweigh VAA's clear subjective intent to exclude or the reasonably foreseeable or expected exclusionary effects of the Practice.

11. **First**, VAA's argument that new entry is not supported because of alleged shrinking demand is countered by the fact that airlines operating at the Airport wish to procure In-Flight Catering from new-entrant firms. At least three international airlines have written letters advocating for additional In-flight Catering competition at the Airport. These letters have been in VAA's possession while new-entrant firms were requesting (and continue to request) authorization to access the airside to provide In-flight Catering at the Airport.

12. Regardless of the size of the market, open competition should determine the number and identity of firms serving the In-Flight Catering marketplace at the Airport, not VAA. Markets are most efficient and consumers are best served when competing firms are free to decide how to compete.

13. **Second**, VAA claims that it is not desirable for In-flight Catering facilities to be located off-Airport, due to ground access issues arising from the Airport's location on an island, and because firms that make investments in facilities off-Airport are less committed to continuing to serve the Airport in the event of a business downturn.

14. Even if access issues exist, which is denied, In-flight Catering firms already operate in Canada from off-airport locations. Their level of service, including on-time performance, meets airline requirements, and is backstopped by level-of-service commitments, and penalties, in contracts with airlines. Whether located on- or off-airport, In-flight Catering firms make significant investments in establishing and maintaining their facilities, and firms located off-airport do not take lightly the commitments and investments they have made.

15. **Third**, VAA claims that after being contacted by new-entrant firms seeking authorization to access the airside to provide In-flight Catering at the Airport it conducted a careful review of the marketplace prior to making any decision. In fact, it was only after VAA had already rejected new entry did VAA conduct any kind of detailed analysis, and the analysis that VAA did conduct cannot, as a matter of fact, support the conclusions that VAA seeks to draw in this case.

## IV. VAA's Illogical Argument that a Less Competitive Market is in Fact a More Competitive Market

16. VAA asserts that there can be no lessening or prevention of competition owing to "vigorous competition" between the incumbent providers of In-flight Catering at the Airport – Gate Gourmet and CLS. The test for a substantial prevention or lessening of competition for the purposes of section 79 of the Act is a relative rather than an absolute one; that there may be competition between Gate Gourmet and CLS is irrelevant to the assessment of whether the relevant market would be substantially more competitive but for VAA's ongoing practice of anti-competitive acts, which it would be in this case.

17. The Commissioner also rejects VAA's proposition that the absolute number of In-flight Catering firms operating at the Airport is indicative of

the competitiveness of the relevant market. That new entry may cause an incumbent firm to exit the market does not mean that the result is a less competitive market. To the contrary, vigorous competition in a market, participation in which is not blocked by a gatekeeper's refusal to permit access to a critical input, will deliver quality products and services to customers at competitive prices, including in this case.

18. Finally, airlines cannot exercise material countervailing buyer power at the Airport as VAA asserts. Countervailing buyer power only works if there is a free and contestable market that provides options to airlines for In-flight Catering. VAA's conduct in this case ensures that airlines are captive to the incumbents at the Airport and cannot exercise material countervailing buyer power.

## V. CONCLUSION

19. VAA has engaged in and continues to engage in an abuse of a dominant market position relating to the supply of In-flight Catering at the Airport. As described in the Application, VAA has a competitive interest in the market for the supply of Galley Handling at the Airport, and in insulating the incumbent In-flight Catering firms at the Airport from new sources of competition. VAA's practice of anti-competitive acts has, and continues, to harm competition. Accordingly, the Commissioner respectfully requests the Tribunal to grant the relief sought in paragraph 59 of the Application.

**DATED AT** Gatineau, Quebec, this 28th day of November, 2016.

John Pecman
Commissioner of Competition

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**PUBLIC VERSION**

CT-2016-015

**THE COMPETITION TRIBUNAL**

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**Respondent**

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**MOTION RECORD OF**
**VANCOUVER AIRPORT AUTHORITY**
*(VAA's Motion Objecting to Admissibility of Certain Evidence)*

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