

*A copy of this amended and restated preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada but has not become final for the purpose of the sale of securities. Information contained in this amended and restated preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the amended and restated short form prospectus is obtained from the securities regulatory authorities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereby are not for offer or sale in any jurisdiction where to do so would be a violation of securities or other laws.*

*This amended and restated short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”) or any state securities laws, and may not be offered, sold or delivered within the United States except in compliance with an exemption from the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. This amended and restated short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States of America. See “Plan of Distribution”.*

*Information has been incorporated by reference in this amended and restated short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Air Canada at 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec H4S 1Z3, Canada, telephone: 514-422-6644, and are also available electronically at [www.sedar.com](http://www.sedar.com).*

**AMENDED AND RESTATED PRELIMINARY SHORT FORM PROSPECTUS  
(Amending and Restating the Preliminary Short Form Prospectus dated December 15, 2020)**

New Issue

December 16, 2020



**AIR CANADA**

**\$850,080,000**

**35,420,000 Class A Variable Voting Shares and/or  
Class B Voting Shares**

This amended and restated short form prospectus (the “**Prospectus**”) qualifies the distribution (the “**Offering**”) by Air Canada (“**Air Canada**” or the “**Corporation**”) of Class A variable voting shares (the “**Variable Voting Shares**”) and/or Class B voting shares (the “**Voting Shares**”, and, together with the Variable Voting Shares, the “**Shares**”) of Air Canada at a price of \$24.00 per Share (the “**Offering Price**”). The Offering consists of a treasury offering by the Corporation of 35,420,000 Shares (the “**Offered Shares**”). If the Over-Allotment Option (as defined herein) is exercised in full, an additional 5,313,000 Shares (the “**Over-Allotment Shares**”) will be offered by the Corporation. The Offering is being underwritten by TD Securities Inc. (“**TD**”), J.P. Morgan Securities Canada Inc. (“**J.P. Morgan**”), Citigroup Global Markets Canada Inc. (“**Citigroup**”) and Morgan Stanley Canada Limited (“**Morgan Stanley**”, and together with TD, J.P. Morgan and Citigroup, collectively, the “**Active Bookrunners**”), and CIBC World Markets Inc. (“**CIBC**”), Scotia Capital Inc. (“**Scotia**” and together with CIBC, the “**Passive Bookrunners**”), and Barclays Capital Canada Inc. (“**Barclays**”), Credit Suisse Securities (Canada), Inc. (“**Credit Suisse**”), Deutsche Bank Securities Inc. (“**Deutsche Bank**”), Merrill Lynch Canada Inc. (“**Merrill Lynch**”), BMO Nesbitt Burns Inc. (“**BMO**”), National Bank Financial Inc. (“**NBF**”), and RBC Dominion Securities Inc. (“**RBC**”) (collectively with the Active Bookrunners and the Passive Bookrunners, the “**Underwriters**”) pursuant to an underwriting agreement dated December 16, 2020 between the Corporation and the Underwriters (the “**Underwriting Agreement**”). See “Plan of Distribution”.

Purchasers of Offered Shares or Over-Allotment Shares who are Canadians as defined in the *Canada Transportation Act* (“**Qualified Canadians**”) will receive Voting Shares and purchasers of Offered Shares or Over-Allotment Shares who are not Qualified Canadians will receive Variable Voting Shares. There are constraints imposed on the ownership of securities of Air Canada to ensure compliance with the *Canada Transportation Act* (the “**CTA**”). See “Description of Share Capital”.

The Shares are listed for trading on the Toronto Stock Exchange (“**TSX**”) under the single symbol “**AC**”. The Corporation has applied to list the Offered Shares and the Over-Allotment Shares on the TSX. Listing of the Offered Shares and the Over-Allotment Shares is subject to the approval of the TSX in accordance with its applicable listing requirements. There can be no assurance that the Offered Shares or the Over-Allotment Shares will be accepted for listing on the TSX. On December 15, 2020, the last trading day before the date of this Prospectus, the closing price of the Shares on the TSX was \$26.34 per Share.

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**Price: \$24.00 per Offered Share**

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	<u>Price to the Public<sup>(1)</sup></u>	<u>Underwriters' Fee<sup>(2)</sup></u>	<u>Net Proceeds to Air Canada<sup>(3)</sup></u>
Per Offered Share .....	\$24.00	\$0.96	\$23.04
Total Offering <sup>(4)</sup> .....	\$850,080,000	\$34,003,200	\$816,076,800

- (1) The Offering Price was determined by negotiation between Air Canada and the Active Bookrunners, on behalf of the Underwriters.
- (2) The Corporation has agreed to pay the Underwriters an aggregate cash fee equal to 4.0% of the gross proceeds of the Offering (the “**Underwriters’ Fee**”), being \$0.96 per Offered Share. See “Plan of Distribution”.
- (3) After deducting the Underwriters’ Fee, but before deducting the expenses of the Offering.
- (4) The Corporation has granted the Underwriters an option, exercisable in whole or in part, at the sole discretion of the Underwriters, at any time up to 30 days after the Closing Date (as defined herein), to purchase from the Corporation up to an additional 5,313,000 Over-Allotment Shares (representing 15% of Offered Shares offered hereunder) on the same terms as set out above solely to cover over-allotments, if any, and for market stabilization purposes (the “**Over-Allotment Option**”). If the Over-Allotment Option is exercised in full, the total “Price to the Public”, “Underwriters’ Fee” and “Net Proceeds to Air Canada” will be \$977,592,000, \$39,103,680 and \$938,488,320, respectively. This Prospectus also qualifies both the grant of the Over-Allotment Option and the distribution of the Over-Allotment Shares upon exercise of the Over-Allotment Option. A purchaser who acquires Offered Shares forming part of the Underwriters’ over-allocation position acquires those Shares under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”. Where the context requires, references to the Offering and “Offered Shares” include the Over-Allotment Option and the Over-Allotment Shares issuable upon exercise thereof.

The following table sets out the number of Over-Allotment Shares that may be sold to the Underwriters pursuant to the Over-Allotment Option:

<u>Underwriters’ Position</u>	<u>Maximum Number of Over-Allotment Shares Available</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Over-Allotment Option	5,313,000	At any time up to 30 days following the Closing Date	\$24.00 per Over-Allotment Share

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued by Air Canada and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement, and subject to the approval of certain legal matters on behalf of Air Canada by Stikeman Elliott LLP and on behalf of the Underwriters by Blake, Cassels & Graydon LLP.

**An investment in the Offered Shares is subject to a number of risks that should be considered by a prospective investor. Prospective investors should carefully consider the risk factors described in and incorporated by reference into this Prospectus before purchasing Offered Shares. See “Caution Regarding Forward-Looking Information” and “Risk Factors”.**

Subject to applicable laws, the Underwriters may, in connection with the Offering, over-allot or effect transactions that stabilize or maintain the market price of the Offered Shares at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. **The Underwriters may offer the Offered Shares at prices lower than stated above. See “Plan of Distribution”.**

Subscriptions for Offered Shares will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. Closing of the Offering is expected to occur on or about December 30, 2020 (the “**Closing Date**”), or such later date as Air Canada and the Underwriters may agree, but in any event no later than January 20, 2021.

It is expected that the Corporation will arrange for the instant deposit of the Offered Shares under the book-based system of registration, to be registered to CDS Clearing and Depository Services Inc. (“**CDS**”) or its nominee and deposited with CDS on the Closing Date, or as may otherwise be agreed to among the Corporation and the Underwriters. No certificates evidencing the Offered Shares will be issued to purchasers of the Offered Shares. Accordingly, a purchaser of the Offered Shares will receive

only a customer confirmation from the Underwriters or other registered dealer or broker which is a CDS participant from or through whom a beneficial interest in the Offered Shares is purchased. See “Plan of Distribution”.

Directors of the Corporation residing outside of Canada have appointed Air Canada, 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec H4S 1Z3, Canada, as agent for service of process. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or that resides outside of Canada, even if the party has appointed an agent for service of process. See “Enforcement of Judgments Against Foreign Persons”.

The Underwriters are affiliates of financial institutions that are members of syndicates of lenders that have made credit facilities available to the Corporation or its subsidiaries or affiliates. **Accordingly, under applicable securities laws, the Corporation may be considered a “connected issuer” of each of the Underwriters within the meaning of National Instrument 33-105 – *Underwriting Conflicts*. See “Plan of Distribution – Relationship between the Corporation and Certain Underwriters”.**

Deutsche Bank is not registered to offer and sell securities in any Canadian jurisdiction and, accordingly, will only offer and sell Offered Shares outside of Canada.

The head office and registered office of the Corporation is located at 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec H4S 1Z3, Canada.

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## GENERAL MATTERS

As used in this Prospectus, unless the context indicates or requires otherwise, the terms “Corporation” and “Air Canada” mean Air Canada and its subsidiaries.

Prospective investors should rely only on the information contained or incorporated by reference in this Prospectus. Neither the Corporation nor the Underwriters have authorized anyone to provide prospective investors with information different from that contained or incorporated by reference in this Prospectus, and any such information should not be relied upon. The Corporation takes no responsibility for, and provides no assurance as to the reliability of, any information other than the information contained or incorporated by reference in this Prospectus or that others may give readers of this Prospectus. The Offered Shares are being offered only in jurisdictions where, and to persons to whom, offers and sales are lawfully permitted.

Readers should not assume that the information contained or incorporated by reference in this Prospectus is accurate as of any date other than the date of this Prospectus or the respective dates of the documents incorporated by reference herein, unless otherwise noted herein or as required by law. It should be assumed that the information appearing in this Prospectus and the documents incorporated by reference herein is accurate only as of their respective dates. The business, financial condition, results of operations and prospects of the Corporation may have changed since those dates.

This Prospectus shall not be used by anyone for any purpose other than in connection with the Offering. Information contained on, or otherwise accessed through, the Corporation’s website, <https://www.aircanada.com>, shall not be deemed to be a part of this Prospectus or any document incorporated by reference herein, even if this Prospectus or such document incorporated by reference herein references the Corporation’s website, and such information is not incorporated by reference herein and prospective investors should not rely on such information when deciding whether or not to invest in the Offered Shares.

This Prospectus and the documents incorporated by reference herein contain trademarks, service marks or trade names owned by Air Canada and used in connection with the operation of its business, together with names, logos and website names and addresses owned or licensed by Air Canada, as applicable. Air Canada also owns or has the rights to copyrights that also protect the content of its products and/or services. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this Prospectus and the documents incorporated by reference herein may be listed without the ©, ® and TM symbols, but Air Canada reserves all rights to assert, to the fullest extent under applicable law, its rights or the rights of the applicable licensors to these trademarks, service marks, trade names and copyrights. This Prospectus and the documents incorporated by reference herein may also include trademarks, service marks or trade names of other parties. Air Canada’s use or display of other parties’ trademarks, service marks, trade names or products is not intended to, and does not imply a relationship with, or endorsement or sponsorship of Air Canada by, the trademark, service mark or trade name owners or licensees.

Unless otherwise indicated, all references to “\$” in this Prospectus refer to the lawful currency of Canada and all references to “US\$” refer to the lawful currency of the United States.

Unless otherwise indicated, the disclosure contained herein assumes that the Over-Allotment Option has not been exercised.

## PRESENTATION OF FINANCIAL INFORMATION

The financial statements of the Corporation included in, or incorporated by reference into, this Prospectus are reported in Canadian dollars and have been prepared in accordance with generally accepted accounting principles in Canada, as set out in the CPA Canada Handbook – Accounting, which incorporates International Financial Reporting Standards as issued by the International Accounting Standards Board.

When used in this Prospectus, “unrestricted liquidity” refers to the sum of cash, cash equivalents, short and long-term investments, and the amount of available credit under Air Canada’s revolving credit facilities.

When used in this Prospectus, “net cash burn” refers to net cash flows from operating, financing, and investing activities, and excludes proceeds from new financings and any lump sum debt maturities where the Corporation has refinanced or replaced the amount. Net cash burn also excludes movements between cash and short and long-term investments. Readers are advised to review the section entitled “Non-GAAP Financial Measures” in the 2020 Q3 MD&A for a further discussion of this non-GAAP measure and for a reconciliation of this measure to Canadian GAAP.

When used in this Prospectus, “leverage ratio” refers to the ratio of net debt to trailing 12-month earnings before interest, taxes, depreciation and amortization, excluding special items (calculated by dividing net debt by trailing 12-month earnings before interest, taxes, depreciation and amortization, excluding special items). Readers are advised to review the sections entitled “Net Debt” and “Non-GAAP Financial Measures” of the 2019 Annual MD&A for additional information and for a reconciliation of this measure to Canadian GAAP.

The Corporation’s fiscal year end occurs on December 31<sup>st</sup> of each calendar year.

## DOCUMENTS INCORPORATED BY REFERENCE

**Information has been incorporated by reference in this Prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Air Canada at 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec H4S 1Z3, Canada, telephone: 514-422-6644 and are also available electronically at [www.sedar.com](http://www.sedar.com).

The following documents of Air Canada, filed with the various securities commissions or similar authorities in each of the provinces and territories of Canada, are specifically incorporated by reference into and form an integral part of this Prospectus:

- (a) the annual information form of Air Canada dated March 30, 2020 for the year ended December 31, 2019 (the “**Annual Information Form**”);
- (b) the management proxy circular of Air Canada dated May 4, 2020 in connection with the annual meeting of shareholders of the Corporation held on June 25, 2020;
- (c) the audited consolidated financial statements of Air Canada as at and for the years ended December 31, 2019, 2018 and as at January 1, 2018, together with the notes thereto and the independent auditor’s report thereon (the “**2019 Annual Financial Statements**”);
- (d) management’s discussion and analysis of results of operations and financial condition of Air Canada dated February 18, 2020 for the year ended December 31, 2019 (the “**2019 Annual MD&A**”);
- (e) the interim unaudited condensed consolidated financial statements of Air Canada as at September 30, 2020 and for the three and nine months ended September 30, 2020, together with the notes thereto (the “**2020 Q3 Financial Statements**”); and
- (f) management’s discussion and analysis of results of operations and financial condition of Air Canada dated November 9, 2020 for the three and nine months ended September 30, 2020 (the “**2020 Q3 MD&A**”).

Any documents of the type referred to above or required to be incorporated by reference herein under National Instrument 44-101 – *Short Form Prospectus Distribution*, including any material change report (excluding confidential material change

reports), business acquisition report, interim financial statements, annual financial statements and the independent auditor's report thereon, management's discussion and analysis, information circular and annual information form subsequently filed by the Corporation with the various securities commissions or similar authorities in Canada after the date of this Prospectus and prior to the completion or withdrawal of the Offering shall be deemed to be incorporated by reference into this Prospectus.

**Any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for the purposes of this Prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any such statement so modified or superseded shall not constitute a part of this Prospectus, except as so modified or superseded.**

## MARKETING MATERIALS

Any "template version" of "marketing materials" (as such terms are defined in National Instrument 41-101 – *General Prospectus Requirements* ("NI 41-101")) will be incorporated by reference in the final short form prospectus. However, such "template version" of "marketing materials" will not form part of the final short form prospectus to the extent that the contents of the "template version" of "marketing materials" are modified or superseded by a statement contained in the final short form prospectus. Any "template version" of "marketing materials" filed on SEDAR after the date of the final short form prospectus and before the termination of the distribution under the Offering will be deemed to be incorporated into the final short form prospectus.

## CAUTION REGARDING FORWARD-LOOKING INFORMATION

This Prospectus and the documents incorporated by reference herein contain "forward-looking statements" within the meaning of applicable securities laws. Forward-looking statements contained in this Prospectus and the documents incorporated by reference herein may be based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified using 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. All statements other than statements of historical facts included in this Prospectus and the documents incorporated by reference herein may constitute forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include, among others, statements pertaining to:

- the Corporation's outlook, goals, expectations, projected results of operations, financing, workforce, capacity and other plans, including factors and assumptions underlying the Corporation's projections, in particular regarding the impacts of the COVID-19 pandemic;
- the Corporation's expectations with respect to net cash burn, capital expenditures and liquidity, including its ability to meet its ongoing capital, operating, and other obligations, and anticipated needs for, and sources of, funds;
- the anticipated completion of this Offering;
- the use of proceeds from this Offering; and
- the Corporation's assessment of market risks.

Forward-looking statements, by their nature, are based on assumptions, including those described in this Prospectus and the documents incorporated by reference herein and are subject to important risks and uncertainties. Notably, the Corporation's expectations with respect to net cash burn are subject to a number of assumptions, including current assumptions regarding its ability to implement its cost reduction programs discussed in this Prospectus and the documents incorporated by reference herein, rates of ticket refunds, and other changes impacting working capital, including the level of advance ticket sales. Forward-looking statements cannot be relied upon due to, among other things, changing external events and general uncertainties of the business of the Corporation. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including those discussed below.

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue and cash flows as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world, and particularly in Canada. The impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash flow from operations. There is very limited visibility on travel demand given changing government restrictions in place around the world and the severity of the restrictions in Canada; these restrictions and concerns about travel due to the COVID-19 pandemic as well as passenger concerns and expectations about the need for certain precautions, such as physical distancing, are severely inhibiting demand. The COVID-19 pandemic is also having significant economic impacts, including on business and consumer spending, which may in turn significantly impact demand for travel. Air Canada cannot predict the full impact or the timing for when conditions may improve. Air Canada is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, availability of rapid, effective testing, vaccinations and effective treatments for the virus, government actions, and passenger reaction, as well as timing of a recovery in international and business travel which are important segments of Air Canada's markets, none of which can be predicted with any degree of certainty.

Other factors which may cause results to differ materially from results indicated in forward-looking statements include the Corporation's ability to successfully achieve or sustain positive net profitability, economic and geopolitical conditions, the Corporation's ability to pay its indebtedness and maintain or increase liquidity, industry and market conditions and the demand environment, competition, the timing and conditions of the return to service of Boeing 737 MAX aircraft into the Corporation's fleet (including the introduction of those on order and the management of the Corporation's fleet and operations until their return to service or introduction), energy prices, the Corporation's dependence on technology, the Corporation's ability to successfully implement appropriate strategic and other important initiatives (including the Corporation's ability to reduce operating costs), the successful completion of the Offering, cybersecurity risks, war, terrorist acts, other epidemic diseases, the Corporation's dependence on key suppliers, casualty losses, changes in laws, regulatory developments or proceedings, the Corporation's ability to successfully operate its new loyalty program, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), interruptions of service, the Corporation's dependence on regional and other carriers, the Corporation's ability to preserve and grow its brand, employee and labour relations and costs, the Corporation's dependence on Star Alliance and joint ventures, limitations due to restrictive covenants, pending and future litigation and actions by third parties, currency exchange, pension plans, the Corporation's ability to attract and retain required personnel, insurance issues and costs, as well as the factors identified in Air Canada's public disclosure file available at [www.sedar.com](http://www.sedar.com) and, in particular, those identified in section 14 "Risk Factors" of the 2020 Q3 MD&A and section 20 "Risk Factors" of the 2019 Annual MD&A. Furthermore, the proposed acquisition by Air Canada (the "**Transat Acquisition**") of Transat A.T. Inc. ("**Transat**") is subject to court approval, satisfaction of customary listing conditions of the TSX, regulatory approvals and certain customary and other conditions, and there are no assurances that the acquisition will be completed as described in this Prospectus and the documents incorporated by reference herein, or at all. The forward-looking statements contained in this Prospectus and the documents incorporated by reference herein represent Air Canada's expectations as of the date of this Prospectus (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as required under applicable securities regulations.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Stikeman Elliott LLP, counsel to Air Canada, and Blake, Cassels & Graydon LLP, counsel to the Underwriters, based on current provisions of the *Income Tax Act* (Canada) and the regulations thereunder, as amended, (the "**Tax Act**") in force on the date hereof and all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) before the date of this Prospectus (the "**Tax Proposals**"), the Offered Shares (including, in this section, Over-Allotment Shares, if any) will, to the extent they are listed on a "designated stock exchange" within the meaning of the Tax Act (which currently includes the TSX), be qualified investments at the time of acquisition for a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered education savings plan, a registered disability savings plan, a tax-free savings account (each a "**Registered Plan**") or a deferred profit sharing plan, each as defined in the Tax Act.

Notwithstanding the foregoing, the annuitant, holder or subscriber of a Registered Plan, as the case may be (each, a "**Registered Holder**"), will be subject to a penalty tax if the Offered Shares held in a Registered Plan are a "prohibited investment" for the purpose of the Tax Act. The Offered Shares will not be a "prohibited investment" for a particular Registered Plan if a Registered Holder in respect thereof deals at arm's length with Air Canada for the purposes of the Tax Act and does not have a "significant interest" (as defined in the Tax Act) in Air Canada. In addition, the Offered Shares will not be a prohibited investment if such securities are "excluded property," for purposes of the prohibited investment rules, for a Registered Plan.

## BUSINESS OF AIR CANADA

Air Canada is the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market and in the international market to and from Canada. Its mission is connecting Canada and the world.

In 2019, Air Canada, together with Jazz Aviation LP, Sky Regional Airlines Inc. and other regional airlines operating flights on behalf of Air Canada (“**Contracted Carriers**”) under capacity purchase agreements (“**CPAs**”), operated, on average, 1,531 daily scheduled flights to 217 direct destinations on six continents. Those destinations were comprised of 62 in Canada, 56 in the United States and a total of 99 cities in Europe, Africa, the Middle East, Asia, Oceania, the Caribbean, Mexico and South America. In 2019, Air Canada carried a record of 51.5 million passengers.

At September 30, 2020, Air Canada mainline had an operating fleet of 179 aircraft, comprised of 102 Boeing and Airbus narrow-body aircraft (including 24 Boeing 737 MAX aircraft which have been grounded since March 2019, as further described in section 5 “Fleet” of Air Canada’s 2020 Q3 MD&A) and 77 Boeing and Airbus wide-body aircraft. At September 30, 2020, Air Canada Rouge LP, doing business as Air Canada Rouge® (“**Air Canada Rouge**”) operated a fleet of 38 aircraft, comprised of 20 Airbus A319 aircraft, 14 Airbus A321 aircraft and four Airbus A320 aircraft.

In 2019, Air Canada enhanced its domestic and transborder network through CPAs with Contracted Carriers. In 2019, these Contracted Carriers, operating under the banner of Air Canada Express, formed an integral part of the airline’s international network strategy, providing valuable traffic feed to Air Canada and Air Canada Rouge routes. At September 30, 2020, the Air Canada Express fleet was comprised of 44 Bombardier regional jets, 65 Bombardier Dash-8 turboprop aircraft and 25 Embraer 175 aircraft, for a total of 134 aircraft. A significant number of these aircraft have been grounded due to the COVID-19 pandemic. Air Canada is a founding member of the Star Alliance® network. Through the 26-member airline network, in 2019, Air Canada offered its customers access to more than 1,300 destinations in 195 countries, as well as reciprocal participation in frequent flyer programs and the use of airport lounges and other airport facilities.

Air Canada’s subsidiary Aeroplan Inc. (“**Aeroplan**”) operates the Aeroplan program, a loyalty rewards and recognition program (“**Aeroplan Program**”). The Aeroplan Program allows individuals to enroll as members and to open an Aeroplan account, to accumulate Aeroplan points (“**Aeroplan Points**”) through the purchase of products and services from participating partners and suppliers and to redeem Aeroplan Points for a variety of travel, merchandise, gift card, and other rewards provided directly by participating partners or made available through Aeroplan’s intermediary suppliers.

In 2019, Air Canada pursued a comprehensive strategy to improve profitability and competitiveness in leisure markets. This strategy leveraged the strengths of Air Canada, Air Canada Rouge (the airline’s lower-cost airline), and Touram Limited Partnership doing business as Air Canada Vacations® (“**Air Canada Vacations**”). In 2019, through Air Canada Rouge, Air Canada pursued opportunities in leisure markets made viable by Air Canada Rouge’s more competitive cost structure. Air Canada Vacations is a leading Canadian tour operator, developing, marketing and distributing vacation travel packages. In 2019, it operated in the outbound leisure travel market (Caribbean, Mexico, U.S., Europe, Central and South America, South Pacific, Australia and Asia) and the inbound leisure travel market to destinations within Canada. It also offered cruise packages in North America, Europe and the Caribbean. Air Canada Cargo, a division of Air Canada, is Canada’s largest provider of air cargo services, as measured by cargo capacity. In 2019, Air Canada Cargo provided direct cargo services to over 150 Canadian, U.S. transborder and international destinations and has sales representation in over 50 countries. Air cargo services are provided across the Air Canada network.

## RECENT DEVELOPMENTS

### COVID-19 Pandemic

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue and cash flows as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world, and particularly in Canada. The impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash flow from operations. There is very limited visibility on travel demand given changing government restrictions in place around the world and the severity of the restrictions in Canada; these restrictions and concerns about travel due to the COVID-19 pandemic as well as passenger concerns and expectations about the need for certain precautions, such as physical distancing, are severely inhibiting demand. The COVID-19 pandemic is also having significant economic impacts, including on business and consumer spending, which may in turn significantly impact demand for travel. Air Canada cannot predict the full impact or the timing for when conditions may improve. Air Canada is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, availability of rapid, effective testing, vaccinations and effective treatments for the virus, government actions, and passenger reaction, as well as timing of a

recovery in international and business travel which are important segments of Air Canada's markets, none of which can be predicted with any degree of certainty.

Air Canada has taken or will be taking the following measures as part of its COVID-19 mitigation and recovery plan:

#### *Customer Service and Safety*

- Air Canada makes safety its first consideration in all that it does and has been continually updating its health and safety policies and procedures for travellers and employees in all workplaces, airports, and onboard aircraft to account for new information about COVID-19 as it becomes available. This includes a requirement for customers to wear a protective face covering, as well as enhanced protective personal equipment for airport agents and crews, the reinforcement of safe practices such as frequent hand-washing and collaborating with the Canadian federal government to screen passengers to help determine fitness for flying.
- To underscore its commitment to customer and employee safety, Air Canada introduced Air Canada CleanCare+. This program is designed to reduce the risk of exposure to COVID-19 through such measures as enhanced aircraft grooming, mandatory preflight customer temperature checks in addition to required health questionnaires and providing all customers with care kits for hand cleaning and hygiene.
- Air Canada is providing customers who booked with Air Canada and who are affected by cancellations with the option to convert their ticket to an Air Canada travel voucher that has no expiry date and is transferable. Alternatively, customers may convert the unused value of their ticket into Aeroplan Points with additional Aeroplan Points. Air Canada is refunding refundable fares according to their terms and conditions. Of the approximately \$2.3 billion in advance ticket sales at the end of the third quarter of 2020, approximately 60% were sold on non-refundable fare types and where the travel itinerary was impacted by the COVID-19 pandemic. The total value of refunds paid for the nine months ended September 30, 2020, excluding taxes and related fees, totaled \$1.1 billion.

#### *Capacity and Route Network*

- Air Canada reduced second and third quarter 2020 available seat miles capacity by 92.0% and 81.7%, respectively, compared to the same quarters in 2019, and has plans to continue to reduce fourth quarter 2020 capacity by approximately 75% compared to the fourth quarter of 2019. The airline will continue to dynamically adjust capacity and take other measures as required to adjust for demand, including as a result of health warnings, travel restrictions, quarantines, border closures and passenger demand. The Canadian travel and quarantine restrictions, as of the date hereof, are as follows:
  - Travel bans prohibiting all foreign nationals from entering Canada by air under provisions of the *Aeronautics Act* and *Quarantine Act* under two different orders (one for United States arrivals and one for all other international arrivals), subject to limited exceptions (for example, for family members, compassionate reasons and international students).
  - 14-day quarantine requirements under the *Quarantine Act* for all travellers entering Canada, including Canadians.
  - Interprovincial restrictions on travel and/or quarantines in Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland, Manitoba (for those arriving from eastern provinces) and in the three territories – for all persons including Canadians travelling in their own country.
- The Government of Canada also has a global travel advisory in place warning Canadians to avoid all nonessential travel outside of Canada.
- On June 30, 2020, Air Canada suspended service indefinitely on 30 domestic regional routes and closed eight stations at regional airports in Canada. Air Canada plans to suspend additional routes, until further notice, including all passenger operations to Sydney, Nova Scotia and Saint-John, New Brunswick, and plans to temporarily suspend the Deer Lake-Halifax, Fredericton-Toronto, Charlottetown-Toronto, and Halifax-Ottawa routes.

#### *Financing and Liquidity*

- Air Canada entered the COVID-19 pandemic with a strong balance sheet, having a leverage ratio of 0.8 and unrestricted liquidity of \$7.4 billion at the end of 2019.
- In March 2020, Air Canada drew down its US\$600 million revolving credit facility expiring in 2023 (the “**2016 Revolving Credit Facility**”) and on its \$200 million revolving credit facility expiring in 2022 (the “**2018 Credit Facility**”) for aggregate net proceeds of \$1,027 million.

- In June 2020, Air Canada concluded an underwritten marketed public offering of 35,420,000 Shares at a price of \$16.25 per Share, for aggregate proceeds of \$576 million, and a concurrent marketed private placement of 4.00% convertible senior unsecured notes due 2025 (the “**Convertible Notes**”) for aggregate proceeds of US\$748 million (\$1,011 million).
- In June 2020, Air Canada completed a private offering of \$840 million aggregate principal amount of 9.00% second lien secured notes due 2024, which were sold at 98% of par.
- In June 2020, Air Canada completed a private offering of one tranche of Class C Enhanced Equipment Trust Certificates (“**EETCs**”) with a combined aggregate face amount of approximately US\$316 million (\$426 million), which were sold at 95.002% of par.
- In September 2020, Air Canada concluded a private offering of two tranches of EETCs, the proceeds of which were used to purchase equipment notes issued by Air Canada and secured by three Boeing 787-9 aircraft, three Boeing 777-300ER aircraft, one Boeing 777-200LR and nine Airbus A321-200 aircraft. The two tranches of certificates have a combined aggregate face amount of US\$553 million (\$740 million) and a weighted average interest rate of 5.73%. Air Canada used the net proceeds from this financing together with cash on hand to repay in full the US\$600 million (\$803 million) 364-day bridge term loan originally put in place in April 2020.
- In September 2020, Air Canada concluded a committed secured facility totaling \$788 million to finance the purchase of the first 18 Airbus A220 aircraft. As aircraft are financed under this new Canadian dollar facility, the bridge financing of \$788 million (US\$560 million) originally put in place in April 2020 with respect to the acquisition of these aircraft is being repaid concurrently. At December 14, 2020, fourteen Airbus A220 aircraft were financed under this facility with the corresponding bridge financing repaid.
- In early October 2020, Air Canada announced that it had completed sale and leaseback transactions (the “**Sale and Leaseback**”) for nine Boeing 737 MAX 8 aircraft for total proceeds of US\$365 million (\$485 million), with a corresponding lease liability of \$367 million. The nine aircraft were delivered to Air Canada in the past three years.
- In total, Air Canada has raised approximately \$7.4 billion of liquidity since March 16, 2020, including the drawdowns on the 2016 Revolving Credit Facility and the 2018 Credit Facility, equity offerings, offerings of Convertible Notes, sale/leaseback transactions including the Sale and Leaseback, and other financings. This includes the two September 2020 financings noted above used to refinance the April 2020 364-day bridge term loan of US\$600 million and the April 2020 bridge financing of \$788 million.
- Air Canada’s unencumbered asset pool (excluding the value of Aeroplan, Air Canada Vacations and Air Canada Cargo) amounted to approximately \$1.8 billion following the closing of the transactions discussed above. As part of Air Canada’s ongoing efforts to maintain adequate liquidity levels, additional financing arrangements continue to be assessed.
- Air Canada suspended share purchases under its normal course issuer bid in early March 2020 and did not renew its issuer bid upon its expiry in the second quarter of 2020.
- Unrestricted liquidity amounted to \$8.189 billion at September 30, 2020 and, in the third quarter of 2020, Air Canada experienced a net cash burn of \$818 million (or approximately \$9 million per day, on average). After giving effect to the Sale and Leaseback and this Offering, Air Canada will have \$9.489 billion of unrestricted liquidity.
- Air Canada projects net cash burn of between \$14 million and \$16 million per day, on average, in the fourth quarter of 2020, higher than the \$12 million to \$14 million daily average net cash burn projected in Air Canada’s third quarter 2020 news release. This amount does not include the cash proceeds from aircraft financing activities conducted during the quarter. The increase in projected net cash burn results equally from both lower than expected travel bookings in the first quarter of 2021 and timing of cash receipts from various sources now expected to be received in the first half of 2021. Air Canada’s projection for fourth quarter 2020 net cash burn includes \$4 million per day in capital expenditures and \$5 million per day in lease and debt service costs. Net cash burn after including the proceeds of aircraft financing consummated in the fourth quarter of 2020 (related to the delivery of five Airbus A220) is expected to be between \$12 million and \$14 million per day, on average.

#### ***Cost Reduction and Capital Reduction and Deferral Program***

- Air Canada initiated a company-wide cost reduction and capital reduction and deferral program for 2020 which has now reached approximately \$1.5 billion for 2020, increased from an initial target of \$500 million. On a capacity reduction of 81.7%, third quarter 2020 operating expenses decreased \$3,032 million or 66% from the same quarter in 2019, reflecting the significant progress made on both managing variable costs and reducing fixed expenses. Air Canada continues to seek additional opportunities for cost reduction and cash preservation.

- Air Canada announced a workforce reduction of approximately 20,000 employees, representing more than 50% of its workforce. This was achieved through layoffs, terminations of employment, voluntary separations, early retirements, and special leaves.
- Air Canada adopted the Canada Emergency Wage Subsidy (CEWS) for most of its workforce effective March 15, 2020. In July 2020, the program was redesigned and extended until December 2020. In September and November 2020, the Government of Canada announced further extensions of the program to June 2021. Air Canada intends to continue its participation in the CEWS program, subject to meeting the eligibility requirements.
- Air Canada is retiring 79 older aircraft from its fleet – consisting of Boeing 767, Airbus A319 and Embraer 190 aircraft. Their retirement will simplify the airline’s overall fleet, reduce its cost structure, and lower its carbon footprint.
- Air Canada concluded an amendment to the purchase agreement for Airbus A220-300 aircraft which became effective in early November 2020. As a result, Air Canada has deferred 18 aircraft deliveries over 2021 and 2022 and will not be purchasing the last 12 Airbus A220 aircraft. Air Canada has taken delivery of four Airbus A220 aircraft in the fourth quarter of 2020 and expects to take delivery of one additional Airbus A220 in the remainder of 2020.
- In early November 2020, Air Canada also amended its agreement with Boeing to cancel 10 Boeing 737 MAX 8 aircraft deliveries from its firm order of 50 aircraft and to defer its remaining 16 aircraft deliveries over the late 2021 to 2023 period.
- Through this fleet restructuring and other capital reduction initiatives, Air Canada successfully lowered its planned capital expenditures by approximately \$3.0 billion for the 2020 to 2023 period compared to its projected capital expenditures of \$8 billion at the end of 2019.

Cash flow from operations in 2020 was significantly and negatively impacted by the COVID-19 pandemic and the expectation is for continuing considerable negative impact to cash flows and Air Canada's liquidity position as a result of the pandemic, including after taking into account the mitigation responses described above. In light of the ongoing uncertainty relating to the COVID-19 pandemic, the full extent and duration of any impact remains unknown. See section 6 “Financial and Capital Management” of the 2020 Q3 MD&A for additional information on Air Canada’s liquidity position and measures being taken to manage liquidity.

#### **Retirement of President and CEO of Air Canada**

On October 16, 2020, Air Canada announced that Calin Rovinescu, its President and Chief Executive Officer, will retire on February 15, 2021, following completion of Air Canada's current fiscal year. Deputy Chief Executive Officer and Chief Financial Officer, Michael Rousseau, will succeed him upon his retirement. Mr. Rousseau has served as Deputy Chief Executive Officer and Chief Financial Officer of Air Canada since December 2018, having previously served as its Executive Vice-President and Chief Financial Officer since 2007.

#### **Aviation Industry Sector-Specific Support**

On November 8, 2020, the Minister of Transport, the Honourable Marc Garneau, announced that the Government of Canada was developing a package of assistance to Canadian airlines, airports and the aerospace sector. As part of this package, Mr. Garneau indicated being ready to establish a process with major airlines regarding financial assistance which could include loans and potentially other support, and that the assistance would be subject to certain conditions to protect Canadians and the public interest. There can be no assurance that any government financial assistance will be made available to Air Canada, including on terms acceptable to it, or at all. See “Risk Factors” – Government Financial Assistance.

#### **Aeroplan Program and Strategic Partnership with Chase and Mastercard**

On November 10, 2020, Air Canada launched its fully transformed Aeroplan Program, with all Aeroplan Points then outstanding honoured on a one-to-one basis. The program offers a wide range of new features, led by an improved value on flight rewards, with access to every seat available on Air Canada flights with no cash surcharges, the ability to share Aeroplan points amongst family members and five Elite Status levels (Aeroplan 25k, 35k, 50k, 75k, and Super Elite).

On December 14, 2020, Chase and Air Canada announced a strategic partnership that will make Chase the exclusive issuer of Aeroplan's U.S. credit card. As a part of this partnership, Mastercard will become the exclusive payments network for the new credit card offering in the U.S. This multi-year agreement is designed to provide U.S. customers with rewards and flexibility offered by the Aeroplan Program. The new Aeroplan credit card from Chase is scheduled to launch in late 2021.

## **Transat Shareholders Overwhelmingly Approve Arrangement with Air Canada**

On October 10, 2020, Air Canada announced amendments to the previously disclosed Transat Acquisition. Under the amended definitive agreement, unanimously approved by the board of directors of Transat, Air Canada will acquire all the shares of Transat for \$5.00 per Transat share, payable at the option of Transat shareholders in cash or shares of Air Canada at a fixed exchange ratio of 0.2862 Air Canada shares for each Transat share (representing a price per Air Canada share of \$17.47).

On December 15, 2020, Transat announced that at the special meeting of its shareholders held on same date, an overwhelming majority of its shareholders voted in favour of the transaction.

The Transat Acquisition remains subject to court approval, satisfaction of customary listing conditions of the TSX, certain customary and other conditions, and regulatory approvals including the ongoing approval process of regulatory authorities in Canada and the European Union. If such approvals are obtained and conditions are met, the Transat Acquisition is expected to be completed in late January or early February 2021.

## **Appointment of Amos Kazzaz as Executive Vice President and Chief Financial Officer**

On December 15, 2020, Air Canada announced the appointment of Amos Kazzaz as Executive Vice President and Chief Financial Officer of Air Canada, effective February 15, 2021.

Mr. Kazzaz joined Air Canada in 2010 as Vice President, Financial Planning and Analysis, and became Senior Vice President, Finance in 2015. He previously held extensive senior executive roles within the airline and transportation sector.

As Chief Financial Officer, Mr. Kazzaz will have oversight for Air Canada's overall financial strategic direction, comprising all aspects of financial reporting and planning, investor relations, treasury and controller's operations, taxation, pension administration, internal audit, fleet, procurement and corporate real estate.

## **DESCRIPTION OF SHARE CAPITAL**

The authorized share capital of Air Canada is comprised of an unlimited number of Variable Voting Shares and Voting Shares. As at September 30, 2020, an aggregate of 104,108,797 Variable Voting Shares and 192,598,512 Voting Shares were issued and outstanding for an aggregate amount of 296,707,309 Shares.

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, the terms of Air Canada's restated articles of incorporation.

### **Class A Variable Voting Shares**

#### ***Constraints on Ownership of Shares***

The CTA requires that national holders of domestic, scheduled international and non-scheduled international licences, such as Air Canada, be "Canadian". In 2018, the Government of Canada passed the *Transportation Modernization Act* that amended, among other things, the definition of "Canadian" under section 55(1) of the CTA to increase foreign ownership limits in Canadian air carriers from 25% to 49%, provided that no single non-Canadian holds more than 25% of the voting interests and provided that non-Canadian air service providers do not, in the aggregate, hold more than 25% of the voting interests in a Canadian air carrier.

More specifically, the definition of "Canadian" under section 55(1) of the CTA, as amended by the *Transportation Modernization Act*, is as follows: (a) a Canadian citizen or a permanent resident as defined in subsection 2(1) of the Immigration and Refugee Protection Act, (b) a government in Canada or an agent or mandatary of such a government, or (c) a corporation or entity that is incorporated or formed under the laws of Canada or a province, that is controlled in fact by Canadians and of which at least 51% of the voting interests are owned and controlled by Canadians and where (i) no more than 25% of the voting interests are owned directly or indirectly by any single non-Canadian, either individually or in affiliation with another person, and (ii) no more than 25% of the voting interests are owned directly or indirectly by one or more non-Canadians authorized to provide an air service in any jurisdiction, either individually or in affiliation with another person.

In 2019, Air Canada received court and shareholder approval for a plan of arrangement under section 192 of the *Canada Business Corporations Act* (the "CBCA") to effect amendments to Air Canada's restated articles of incorporation to align its

restrictions as to the level of non-Canadian ownership and voting control with those prescribed in the CTA. Air Canada's amended articles became effective on May 8, 2019.

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians. An issued and outstanding Variable Voting Share shall be converted into one Voting Share, automatically and without any further act of the Corporation or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian.

### ***Voting***

Each Variable Voting Share confers the right to one vote unless:

- (a) the number of Variable Voting Shares held by any single non-Canadian, either individually or in affiliation with any other person, as a percentage of the total number of issued and outstanding voting shares of Air Canada, or the total number of votes that would be cast by or on behalf of any single non-Canadian holder of Variable Voting Shares, either individually or in affiliation with any other person, at any meeting in relation to the total number of votes cast at such meeting, exceeds 25% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the directors of Air Canada);
- (b) the number of Variable Voting Shares held collectively by one or more non-Canadians authorized to provide air service in any jurisdiction ("**Non-Canadian Air Carrier**"), either individually or in affiliation with any other person, as a percentage of the total number of issued and outstanding voting shares of Air Canada, or the total number of votes that would be cast by or on behalf of one or more Non-Canadian Air Carrier holders of Variable Voting Shares, either individually or in affiliation with any other person, at any meeting in relation to the total number of votes cast at such meeting and after the application of the voting restriction in (a) above if required, exceeds 25% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the directors of Air Canada); or
- (c) the number of Variable Voting Shares, as a percentage of the total number of issued and outstanding voting shares of Air Canada, or the total number of votes that would be cast by or on behalf of holders of Variable Voting Shares at any meeting in relation to the total number of votes cast at such meeting and after the application of the voting restrictions in (a) and (b) above if required, exceeds 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the directors of Air Canada).

If either of the thresholds in (a) or (b) above would otherwise be exceeded at any time, the vote attached to each of their Variable Voting Shares will decrease proportionately and automatically without further act or formality such that the Variable Voting Shares held, as applicable, by any single non-Canadian or by all Non-Canadian Air Carriers, either individually or in affiliation with any other person, do not carry more than 25% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the directors of Air Canada) of the aggregate votes attached to all issued and outstanding voting shares of Air Canada and the total number of votes cast, as applicable, by or on behalf of any single non-Canadian or by all Non-Canadian Air Carriers, either individually or in affiliation with any other person, at any meeting do not exceed 25% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the directors of Air Canada) of the total number of votes cast at such meeting. For greater certainty, a single Non-Canadian Air Carrier would also constitute a single non-Canadian holder for purposes of the voting restriction in (a) above.

If the threshold in (c) above would otherwise be exceeded at any time, the vote attached to each Variable Voting Share will decrease proportionately and automatically without further act or formality such that the Variable Voting Shares do not carry more than 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the directors of Air Canada) of the aggregate votes attached to all issued and outstanding voting shares of Air Canada and the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 49% (or any different percentage that may be prescribed by law or regulation of Canada and approved or adopted by the directors of Air Canada) of the total number of votes cast at such meeting.

### ***Dividends***

Subject to the rights, privileges, restrictions and conditions attached to the shares of Air Canada of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares are, at the discretion of the directors, entitled to receive, out of monies, assets or property of Air Canada properly applicable to the payment of dividends, any dividends declared and payable by Air Canada on the Variable Voting Shares and 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 Air Canada are to 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 may 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 Air Canada ranking prior to the Variable Voting Shares, upon liquidation, dissolution or winding up of Air Canada or other distribution of Air Canada's assets among its shareholders for the purpose of winding up its affairs, the holders of the Variable Voting Shares and Voting Shares are entitled to receive the remaining property of Air Canada and are entitled to share equally, share for share, in all distributions of such assets.

### ***Conversion***

Each issued and outstanding Variable Voting Share is converted into one Voting Share, automatically and without any further act of Air Canada 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 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 becomes 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 and the transfer agent is required to deposit the resulting Voting Shares on behalf of the shareholder.

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 are to be reconverted automatically and without further act from Air Canada or the holder, into Variable Voting Shares.

There is 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 Air Canada's restated articles of incorporation.

### ***Class B Voting Shares***

#### ***Voting***

The holders of the Voting Shares are entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of Air Canada (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 confers the right to one vote in person or by proxy at all meetings of shareholders of Air Canada.

#### ***Dividends***

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada of any other class ranking senior to the Voting Shares, the holders of the Voting Shares are, at the discretion of the directors, entitled to receive, out of monies, assets or property of Air Canada properly applicable to the payment of dividends, any dividends declared and payable by Air Canada on the Voting Shares. The Voting Shares 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 Air Canada are to 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 may 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 Air Canada ranking senior to the Voting Shares, upon liquidation, dissolution or winding up of Air Canada or other distribution of Air Canada's assets among its shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable Voting Shares are to be entitled to receive the remaining property of Air Canada and are to be entitled to share equally, share for share, in all distributions of such assets.

### ***Conversion***

An issued and outstanding Voting Share is converted into one Variable Voting Share, automatically and without any further act of Air Canada 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 a non-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 becomes 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 and the transfer agent is required to deposit the resulting Variable Voting Shares on behalf of the shareholder.

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 are reconverted automatically and without further act from Air Canada or the holder, into Voting Shares.

There is 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 Air Canada's restated articles of incorporation.

### **Shareholder Rights Plan**

Air Canada's existing shareholder rights plan was renewed on May 4, 2020 (the "**Rights Plan**"). The Rights Plan is substantially unchanged from the version described under the heading "Description of Capital Structure – Air Canada Shareholder Rights Plan" of the Annual Information Form.

## CONSOLIDATED CAPITALIZATION OF AIR CANADA

Other than as described in this Prospectus, there has been no material change in the Corporation's share or loan capital on a consolidated basis since September 30, 2020. The following table sets forth the consolidated capitalization of Air Canada as at September 30, 2020 on an actual basis, as adjusted to give effect to the Sale and Leaseback, and as further adjusted to give effect to the Offering. This table has been derived from, and should be read in conjunction with, the 2020 Q3 Financial Statements.

<i>(Canadian dollars in millions)</i>	<b>As at September 30, 2020</b>	<b>As adjusted as at September 30, 2020 after giving effect to the Sale and Leaseback</b>	<b>As adjusted as at September 30, 2020 after giving effect to the Sale and Leaseback and the Offering<sup>(1)</sup></b>
<b>Cash, short and long-term investments and restricted cash</b> .....			
Cash and cash equivalents .....	3,790	4,275	5,090
Short-term investments .....	3,985	3,985	3,985
Long-term investments .....	414	414	414
Restricted cash .....	86	86	86
<b>Total cash, short and long-term investments and restricted cash</b> .....	<b>8,275</b>	<b>8,760</b>	<b>9,575</b>
<b>Capitalization</b> .....			
Long-term debt and lease liabilities <sup>(2)</sup> .....			
Aircraft-related financings <sup>(2)</sup> .....	5,957	5,957	5,957
Senior Secured Notes due 2023 and 2024 .....	1,040	1,040	1,040
Other Secured Financings .....	1,753	1,753	1,753
Senior Unsecured Notes due 2021 .....	533	533	533
Convertible Notes <sup>(3)</sup> .....	696	696	696
Lease liabilities .....	3,358	3,725	3,725
Unamortized debt issuance costs .....	(175)	(175)	(175)
<b>Total debt and lease liabilities</b> .....	<b>13,162</b>	<b>13,529</b>	<b>13,529</b>
<b>Shareholders' equity</b> .....			
Share capital .....	1,335	1,335	2,150
Contributed surplus .....	97	97	97
Accumulated other comprehensive income (loss) .....	(63)	(63)	(63)
Retained earnings .....	346	364	364
<b>Total shareholders' equity</b> .....	<b>1,715</b>	<b>1,733</b>	<b>2,548</b>
<b>Total capitalization</b> .....	<b>14,877</b>	<b>15,262</b>	<b>16,077</b>

- (1) Including gross proceeds of \$850,080,000 under the Offering, assuming no exercise of the Over-Allotment Option and after deduction of the Underwriters' Fee as well as the estimated expenses of the Offering payable by the Corporation, estimated at approximately \$35 million in the aggregate.
- (2) Refer to note 10 of the 2019 Annual Financial Statements for a summary description of Air Canada's long-term debt as well as note 6 of the 2020 Q3 Financial Statements. U.S. Debt has been converted to Canadian dollars based on the rate of exchange of US\$1.00 equaling \$1.3319, which was the rate on September 30, 2020.
- (3) The amounts shown in the table above for the Convertible Notes represent their amortized cost. However, upon conversion of the Convertible Notes, the Corporation may elect to deliver in lieu of Shares, cash or a combination of cash and Shares. The Corporation's option to deliver cash on the conversion date in lieu of Shares (based on the daily conversion values for 40 consecutive trading days) gives rise to an embedded derivative financial liability, measured separately at fair value through profit or loss. On initial recognition, the derivative financial liability was measured at fair value, and the carrying value of the underlying Convertible Notes was measured as the difference between this amount and the proceeds of issue. Subsequent to initial recognition, the Corporation measures the derivative financial liability at fair value at each reporting date, recognizing changes in the fair value in the statement of operations, and accretes the carrying value of the underlying Convertible Notes to their face value using the effective interest method. The remaining amount to be accreted at September 30, 2020 was \$299 million.

## PRIOR SALES

The following table summarizes the issuance by Air Canada of Shares or securities convertible into Shares during the 12-month period preceding the date of this Prospectus.

Date	Type of Securities	Number of Securities	Issuance/Exercise Price per Security
December 16, 2019 to December 15, 2020	Exercise of options to purchase Shares <sup>(1)</sup>	302,584	\$2.49 - \$26.59
March 11, 2020	Grant of options to purchase Shares <sup>(2)</sup>	1,303,040	\$32.42
June 2, 2020	Shares <sup>(3)</sup>	35,420,000	\$16.25
June 2, 2020	Convertible Notes <sup>(4)</sup>	747,500	US\$1,000

(1) Exercise of options to purchase Shares issued under Air Canada's long term incentive plan (the "LTIP").

(2) Options to purchase Shares issued under the LTIP.

(3) On June 2, 2020, Air Canada completed an underwritten marketed public offering of 35,420,000 Shares at a price of \$16.25 per Share, for aggregate proceeds of \$575,575,000.

(4) On June 2, 2020, Air Canada completed a marketed private placement of Convertible Notes for aggregate gross proceeds of US\$748 million (\$1,011 million). Holders of the Convertible Notes may convert all or any portion of their Convertible Notes in multiples of US\$1,000 principal amount at any time prior to the close of business on the business day immediately preceding March 1, 2025 only if certain conditions are met and may convert Convertible Notes on or after March 1, 2025 at any time prior to the close of business on the maturity date regardless of such conditions. The conversion rate is 65.1337 Shares of the applicable class per US\$1,000 principal amount of Convertible Notes (equivalent to an initial conversion price of approximately US\$15.35 per Share), subject to adjustment.

## MARKET FOR SECURITIES

The Variable Voting Shares and the Voting Shares are listed and posted for trading on the TSX under a single trading symbol "AC".

The following table sets forth the price range and trading volume, on a combined basis, of the Shares as reported by the TSX for the 12-month period prior to the date of this Prospectus.

Month	High	Low	Average Daily Trading Volume	Total Monthly Volume
December 2019.....	\$ 50.83	\$ 48.28	788,932	15,778,631
January 2020.....	\$ 52.71	\$ 43.40	1,559,081	34,299,783
February 2020.....	\$ 48.06	\$ 31.67	2,277,932	43,280,707
March 2020.....	\$ 36.65	\$ 9.26	6,678,514	146,927,308
April 2020.....	\$ 22.78	\$ 13.53	6,236,580	130,968,176
May 2020.....	\$ 19.56	\$ 12.80	6,949,099	138,981,974
June 2020.....	\$ 23.55	\$ 15.61	9,160,999	201,541,979
July 2020.....	\$ 18.45	\$ 15.02	4,206,375	92,540,251
August 2020.....	\$ 18.20	\$ 15.02	4,947,032	98,940,632
September 2020.....	\$ 19.48	\$ 15.21	4,973,803	104,449,868
October 2020.....	\$ 17.31	\$ 14.50	4,141,017	86,961,347
November 2020.....	\$ 25.95	\$ 14.48	7,227,821	151,784,236
December 2020 (through December 15, 2020).....	\$ 28.24	\$ 24.72	6,845,550	75,301,051

## USE OF PROCEEDS

The net proceeds of the Offering, after deduction of the Underwriters' Fee but before deducting the other estimated expenses of the Offering, will be \$816,076,800 (\$938,488,320 if the Over-Allotment Option is exercised in full). The Corporation intends to use the net proceeds received from the Offering to supplement the Corporation's working capital and for general corporate purposes. The net proceeds from the Offering will serve to increase Air Canada's cash position, thereby allowing for additional flexibility both from an operational standpoint and in the implementation of its planned mitigation and recovery measures in response to the COVID-19 pandemic. The allocation of proceeds may vary depending upon numerous factors. See "Risk Factors" and "Caution Regarding Forward-Looking Statements".

For the three-month period ended September 30, 2020, the Corporation had negative net cash flows from operating activities, and expects that the COVID-19 pandemic will result in continuing considerable negative impact to cash flows and Air Canada's liquidity position. As a result, Air Canada may continue to have negative cash flow from operating activities and therefore use all or a portion of the proceeds from the Offering to fund such negative cash flow from operating activities in future periods. See "Recent Developments – COVID-19 Pandemic" and "Risk Factors".

## PLAN OF DISTRIBUTION

### General

Pursuant to the Underwriting Agreement, Air Canada has agreed to issue and sell an aggregate of 35,420,000 Offered Shares and the Underwriters have agreed to purchase from Air Canada, as principals, on the Closing Date, subject to the conditions stipulated in the Underwriting Agreement, all but not less than all of the Offered Shares offered hereby at a price of \$24.00 per Offered Share for a total gross consideration of \$850,080,000 payable in cash to Air Canada against delivery of the Offered Shares. The Offered Shares are being offered to the public in all of the provinces and territories of Canada, through those Underwriters or their affiliates who are registered to offer and sell the Offered Shares in such provinces and territories and such other registered dealers as may be designated by the Underwriters. Subject to applicable law and the provisions of the Underwriting Agreement, the Underwriters may offer the Offered Shares outside of Canada. Deutsche Bank is not registered to offer and sell securities in any Canadian jurisdiction and, accordingly, will only offer and sell Offered Shares outside of Canada.

The Underwriting Agreement provides that the Underwriters will be paid the Underwriters' Fee, being an amount equal to \$0.96 per Offered Share issued and sold by Air Canada pursuant to the Offering (and, if applicable, per Over-Allotment Share issued and sold pursuant to the Over-Allotment Option).

Pursuant to the Underwriting Agreement, Air Canada has granted the Underwriters an Over-Allotment Option to cover over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, at the sole discretion of the Underwriters, at any time up to 30 days after the Closing Date. The Over-Allotment Option entitles the Underwriters to purchase from the Corporation up to 5,313,000 Over-Allotment Shares at the Offering Price (being 15% of the aggregate number of Offered Shares offered hereunder). A purchaser who acquires Over-Allotment Shares forming part of the Underwriters' over-allocation position acquires those Over-Allotment Shares under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The price at which the Offered Shares are being offered hereunder and the terms of the Offering were determined by arm's length negotiation between Air Canada and the Active Bookrunners, on behalf of the Underwriters. The Underwriters propose to offer the Offered Shares initially at the Offering Price. Without affecting the firm obligation of the Underwriters to purchase from Air Canada 35,420,000 Offered Shares at a price of \$24.00 per Offered Share in accordance with the Underwriting Agreement, after the Underwriters have made a reasonable effort to sell all of the Offered Shares at the Offering Price, the Underwriters may subsequently reduce and thereafter change, from time to time, the price at which the Offered Shares are offered to an amount not greater than the Offering Price. As a result, the compensation realized by the Underwriters will effectively be decreased by the amount that the aggregate price paid by purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to Air Canada.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint, nor joint and several, and may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are obligated to take up and pay for all of the Offered Shares if any of such Offered Shares are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that Air Canada will indemnify the Underwriters and their respective directors, officers, partners, shareholders, agents, employees and controlling persons against certain liabilities and expenses, including, as the case may be, liabilities under Canadian securities legislation.

Orders for Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the order books at any time without notice.

Purchasers of Offered Shares who are Qualified Canadians will receive Voting Shares and purchasers of Offered Shares who are not Qualified Canadians will receive Variable Voting Shares. There are constraints imposed on the ownership of securities of Air Canada to ensure compliance with the CTA. See “Description of Share Capital”.

In accordance with the rules and policy statements of certain Canadian securities regulators, the Underwriters may not, throughout the period of distribution of the Offered Shares, bid for or purchase securities of the Corporation. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising prices of, such securities. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Subject to the foregoing and applicable laws, in connection with the Offering, the Underwriters may engage in over-allotment and stabilizing transactions and purchases to cover short positions created by the Underwriters in connection with the Offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the Shares and short positions created by the Underwriters involving the sale by the Underwriters of a greater number of Shares than they are required to purchase in the Offering. These activities may stabilize, maintain or otherwise affect the market price of the Shares, which may be higher than the price that might otherwise prevail in the open market. These activities, if commenced, may be discontinued at any time.

Pursuant to the Underwriting Agreement, Air Canada has agreed not to issue, agree to issue, offer to issue or sell, agree to sell, or otherwise transfer or dispose of, directly or indirectly, or submit to, or file, without limitation, any prospectus relating to, any Shares or securities convertible into or exercisable or exchangeable for Shares, the whole for a period of 90 days from the Closing, without the prior written consent of each of the Active Bookrunners. Notwithstanding the foregoing, such limitations shall not apply to: (i) the Offered Shares; (ii) Shares of the Corporation to be issued in connection with the Transat Acquisition; (iii) any Shares issued upon the conversion of the Convertible Notes; (iv) any Shares issued (or withheld) upon the exercise or settlement of any options, restricted share units, performance share units or other equity-based awards under existing equity compensation plans and incentive retention plans of the Corporation, and any related swap or hedging instruments set up by the Corporation relating to the settlement costs of such awards; (v) any options, restricted share units, performance share units or other equity-based awards granted under existing equity compensation plans and incentive retention plans; and (vi) the issuance of warrants or other equity-based consideration by the Corporation as required by or as part of any assistance that the Corporation has received, applies for or will receive under any aid program established by the Government of Canada, and the issuance of Shares by the Corporation upon the exercise or conversion of any such warrants or other equity-based consideration in compliance with the requirements of such assistance.

The Offered Shares have not been and will not be registered under the U.S. Securities Act or the securities laws of any state and may not be offered, sold or delivered within the United States except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

The Underwriters have agreed that they will not offer, sell or deliver Offered Shares within the United States except to persons they reasonably believe to be “qualified institutional buyers” as defined in Rule 144A under the U.S. Securities Act (“**Rule 144A**”), pursuant to the exemption from registration requirements of the U.S. Securities Act provided by Rule 144A, and in compliance with any applicable U.S. state securities laws, and outside the United States in compliance with Regulation S under the U.S. Securities Act. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy Offered Shares in the United States. In addition, until 40 days after the commencement of the Offering, any offer or sale of Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Offered Shares are “restricted securities” within the meaning of Rule 144, and may only be offered, sold, pledged or otherwise transferred, directly or indirectly, (a) to Air Canada (though Air Canada is under no obligation to purchase any such Offered Shares); (b) outside the United States in compliance with Rule 904 of Regulation S under the U.S. Securities Act and in compliance with applicable Canadian local laws and regulations or (c) pursuant to a registration statement that has been declared effective under the U.S. Securities Act. Further, Air Canada is under no obligation to file a registration statement.

Terms used and not defined in the three preceding paragraphs shall have the meanings ascribed thereto by Regulation S under the U.S. Securities Act.

Air Canada has applied to list the Offered Shares and the Over-Allotment Shares on the TSX. Listing of the Offered Shares and the Over-Allotment Shares is subject to the approval of the TSX in accordance with its applicable listing requirements. There can be no assurance that the Offered Shares and the Over-Allotment Shares will be accepted for listing on the TSX.

## **Non-Certificated Inventory System**

No certificates representing the Offered Shares will be issued to purchasers under this Prospectus. Registration will be made in the depository service of CDS, or to its nominee, and electronically deposited with CDS on the Closing Date. Each purchaser of Shares will typically only receive a customer confirmation of purchase from the participants in the CDS depository service (“**CDS Participants**”) from or through which such Shares are purchased, in accordance with the practices and procedures of such CDS Participant. Transfers of ownership of Shares will be effected through records maintained by the CDS Participants, which include securities brokers and dealers, banks and trust companies. Indirect access to the CDS book-entry system is also available to other institutions that maintain custodial relationships with a CDS Participant, either directly or indirectly.

## **Selling Restrictions**

### ***Notice to Prospective Investors in the European Economic Area and the United Kingdom***

In relation to each Member State of the European Economic Area and the United Kingdom (each a “Relevant State”), no Offered Shares have been offered or will be offered pursuant to the initial offering to the public in that Relevant State prior to the publication of a prospectus in relation to the Offered Shares which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, all in accordance with the Prospectus Regulation, except that offers of Offered Shares may be made to the public in that Relevant State at any time under the following exemptions under the Prospectus Regulation:

- (a) to any legal entity which is a qualified investor as defined under the Prospectus Regulation;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined under the Prospectus Regulation), subject to obtaining the prior consent of the representative for any such offer; or
- (c) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Offered Shares shall require the Corporation or any Underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

Each person in a Relevant State who initially acquires any Offered Shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed to and with the Corporation and the Underwriters that it is a qualified investor within the meaning of the Prospectus Regulation.

In the case of any Offered Shares being offered to a financial intermediary as that term is used in Article 5(1) of the Prospectus Regulation, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the Offered Shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer to the public other than their offer or resale in a Relevant State to qualified investors, in circumstances in which the prior consent of the underwriters has been obtained to each such proposed offer or resale.

The Corporation, the Underwriters and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

For the purposes of this provision, the expression an “offer to the public” in relation to any Offered Shares in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and any Offered Shares to be offered so as to enable an investor to decide to purchase or subscribe for any Offered Shares, and the expression “Prospectus Regulation” means Regulation (EU) 2017/1129.

References to the Prospectus Regulation includes, in relation to the UK, the *Prospectus Regulation* as it forms part of UK domestic law by virtue of the *European Union (Withdrawal) Act 2018*.

The above selling restriction is in addition to any other selling restrictions set out below.

### ***Notice to Prospective Investors in the United Kingdom***

This document is for distribution only to persons who (i) have professional experience in matters relating to investments and who qualify as investment professionals within the meaning of Article 19(5) of the *Financial Services and Markets Act 2000 (Financial Promotion) Order 2005* (as amended, the “Financial Promotion Order”), (ii) are persons falling within Article 49(2)(a)

to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the *Financial Services and Markets Act 2000*, as amended (“FSMA”)) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

### **Relationship between the Corporation and Certain Underwriters**

The Underwriters are affiliates of banks that are members of the syndicates of lenders (the “**Lenders**”) that have made available to Air Canada, as applicable, (i) a US\$600 million (originally US\$800 million) term loan, maturing in 2023 (the “**2016 Term Loan**”); (ii) the 2016 Revolving Credit Facility (together with the 2016 Term Loan, the “**2016 Credit Facilities**”); and (iii) the 2018 Credit Facility (together with the 2016 Credit Facilities, the “**Credit Facilities**”).

As of September 30, 2020, US\$1.184 billion in principal was outstanding under the 2016 Credit Facilities and \$200 million in principal was outstanding under the 2018 Credit Facility. As of the date of this Prospectus, Air Canada is in compliance in all material respects with the terms of its indebtedness to the Lenders under the Credit Facilities. Since the indebtedness under the Credit Facilities (as applicable) was incurred, the financial position of Air Canada has not adversely changed, except as disclosed in this Prospectus or in the documents incorporated by reference herein. None of the Lenders under the Credit Facilities has waived any breach of any of the Credit Facilities since their execution.

None of the Lenders were involved in the decision to offer the Offered Shares or were involved in the determination of the terms of the distribution of the Offered Shares. The Underwriters will not receive any benefit in connection with the Offering other than the applicable fees as set out in this Prospectus and payable by Air Canada to the Underwriters.

Certain of the Underwriters, their subsidiaries or their affiliates have engaged, and may in the future engage, in transactions with and perform services, including commercial banking, financial advisory and investment banking services, for Air Canada and its affiliates in the ordinary course of business for which they have received or may receive customary compensation.

An affiliate of J.P. Morgan is a merchant processing bank and a counterparty to certain agreements with Air Canada to process customer credit card transactions for the sale of air travel and other services. Such affiliate’s credit card processing agreement contains triggering events upon which Air Canada is required to provide such affiliate with cash deposits or such affiliate has the right to withhold payments related to receivables collected. The obligations to provide cash deposits and the required amount of deposits are each based upon a matrix measuring, on a quarterly basis, both a fixed charge coverage ratio for Air Canada and the unrestricted cash, cash equivalents and short-term investments of Air Canada.

### **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Stikeman Elliott LLP, counsel to Air Canada, and Blake, Cassels & Graydon LLP, counsel to the Underwriters, the following is a general summary, as of the date hereof, of the principal Canadian federal income tax considerations under the Tax Act generally applicable to a holder who acquires Offered Shares (including, in this section, Over-Allotment Shares, if any) pursuant to this Offering and who, for the purposes of the Tax Act and at all relevant times, beneficially owns Offered Shares as capital property, and deals at arm’s length with, and is not affiliated with, Air Canada or the Underwriters (a “**Holder**”). The Offered Shares will generally be considered to be capital property for this purpose unless either the Holder holds (or will hold) such Offered Shares in the course of carrying on a business, or the Holder has acquired (or will acquire) such Offered Shares as part of one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is based upon the current provisions of the Tax Act in force as of the date hereof and counsel’s understanding of the current published administrative and assessing policies and practices of the Canada Revenue Agency (the “**CRA**”). The summary also takes into account the Tax Proposals and assumes that all such Tax Proposals will be enacted in the form proposed. No assurance can be given that the Tax Proposals will be enacted in the form proposed or at all. Except for the Tax Proposals, this summary does not otherwise take into account or anticipate any changes in law or in the administrative and assessing policies of the CRA, whether by way of legislative, judicial or administrative action or interpretation, nor does it address any provincial, territorial or foreign tax considerations.

This summary is not exhaustive of all possible Canadian federal income tax considerations of purchasing, holding or disposing of the Shares. Moreover, this summary is of a general nature only and is not intended to be, nor should it be construed

to be, legal or tax advice to any particular Holder. Accordingly, Holders are urged to consult their own tax advisors about the specific tax consequences to them of acquiring, holding and disposing of Offered Shares.

### **Residents of Canada**

The following discussion applies to Holders who, at all relevant times, are or are deemed to be residents of Canada (“**Resident Holders**”) for the purposes of the Tax Act. This summary is not applicable to: (a) a Holder that is a “financial institution”, as defined in the Tax Act for purposes of the mark-to-market rules; (b) a Holder, an interest in which would be a “tax shelter investment” as defined in the Tax Act; (c) a Holder that is a “specified financial institution” as defined in the Tax Act; (d) a Holder that is a corporation that has elected in the prescribed form and manner and has otherwise met the requirements to use functional currency tax reporting to report its “Canadian tax results”, as set out in the Tax Act; or (e) a Holder that has entered or will enter into, with respect to the Offered Shares, a “derivative forward agreement”, as defined in the Tax Act. Any such Holder to which this summary does not apply should consult its own tax advisor. In addition, this summary does not address the deductibility of interest on any funds borrowed by a Resident Holder to purchase Offered Shares.

This summary does not address the possible application of the “foreign affiliate dumping” rules in section 212.3 of the Tax Act to a Resident Holder that (i) is a corporation resident in Canada and (ii) is, or becomes, or does not deal at arm’s length with a corporation resident in Canada that is or becomes, as part of a transaction or event or series of transactions or events that includes the acquisition of Offered Shares, controlled by a non-resident corporation, individual or trust (or a group of such persons that do not deal at arm’s length) for the purposes of such rules. Such holders should consult their own tax advisors with respect to the possible application of these rules.

Certain Resident Holders whose Offered Shares might not otherwise qualify as capital property may, in certain circumstances, treat such Offered Shares, and all other “Canadian securities” (as defined in the Tax Act) owned or subsequently acquired by such Resident Holders, as capital property by making an irrevocable election pursuant to subsection 39(4) of the Tax Act. Resident Holders contemplating making an election should consult their tax advisors for advice as to whether the election is available and advisable in their particular circumstances.

### ***Dividends on Offered Shares***

In the case of a Resident Holder who is an individual (including certain trusts), dividends received or deemed to be received on the Offered Shares will be included in computing the Resident Holder’s income and will be subject to the gross-up and dividend tax credit rules that generally apply to taxable dividends received from taxable Canadian corporations. Provided that appropriate designations are made by Air Canada (which may include by way of a notice published on Air Canada’s website), any such dividend will be treated as an “eligible dividend” for the purposes of the Tax Act and a Resident Holder who is an individual will be entitled to an enhanced dividend tax credit in respect of such dividend. There may be limitations on Air Canada’s ability to designate dividends and deemed dividends as eligible dividends.

Dividends received or deemed to be received on the Offered Shares by a Resident Holder that is a corporation will be required to be included in computing the corporation’s income for the taxation year in which such dividends are received, but such dividends will generally be deductible in computing the corporation’s taxable income. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

A Resident Holder that is a “private corporation” or a “subject corporation” (each as defined in the Tax Act) may be liable under Part IV of the Tax Act to pay an additional tax at a rate of 38½% on dividends received or deemed to be received on the Offered Shares to the extent that such dividends are deductible in computing the Resident Holder’s taxable income for the taxation year. This additional tax may be refundable in certain circumstances. Such Resident Holder should consult its own tax advisors in this regard.

Dividends received or deemed to be received by a Resident Holder who is an individual (including certain trusts) may result in such Resident Holder being liable for alternative minimum tax under the Tax Act. Resident Holders who are individuals should consult their own tax advisors in this regard.

### ***Dispositions of Offered Shares***

Upon a disposition or deemed disposition of Offered Shares, a capital gain (or loss) will generally be realized by a Resident Holder to the extent that the proceeds of disposition are greater (or less) than the aggregate of the adjusted cost base of the Offered Shares to the Resident Holder immediately before the disposition and any reasonable costs of disposition. The adjusted

cost base of an Offered Share to a Resident Holder will be determined in accordance with the Tax Act by averaging the cost to the Resident Holder of an Offered Share with the adjusted cost base of all other Offered Shares (or other common shares) held by the Resident Holder as capital property. Such capital gain (or capital loss) will be subject to the treatment described below under “Certain Canadian Federal Income Tax Considerations – Residents of Canada - Taxation of Capital Gains and Capital Losses”.

### *Taxation of Capital Gains and Capital Losses*

One-half of a capital gain (a “**taxable capital gain**”) must generally be included in a Resident Holder’s income. One-half of a capital loss (an “**allowable capital loss**”) must generally be deducted by a Resident Holder against taxable capital gains realized in that year and allowable capital losses in excess of taxable capital gains for the year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent year (against taxable capital gains realized in such years) to the extent and under the circumstances described in the Tax Act. If the Resident Holder is a corporation, any such capital loss realized on the sale of shares may in certain circumstances be reduced by the amount of any dividends, including deemed dividends, which have been received on such shares. Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns shares, directly or indirectly through a partnership or a trust. Taxable capital gains realized by a Resident Holder who is an individual (including certain trusts) may give rise to alternative minimum tax depending on the Resident Holder’s circumstances.

A Resident Holder that is throughout the year a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional tax at a rate of 10% on its “aggregate investment income” (as defined in the Tax Act) for the year, including taxable capital gains, but excluding dividends or deemed dividends deductible in computing taxable income. Such additional tax may be refundable in certain circumstances. Such Resident Holder should consult their own tax advisors in this regard.

### **Non-Residents of Canada**

The following discussion applies to Holders who, for the purposes of the Tax Act, and at all relevant times, are not (and are not deemed to be) resident in Canada, and will not use or hold (and will not be deemed to use or hold) the Offered Shares in connection with, or in the course of carrying on, a business or part of a business in Canada (“**Non-Resident Holders**”). In addition, this discussion does not apply to an insurer that carries on an insurance business in Canada and elsewhere or an “authorized foreign bank” (within the meaning of the Tax Act), and such Holders should consult their tax advisors for advice having regard to their particular circumstances.

### *Dividends on Offered Shares*

Canadian withholding tax at a rate of 25% (subject to reduction under the provisions of any applicable income tax treaty or convention) will be payable on dividends on Offered Shares paid or credited, or deemed to be paid or credited, to a Non-Resident Holder. The rate of withholding tax applicable to a dividend paid on Offered Shares to a Non-Resident Holder who is a resident of the United States for purposes of the Canada-U.S. Income Tax Convention (the “**Convention**”), beneficially owns the dividend and qualifies for the benefits of the Convention, will generally be reduced to 15%. The rate of withholding tax on dividends may also be also reduced under other bilateral income tax treaties or conventions to which Canada is a signatory. Non-Resident Holders are advised to consult their tax advisors for advice having regard to their particular circumstances.

### *Dispositions of Offered Shares*

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition of Offered Shares unless the Offered Shares constitute “taxable Canadian property” (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention.

As long as the Offered Shares are then listed on a “designated stock exchange”, which currently includes the TSX, the Offered Shares generally will not constitute taxable Canadian property of a Non-Resident Holder, unless at any time during the 60-month period preceding the disposition: (a) at least 25% or more of the issued shares of any class or series of the capital stock of Air Canada was owned by or belonged to any combination of (x) the Non-Resident Holder, (y) persons with whom the Non-Resident Holder did not deal at arm’s length (for the purposes of the Tax Act), and (z) partnerships in which the Non-Resident Holder or a person described in (y) holds an interest directly or indirectly through one or more partnerships; and (b) more than 50% of the fair market value of the Offered Shares was derived, directly or indirectly, from a combination of (i) real or immoveable property situated in Canada, (ii) “Canadian resource property” (as such term is defined in the Tax Act), (iii) “timber resource property” (as such term is defined in the Tax Act), or (iv) options in respect of, or on interests in (or for civil law, rights in), any such properties (whether or not such properties exist). Notwithstanding the foregoing, Offered Shares may also be

deemed to be “taxable Canadian property” in certain circumstances. Non-Resident Holders whose Offered Shares are, or may be, taxable Canadian property should consult their tax advisors for advice having regard to their particular circumstances.

## **CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

To the knowledge of Air Canada, no director or executive officer of Air Canada is, as at the date of this Prospectus, or was, within 10 years before the date of this Prospectus, a director, chief executive officer or chief financial officer of any company that, (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an “Order”) that was issued while the director or executive officer of Air Canada was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an Order that was issued after the director or executive officer of Air Canada ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the knowledge of Air Canada, other than as disclosed below, no director or executive officer of Air Canada, or a shareholder holding a sufficient number of securities of Air Canada to affect materially the control of Air Canada, (a) is, as at the date of this Prospectus, or has been within the 10 years before the date of this Prospectus, a director or executive officer of any company that, while that person was acting in that capacity, 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 proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of the Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become 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, executive officer or shareholder of Air Canada. Michael Rousseau was a director of Aveos Fleet Performance Inc. from March 12, 2010 until February 27, 2012 pursuant to a board nomination right held by Air Canada under a shareholders agreement. Aveos Fleet Performance Inc. sought protection from its creditors under the *Companies’ Creditors Arrangement Act* (Canada) on March 19, 2012.

To the knowledge of Air Canada, no director or executive officer of Air Canada or a shareholder holding a sufficient number of securities of Air Canada to affect materially the control of Air Canada, (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.

## **RISK FACTORS**

Any investment in the Offered Shares offered hereby is subject to certain risks. Prospective investors should consider carefully before purchasing the Offered Shares the risks described below which are qualified in their entirety by reference to, and must be read in conjunction with, all the other information contained in this Prospectus and in the documents incorporated by reference herein, including those risk factors described in section 20 “Risk Factors” of Air Canada’s 2019 Annual MD&A and in section 14 “Risk Factors” of Air Canada’s 2020 Q3 MD&A, before purchasing Offered Shares. The risks identified in this Prospectus and the documents incorporated by reference may not be the only risks faced by Air Canada. Other risks of which Air Canada is not aware or which Air Canada currently deems to be immaterial may surface and have a material adverse impact on Air Canada, its business, results from operations and financial condition. If any of the following risks, or any other risks and uncertainties that Air Canada has not yet identified or that it currently considers not to be material, actually occur or become material risks, Air Canada’s business, prospects, financial condition, results of operations and cash flows, and consequently, the price of the Shares could be materially and adversely affected. In all these cases, prospective investors could lose all or part of their original investment in the Shares.

### **Risks Relating to Recent Events**

#### ***COVID-19 Pandemic***

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue and cash flows as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world, and particularly in Canada. The impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash flow from operations. There is very limited visibility on travel demand given changing government restrictions in place around the world

and the severity of the restrictions in Canada; these restrictions and concerns about travel due to the COVID-19 pandemic as well as passenger concerns and expectations about the need for certain precautions, such as physical distancing, are severely inhibiting demand. The COVID-19 pandemic is also having significant economic impacts, including on business and consumer spending, which may in turn significantly impact demand for travel. Air Canada cannot predict the full impact or the timing for when conditions may improve. Air Canada is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, availability of rapid, effective testing, vaccinations and effective treatments for the virus, government actions, and passenger reaction, as well as timing of a recovery in international and business travel which are important segments of Air Canada's markets, none of which can be predicted with any degree of certainty.

Air Canada will continue to be adversely impacted to the extent that travel restrictions remain in place over time. Air Canada as well as its brand and reputation may also be adversely impacted to the extent that safety measures introduced are not perceived to adequately address the risks of transmission of COVID-19 or justify relaxing the travel restrictions imposed by governments.

Air Canada's operations could also be adversely impacted further if the Corporation's employees (or third party employees such as those of airports or suppliers) are unable or restricted in their ability to work, including by reasons of being quarantined or becoming ill as a result of exposure to COVID-19, or if they are subject to government or other restrictions.

As a result of the COVID-19 pandemic, Air Canada reduced third quarter 2020 capacity by 81.7% when compared to 2019's third quarter, and fourth quarter 2020 capacity is expected to be reduced by approximately 75% when compared to the fourth quarter of 2019. Air Canada will continue to adjust its schedule and seek other measures to mitigate the impact. Air Canada is providing customers who booked with Air Canada and who are affected by cancellations with the option to convert their ticket to an Air Canada travel voucher that has no expiry date and is fully transferable. Alternatively, customers may convert the unused value of their ticket into Aeroplan Points with additional Aeroplan Points. Air Canada is refunding refundable fares according to the terms and conditions that govern them. Air Canada may be required to refund non-refundable fares depending on the laws of the jurisdictions applicable to such flights. Not refunding non-refundable tickets exposes Air Canada to litigation, as well as enforcement action by regulators in certain jurisdictions, and may also adversely impact Air Canada's brand and reputation. Class actions claiming the refund of non-refundable tickets or tour packages have been filed against Air Canada, and other carriers, in Canada and in the United States, and additional class actions or other proceedings may be instituted in these or other jurisdictions. In countries where refund requirements are or will be enhanced, maintained or enforced, ensuing refunds will impact Air Canada's liquidity and the impact of all these risks could be material.

### ***Disruption of Strategic Operating Plans in the Near and Long-Term***

COVID-19 has materially disrupted the Corporation's strategic operating plans in the near-term, and there are risks to the Corporation's business, operating results and financial condition associated with executing the Corporation's strategic operating plans in the long-term. In recent years, Air Canada has announced several strategic operating plans, including several revenue-generating initiatives and plans to optimize the Corporation's revenue, such as plans to add capacity, including international expansion and new or increased service to mid-size airports, initiatives and plans to optimize and control the Corporation's costs and opportunities to enhance segmentation and improve the customer experience at all points in air travel. In developing strategic operating plans, the Corporation makes certain assumptions, including, but not limited to, those related to customer demand, competition, market consolidation, the availability of aircraft and the global economy. Actual economic, market and other conditions have been and may continue to be different from the Corporation's assumptions. For example, in 2019, Air Canada's capacity growth was lower than planned due to the grounding of the Boeing 737 MAX aircraft, among other factors, which adversely impacted the Corporation's ability to execute strategic operating plans. In 2020, demand has been, and is expected to continue to be in 2021, significantly impacted by COVID-19, which has materially disrupted the timely execution of the Corporation's strategic operating plans, including plans to add capacity in 2020. If the Corporation does not successfully develop, execute or adjust the Corporation's strategic operating plans in the long-term, or if actual results continue to vary significantly from prior assumptions or vary significantly from current or future assumptions, the Corporation's business, operating results and financial condition could be materially and adversely impacted.

### ***Disruption of Regional Network***

The significant decline in demand for air travel services resulting from the COVID-19 pandemic has also materially impacted demand for regional carrier services and, as a result, the Corporation's utilization of its regional network is significantly reduced and is expected to remain so for the foreseeable future. The Corporation expects the disruption to services resulting from the COVID-19 pandemic to continue to adversely affect its regional carriers. If, as a result of the COVID-19 pandemic or another significant disruption to the Corporation's regional network, one or more of the regional carriers with which the Corporation has relationships is unable to perform its obligations over an extended period of time, there could be a material adverse effect on the Corporation's business, operating results and financial condition.

### ***Financial Leverage from Fixed Obligations; Additional Financing; Liquidity***

The Corporation has a significant amount of financial leverage from fixed obligations, including aircraft lease and debt financings, leases of airport property, secured loan facilities and other facilities, and other material cash obligations.

In addition, in response to the travel restrictions, decreased demand and other effects the COVID-19 pandemic has had and is expected to have on the Corporation's business, the Corporation currently intends to continue to seek material amounts of additional financial liquidity in the short-term, which may include the issuance of additional unsecured or secured debt securities, equity securities and equity-linked securities, the sale of assets as well as additional bilateral and syndicated secured and/or unsecured credit facilities, among other items. There can be no assurance as to the timing of any such issuance, which may be in the near term, or that any such additional financing will be completed on favorable terms, or at all.

Although the Corporation's cash flows from operations and its available capital, including the proceeds from financing transactions, have been sufficient to meet its obligations and commitments to date, the Corporation's liquidity has been, and may in the future be, negatively affected by the risk factors discussed elsewhere in this Prospectus and the documents incorporated by reference herein, including risks related to future results arising from the COVID-19 pandemic. If the Corporation's liquidity is materially diminished, the Corporation might not be able to timely pay its leases and debts or comply with certain operating and financial covenants under its financing and credit card processing agreements or with other material provisions of its contractual obligations. Moreover, as a result of the Corporation's recent financing activities in response to the COVID-19 pandemic including as described under "*Recent Developments – Financing and Liquidity*", the number of financings with respect to which such covenants and provisions apply has increased, thereby subjecting the Corporation to more substantial risk of cross-default and cross-acceleration in the event of breach, and additional covenants and provisions could become binding on the Corporation as it continues to seek additional liquidity. As of September 30, 2020, after giving effect to the Sale and Leaseback, the Corporation had approximately \$13.5 billion of indebtedness and finance lease obligations outstanding.

The Corporation's substantial level of indebtedness, particularly following the additional liquidity transactions completed and contemplated in response to the impacts of the COVID-19 pandemic, as well as market conditions and the availability of assets as collateral for loans or other indebtedness, which may be reduced as the Corporation continues to seek material amounts of additional financial liquidity, together with the effect the COVID-19 pandemic has had on the global economy generally and the air transportation industry specifically, may make it difficult for the Corporation to raise additional capital if needed to meet its liquidity needs on acceptable terms, or at all.

The Corporation's ability to make scheduled payments of the principal of, to pay interest on or to refinance its indebtedness depends on the Corporation's future performance, which is subject to economic, financial, government entry restrictions, public health conditions, competitive and other factors beyond its control. The Corporation's business may not continue to generate cash flow from operations in the future sufficient to service its debt and make necessary capital expenditures. For instance, in the third quarter of 2020, Air Canada experienced a net cash burn of \$818 million (or approximately \$9 million per day, on average). If the Corporation is unable to generate such cash flow, it may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. The Corporation's ability to refinance its indebtedness will depend on the capital markets and the Corporation's financial condition at such time. The Corporation may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on its debt obligations.

### ***Government Financial Assistance***

Unlike in many other countries, including the United States and many European countries, the Canadian government has not provided any financial assistance or other relief specifically for Canadian airlines in response to the COVID-19 pandemic. In the second quarter of 2020, the Canadian government announced a program entitled the “Large Employer Emergency Financing Facility” (“**LEEFF**”), addressed to “large Canadian employers”. As of the date hereof, Air Canada has not applied and does not intend to seek financial assistance under the LEEFF but may seek financial assistance under some of the programs discussed below.

In the fourth quarter of 2020, the Canadian government announced it is “developing a package of assistance to Canadian airlines, airports and the aerospace sector” and indicated that any assistance provided as part of such package would (i) include conditions to protect Canadians and the public interest, (ii) require airlines to provide ticket refunds for flights postponed or cancelled in relation to the COVID-19 pandemic, and (iii) ensure Canadians and regional communities retain air connections within Canada.

The application of the above conditions, as well as the specific terms and conditions, pursuant to which Air Canada could receive any government financial assistance or any other government aid initiative are not clear. Any such financial assistance and, in turn, the conditions imposed in connection with operations and in connection with receipt of financial assistance, may significantly limit Air Canada’s corporate activities, and its terms could adversely impact its business and operations. Financing under any government aid program or otherwise could require Air Canada to (i) issue ticket refunds for flights postponed or cancelled in relation to the COVID-19 pandemic, (ii) offer and/or maintain service to regional communities within Canada, (iii) seek amendments or waivers under agreements governing Air Canada’s existing or future indebtedness, (iv) issue warrants to purchase equity securities (or provide cash consideration equivalent to the value of the warrants), (v) restrict or otherwise limit Air Canada’s ability to declare dividends, or (vi) be subject to other limitations, covenants or restrictions on its business and operations. As a result of the foregoing, there can be no assurance that any government financial assistance will be made available to Air Canada on terms acceptable to it, or at all.

As indicated under “Recent Developments – COVID 19 Pandemic”, as part of its ongoing efforts to increase liquidity levels, Air Canada continues to pursue additional financing arrangements. Such financings may include secured or unsecured credit agreements or debt securities, as well as the issuance of additional Shares or equity-linked instruments. If Air Canada determines to pursue government funding but is unable to secure such funding under a government financial assistance program, or if such program or other assistance is not made available to Air Canada on terms acceptable to it, the amount of financing that Air Canada would be required to seek from other third parties would be increased accordingly. However, no assurance can be made that any such replacement financing will be available on acceptable terms or at all. See “Risk Factors – Financial Leverage from Fixed Obligations; Additional Financing; Liquidity” above for additional information.

### **Risks Related to the Offering**

#### ***Market Price and Volatility of the Shares***

There can be no assurance that an active market price for the Shares will be sustained after this Offering. The price of Air Canada’s securities could be significantly affected by a variety of factors, including, without limitation and in no particular order:

- the effects of the COVID-19 pandemic on the Corporation and global economic conditions, including as a result of travel demand, government restrictions, concerns about travel due to the COVID-19 virus and passenger expectations about the need for certain precautions, such as physical distancing;
- actual or anticipated fluctuations in Air Canada’s quarterly or annual earnings or those of other companies in its industry;
- changes in estimates of Air Canada’s future earnings by the Corporation or securities research analysts;
- changes in general conditions in Canada and the global economy, financial markets or airline industry, including those resulting from changes in fuel prices or fuel shortages, war, incidents of terrorism, other pandemics or responses to such events;
- acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Air Canada or its competitors; and
- the other risks described or referred to herein.

This volatility may affect the ability of holders of Shares to sell the Shares at an advantageous price, or at all.

Additionally, in recent periods, the stock market has experienced extreme declines and volatility. This volatility has had a significant negative impact on the market price of securities issued by many companies, including Air Canada and other companies in its industry. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, Air Canada's operations could be adversely impacted and the trading price of the Shares may be adversely affected.

Further, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the Corporation's performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Offered Shares by those institutions, which could adversely affect the trading price of the Shares.

### ***Use of Proceeds***

Air Canada cannot specify with certainty the allocation of the net proceeds it will receive from the Offering. Air Canada's management will have broad discretion in the allocation of the net proceeds in light of the objectives described under "Use of Proceeds" and will decide to allocate such proceeds as it deems appropriate.

### ***Dilutive Effects on Holders of Shares; Issuance of Additional Shares***

The issuance of Shares in connection with the Offering will have a dilutive effect on the holders of Shares. Pursuant to its articles of amalgamation, as amended, Air Canada is authorized to issue an unlimited number of Shares. If Air Canada raises additional funding by issuing additional equity securities, or issues equity-linked securities for any reason, including in connection with governmental aid programs, such financing or other issuance may substantially dilute the interests of shareholders of Air Canada, and could adversely affect the market price of the Shares. In addition, any issuance of Shares by Air Canada, or the perception that Air Canada could issue Shares, could adversely affect the market prices of the Shares.

Pursuant to the Underwriting Agreement, Air Canada has agreed not to issue, agree to issue, offer to issue or sell, agree to sell, or otherwise transfer or dispose of, directly or indirectly, or submit to, or file, without limitation, any prospectus relating to, any Shares or securities convertible into or exercisable or exchangeable for Shares, the whole for a period of 90 days from the Closing, without the prior written consent of each of the Active Bookrunners. Notwithstanding the foregoing, such limitations shall not apply to: (i) the Offered Shares; (ii) Shares of the Corporation to be issued in connection with the Transat Acquisition; (iii) any Shares issued upon the conversion of the Convertible Notes; (iv) any Shares issued (or withheld) upon the exercise or settlement of any options, restricted share units, performance share units or other equity-based awards under existing equity compensation plans and incentive retention plans of the Corporation, and any related swap or hedging instruments set up by the Corporation relating to the settlement costs of such awards; (v) any options, restricted share units, performance share units or other equity-based awards granted under existing equity compensation plans and incentive retention plans; and (vi) the issuance of warrants or other equity-based consideration by the Corporation as required by or as part of any assistance that the Corporation has received, applies for or will receive under any aid program established by the Government of Canada, and the issuance of Shares by the Corporation upon the exercise or conversion of any such warrants or other equity-based consideration in compliance with the requirements of such assistance.

## **LEGAL MATTERS**

Certain legal matters in connection with the Offering will be passed upon by Stikeman Elliott LLP on behalf of Air Canada and by Blake, Cassels & Graydon LLP on behalf of the Underwriters. As of the date hereof, the partners and associates of Stikeman Elliott LLP, as a group, and Blake, Cassels & Graydon LLP, as a group, each beneficially own, directly or indirectly, less than 1% of the outstanding securities of Air Canada or any associate or affiliate of Air Canada.

## **INTEREST OF EXPERTS**

The 2019 Annual Financial Statements have been audited by PricewaterhouseCoopers LLP, Chartered Professional Accountants, located at 1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Québec H3B 4Y1, Canada. PricewaterhouseCoopers LLP has confirmed that it is independent of the Corporation within the meaning of the *Code of Ethics of Chartered Professional Accountants* (Québec).

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Shares is AST Trust Company (Canada) at its principal offices in Montréal, Toronto, Vancouver and Calgary.

## STATUTORY RIGHTS OF RESCISSION AND WITHDRAWAL

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment thereto. In several of the provinces and territories, securities legislation further provides the purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory.

A purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

## ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

Certain of the directors of the Corporation, namely Ameer Chande, Rob Fyfe, Michael M. Green and Vagn Sørensen, reside outside of Canada. Each of the aforementioned directors has appointed Air Canada, 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec H4S 1Z3, Canada as agent for service of process. Purchasers are advised that it may not be possible for them to enforce judgments obtained in Canada against any person that resides outside of Canada, even if the party has appointed an agent for service of process.

## EXEMPTION UNDER SECURITIES LAWS

The Corporation has applied for an exemption pursuant to Section 19.1 of NI 41-101 and Section 8.1 of NI 44-101 requesting relief from the requirements under Section 5.9 of NI 41-101 and Item 21.1 of form 44-101F1 to include a prospectus certificate signed by each Underwriter who, with respect to securities offered by this Prospectus, is in a contractual relationship with the Corporation, on the basis that: (i) Deutsche Bank is a not registered investment dealer in any Canadian jurisdiction; (ii) Deutsche Bank will not, directly or indirectly, solicit offers to purchase or sell any Offered Shares in Canada and all sales of securities pursuant to this Prospectus in a province or territory of Canada will solely be made through Underwriters that are duly registered in the applicable province or territory where any offer of the Offered Shares will be made (collectively, the "**Canadian Underwriters**"); and (iii) this Prospectus includes a certificate signed by each Canadian Underwriter in compliance with Section 5.9 of NI 41-101 and Item 21.1 of form 44-101F1. The granting of the exemption will be evidenced by issuance of a receipt in respect of the final short form prospectus. No application for exemptive relief was sought in any other jurisdiction of Canada as, in the Corporation's view, there would be no "distribution" of Offered Shares in those other jurisdictions (within the meaning ascribed to such term under applicable securities laws in such other jurisdictions) in connection with a foreign offering.

**CERTIFICATE OF AIR CANADA**

Dated: December 16, 2020

This amended and restated short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

**AIR CANADA**

By: (Signed) CALIN ROVINESCU  
President and Chief Executive Officer Executive

By: (Signed) MICHAEL S. ROUSSEAU  
Deputy Chief Executive Officer and Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) JEAN MARC HUOT  
Director

By: (Signed) VAGN SØRENSEN  
Director

## CERTIFICATE OF THE UNDERWRITERS

Dated: December 16, 2020

To the best of our knowledge, information and belief, this amended and restated short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this amended and restated short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

**TD SECURITIES INC.**

**J.P. MORGAN SECURITIES  
CANADA INC.**

**CITIGROUP GLOBAL  
MARKETS CANADA INC.**

**MORGAN STANLEY  
CANADA LIMITED**

BY: (Signed) STEVE DUMANSKI

BY: (Signed) DAVID RAWLINGS

BY: (Signed) GRANT  
KERNAGHAN

BY: (Signed) DYLAN MCGUIRE

**CIBC WORLD MARKETS INC.**

**SCOTIA CAPITAL INC.**

BY: (Signed) PAUL ST-MICHEL

BY: (Signed) ADRIAN MAYOR-MORA

**BARCLAYS CAPITAL CANADA  
INC.**

**CREDIT SUISSE SECURITIES  
(CANADA), INC.**

**MERRILL LYNCH CANADA  
INC.**

BY: (Signed) ERIK CHARBONNEAU

BY: (Signed) RAM AMARNATH

BY: (Signed) DEEP KHOSLA

**BMO NESBITT BURNS INC.**

**NATIONAL BANK FINANCIAL  
INC.**

**RBC DOMINION SECURITIES  
INC.**

BY: (Signed) STEVE AUBÉ

BY: (Signed) NICOLAS JACOB

BY: (Signed) KIRON MONDAL