2020
Annual Information Form

March 11, 2021

AIR CANADA

A STAR ALLIANCE MEMBER

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EXPLANATORY NOTES

Except as otherwise noted or where the context may otherwise require, the information in this Annual Information Form ("AIF") is current as at December 31, 2020.

Air Canada and the Corporation – References in this AIF to Air Canada and to the "Corporation" include references, as the context may require, to Air Canada and its subsidiaries collectively, Air Canada and one or more of its subsidiaries, one or more of Air Canada's subsidiaries, or Air Canada itself.

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

Defined Terms – For an explanation of defined terms, capitalized terms and expressions used in this AIF, refer to the section entitled "Glossary of Terms" at the end of this AIF.

Currency – All currency amounts used in this AIF are stated in Canadian dollars, unless otherwise indicated.

Industry and Market Data – Market data and certain industry forecasts used throughout this AIF were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable at the relevant time, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts, market research and other publicly available information, while believed to be reliable, have not been independently verified, and the Corporation does not make any representation as to the accuracy or completeness of such information. Any estimates and forecasts involve risks and uncertainties and are subject to change based on various factors, including those discussed below under "Caution regarding forward-looking statements".

Caution regarding forward-looking statements – Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Such forward-looking statements are included in this AIF and may be included in other communications, including filings with regulatory authorities and securities regulators. 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 "preliminary"; "anticipate"; "believe"; "could"; "estimate"; "expect"; "intend"; "may"; "plan"; "predict"; "project"; "will"; "would"; and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, among other things, changing external events and general uncertainties of the business of Air Canada. 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, continues to face a severe 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 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 that may cause results to differ materially from results indicated in forward-looking statements include economic and geopolitical conditions, Air Canada's ability to successfully achieve or sustain positive net profitability, industry and market conditions and the demand environment, Air Canada's ability to pay its indebtedness and maintain or increase liquidity, including through government financial assistance, competition, energy prices, Air Canada's dependence on technology, cybersecurity risks, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to reduce operating costs), other epidemic diseases, terrorist acts, war, Air Canada's dependence on key suppliers, casualty losses, changes in laws, regulatory developments or proceedings, Air Canada'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, Air Canada's dependence on regional and other carriers, Air Canada's ability to preserve and grow its brand, employee and labour relations and costs, Air Canada's dependence on Star Alliance® and joint ventures, limitations due to restrictive covenants, pending and future litigation and actions by third parties, currency exchange, risks generally relating to the grounding of aircraft fleet types, pension plans, Air Canada'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** and, in particular, those identified in section 17 "*Risk Factors*" in Air Canada's 2020 MD&A. Furthermore, the acquisition of Transat A.T. Inc. is subject to regulatory approvals and certain conditions, and there are no assurances that the acquisition will be completed as described in this AIF or at all. The forward-looking statements contained or incorporated by reference in this AIF represent Air Canada's expectations as of the date of this AIF (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.

Intellectual Property – Air Canada owns or has rights to trademarks, service marks or trade names used in connection with the operation of its business. In addition, Air Canada's names, logos and website names and addresses are 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 AIF 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 AIF 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.

CORPORATE STRUCTURE

Name, Address and Incorporation

Air Canada was continued under the *Canada Business Corporations Act* ("CBCA") on August 25, 1988. Air Canada acquired Canadian Airlines International Ltd. ("Canadian Airlines") on July 6, 2000 and completed a corporate amalgamation with Canadian Airlines effective January 1, 2001, with the amalgamated entity being known as Air Canada. In 2006, Air Canada completed an initial public offering and secondary offering of Class A variable voting shares of Air Canada (the "Variable Voting Shares") and Class B voting shares of Air Canada (the "Voting Shares," together with the Variable Voting Shares, the "Shares").

Effective November 3, 2014, Air Canada's Voting Shares and Variable Voting Shares were listed for trading on the Toronto Stock Exchange ("TSX") under the single ticker "AC". Effective July 29, 2016, Air Canada's Variable Voting Shares and Voting Shares were listed for trading on OTCQX International Premier in the United States under the single ticker symbol "ACDVF."

The head office of Air Canada is located at 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec, H4S 1Z3. Air Canada's website address is **aircanada.com.** For greater certainty, no information contained on Air Canada's website (or any other website referred to in this AIF) is incorporated into this AIF, except for such information, if any, which is expressly stated in this AIF to be incorporated into this AIF.

Additional information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2020 and Air Canada's 2020 MD&A, both of which, along with this AIF, are available on SEDAR at **www.sedar.com** or on Air Canada's website at **aircanada.com**.

INTERCORPORATE RELATIONSHIP

At December 31, 2020, Air Canada did not have any subsidiary which represented 10% or more of the consolidated assets, or 10% or more of the consolidated sales and operating revenues of Air Canada, or, any subsidiaries which in the aggregate represented 20% or more of the total consolidated assets, or the total consolidated sales and operating revenues of Air Canada. Air Canada directly and/or indirectly holds all of the issued and outstanding shares of certain subsidiaries. Air Canada holds, directly and indirectly, all the issued and outstanding limited partner units of Touram Limited Partnership doing business as Air Canada Vacations® ("Air Canada Vacations"), a limited partnership formed under the laws of the province of Québec. Touram General Partner Inc., a corporation incorporated under the laws of Canada, is the general partner of, and holds a 0.00001% interest in Touram Limited Partnership and Air Canada holds a 100% interest in Touram General Partner Inc. As well, Air Canada holds, directly and indirectly, all the issued and outstanding limited partner units of Air Canada rouge LP, doing business as Air Canada Rouge® ("Air Canada Rouge"), a limited partnership formed under the laws of the province of Québec. Air Canada Rouge General Partner Inc., a corporation incorporated under the laws of Canada, is the general partner of, and holds a 0.0001% interest in Air Canada Rouge, and Air Canada holds a 100% interest in Air Canada Rouge General Partner Inc. Since January 10, 2019, Air Canada holds directly all the issued and outstanding shares of Aeroplan Inc. (formerly Aimia Canada Inc.), ("Aeroplan").

THE BUSINESS

Overview

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.

Air Canada enhances its domestic and transborder network with regional flights operated on behalf of Air Canada under the Air Canada Express banner. On March 1, 2021, Air Canada announced an agreement to revise its capacity purchase agreement ("CPA") with Jazz Aviation LP ("Jazz") and consolidate all of its regional flying with Jazz. For additional information, refer to the section entitled "Contracted Carriers" of this AIF.

Due to the devastating impacts of the COVID-19 pandemic on global travel, Air Canada significantly scaled down its entire network. In 2020, Air Canada, together with regional airlines, including Jazz and Sky Regional Airlines Inc. ("Sky Regional"), operated, on average, 544 daily scheduled flights to 192 direct destinations, down from 1,531 daily scheduled flights to 217 direct destinations in 2019. Air Canada reduced its ASM system capacity by 84% during the last three quarters in 2020 when compared to 2019 while maintaining necessary services on key routes, where possible, to support essential travel and the trade and flow of required goods. The airline continues 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 market and regulatory conditions.

Air Canada also streamlined its fleet in 2020. At December 31, 2020, Air Canada mainline had an operating fleet of 169 aircraft (compared to 188 on December 31, 2019), comprising 91 Boeing and Airbus narrow-body aircraft (including 24 Boeing 737 MAX aircraft that were grounded in 2020 and some of which resumed commercial flying on February 1, 2021), 78 Boeing and Airbus wide-body aircraft, while Air Canada Rouge had an operating fleet of 39 aircraft (compared to 64 on December 31, 2019, comprising of 14 Airbus A321 aircraft, five Airbus A320 aircraft and 20 Airbus A319 aircraft. At December 31, 2020, the Air Canada Express fleet was composed of 49 Mitsubishi regional jets, 62 De Havilland Dash-8 turboprop aircraft and 25 Embraer 175 aircraft for a total of 136 aircraft (compared to 146 on December 31, 2019). Air Canada is permanently retiring certain older aircraft from its fleet, consisting of less efficient Boeing 767, Airbus A319 and Embraer 190 aircraft. Their retirement will reduce Air Canada's cost structure, simplify the airline's overall fleet, and lower its carbon footprint.

Air Canada is a founding member of the Star Alliance® network. Through the 26-member airline network, Air Canada has the ability to offer its customers access to a vast global network, as well as reciprocal participation in frequent flyer programs and the use of airport lounges and other common airport facilities.

Air Canada's Aeroplan program is Canada's premier travel loyalty program. The Aeroplan program allows individuals to enroll as members and accumulate Aeroplan points through travel on Air Canada and select partners, as well as through the purchase of products and services from participating partners and suppliers. Members can 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 suppliers. Aeroplan Elite Status recognizes Air Canada's frequent flyers, as well as Aeroplan's most engaged members, with a range of priority travel services and membership benefits.

Air Canada Vacations is a leading Canadian tour operator, developing, marketing and distributing vacation travel packages, operating 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, and offering cruise packages in North America, Europe, and the Caribbean. Air Canada Rouge is Air Canada's leisure carrier.

Air Canada Cargo, a division of Air Canada, is a global cargo service provider, offering cargo services on passenger flights and on all-cargo flights. In 2020, in addition to transporting freight on Air Canada's aircraft operating scheduled passenger services, Air Canada Cargo started transporting freight on all-cargo flights using Air Canada's mainline wide-body aircraft, as well as four converted Boeing 777 and three converted Airbus 330 aircraft where it has increased available cargo space by removing seats from the passenger cabin. Air Canada plans to operate all-cargo flights throughout 2021. Air Canada also expects to generate incremental cargo revenue by entering the e-commerce business and by converting several of its owned Boeing 767 aircraft into dedicated freighters to leverage the growth of e-commerce.

STRATEGY AND COVID-19 MITIGATION AND RECOVERY PLAN

Air Canada, along with the rest of the global airline industry, continues to face 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 impacts 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 from operations. Canada has among the strictest travel restrictions and quarantine requirements in the world, including barring most inbound travel by non-Canadians and imposing a 14-day quarantine on passengers returning from abroad. In addition, effective January 7, 2021, international travellers five years of age or older entering Canada are required to present, prior to boarding a flight, a negative COVID-19 PCR test. On January 29, 2021, the Government of Canada announced further restrictions to international travel including PCR testing upon arrival and mandatory quarantine in a government-approved hotel for three days at the travellers' expense (and, for travellers with a positive COVID-19 test, an additional quarantine in government facilities). The new measures relating to PCR testing upon arrival and mandatory quarantine in a government-approved hotel became effective February 21, 2021.

Air Canada's vision for recovery is predicated on leveraging the solid foundation it has built over the past several years to restore and rebuild towards its global champion ambition. This involves rebuilding a strong global network with a focus on hub-to-hub flying providing seamless connectivity with Air Canada's partners, delivering consistent and superior customer service and diversifying its revenue base, including through Aeroplan and Air Canada Cargo. Seeking and implementing measures to reduce costs (and maintain the controllable cost reductions achieved as part of its COVID-19 Mitigation and Recovery Plan) and increase revenues remain key priorities. This is being progressed while mitigating the effects of the COVID-19 pandemic through a variety of strategic initiatives such as fleet modernization, the airline's expanded suite of branded fare products, a renewed and improved loyalty program, the expansion of Air Canada Cargo, and investments in technology.

For additional information on Air Canada's strategy and measures it has deployed in response to the pandemic, refer to section 4 "*Strategy and COVID-19 Mitigation and Recovery Plan*" of Air Canada's 2020 MD&A, which section is incorporated into the AIF by this reference.

ROUTES AND SCHEDULE

As the impacts of the COVID-19 pandemic subside, Air Canada expects that the leisure and Visiting Friends & Relatives ("VFR") markets to lead the recovery, followed by the business market.

Air Canada's hubs of Toronto, Vancouver and Montréal each offer complementary geography and demographics. These hubs are well positioned to capture global traffic flows and have the benefit of a strong local multicultural population base that offers Air Canada a variety of opportunities globally.

Air Canada has a modern and efficient fleet, including the Boeing 777 aircraft with its competitive cost per available seat mile that is well adapted to service high-volume leisure markets and the Boeing 787 aircraft with its lower operating costs, mid-size capacity and flexible operating range. Air Canada's wide-body aircraft also offer best-in-class seating density, lowering CASM and thereby reducing the overall dependence on premium business travel during the recovery.

The airline is also renewing and improving its narrow-body fleet. At December 31, 2020, Air Canada had taken delivery of 15 Airbus A220 aircraft. The Airbus A220 aircraft replaces the Embraer 190 aircraft and, with its longer range and better efficiency, offers more flexible deployment opportunities, enabling Air Canada to serve new markets not as well suited to its larger Boeing 737 MAX or Airbus A321 aircraft. Air Canada also has 24 Boeing 737 MAX 8 aircraft in its fleet (of a firm order of 40). The Boeing 737 MAX aircraft has a longer range and offers greater maintenance and fuel efficiencies than the aging mainline narrow-body Airbus aircraft it replaces.

As a result of the impacts of the COVID-19 pandemic and related travel restrictions, Air Canada reduced ASM capacity by 67% in 2020 compared to 2019 and reduced first quarter 2021 capacity by approximately 85% compared to the first quarter of 2019 (also representing a reduction of approximately 83% compared to the first quarter of 2020). The airline continues 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 market and regulatory conditions. For additional information, refer to section 4 "*Strategy and COVID-19 Mitigation and Recovery Plan*" of Air Canada's 2020 MD&A, which section is incorporated into the AIF by this reference.

Domestic Services

Prior to the COVID-19 pandemic, the most important Canadian routes, in terms of operating revenues, were the transcontinental routes linking Toronto, Montréal, and Ottawa with major western Canadian cities, including Vancouver, Calgary, Edmonton, and Winnipeg.

On a combined basis, in 2019, Air Canada, together with regional airlines operating flights on behalf of Air Canada under CPAs ("Contracted Carriers"), operated a large number of short-haul routes, including Rapidair® routes, linking Toronto, Montréal and Ottawa. Air Canada, together with its Contracted Carriers, also offered frequent service linking major metropolitan centres within Western Canada, and operated numerous flights between Calgary, Edmonton, and Vancouver. In addition to transcontinental and commuter routes, Air Canada, together with its Contracted Carriers, operated a large number of routes between and within Central Canada, the Prairies and the Atlantic provinces.

As a result of the COVID-19 pandemic, Air Canada drastically reduced its domestic operations in 2020, with route suspensions across Canada.

As the impacts of the COVID-19 pandemic subside, Air Canada's domestic network will be a priority given border closures and other impediments to international travel. Air Canada plans to rebuild and re-enter services that it had suspended temporarily.

Transborder Services

Prior to the COVID-19 pandemic, Air Canada had the most non-stop destinations and flights from Canada to the United States and Air Canada, together with its Contracted Carriers, carried more passengers between Canada and the United States than any other airline. Air Canada's network reach was also enhanced through its extensive connections and code share flights with United Air Lines Inc. ("United Airlines"), its Star Alliance® partner.

Given the Canada-U.S. border, travel and entry restrictions due to the COVID-19 pandemic, Air Canada drastically reduced its U.S. transborder operations in 2020, with route suspensions across its services to and from the United States.

As the Canada-U.S. border reopens, Air Canada plans to restore its services into primary and secondary markets. Additionally, Air Canada will continue to build on its relationship with United Airlines with the goal of re-establishing its network using the strengths of each other's hubs. The airline's strategy for global connecting ("Sixth Freedom") traffic to and from the United States is an important element of the airline's recovery plan.

International Services

Prior to the COVID-19 pandemic, in 2019, Air Canada provided direct scheduled service to 99 international destinations and was the largest provider of scheduled passenger services in the international market to and from Canada.

As a result of the COVID-19 pandemic and the related travel restrictions Air Canada drastically reduced international operations in 2020.

As the impacts of the COVID-19 pandemic subside, Air Canada will rebuild its international network and leverage its relationships with partners to strengthen its services to allow for optimal connectivity through its hubs. Air Canada will continue to participate in its transatlantic joint venture, referred to as A++, with United Airlines and Deutsche Lufthansa AG ("Lufthansa") to coordinate pricing, scheduling and sales (under the joint venture), in order to better service customers by offering more travel options, greater choice and streamlined service on routings between North and Central America, as well as Africa, India, Europe and the Middle East. The airline will also continue to further strengthen its partnership with Air China as well as leverage its existing relationships in this market.

AIR CANADA VACATIONS AND AIR CANADA ROUGE

Prior to the COVID-19 pandemic, Air Canada had been pursuing a comprehensive strategy to improve its competitiveness and profitability in leisure markets. This strategy leveraged the strengths of Air Canada, Air Canada Rouge, Air Canada's leisure airline, and Air Canada Vacations. As the impacts of the COVID-19 pandemic subside, Air Canada expects that the leisure market, along with the VFR market, will lead the recovery.

Air Canada Vacations is a Canadian tour operator based in Montréal and Toronto that offers its products through its website at **vacations.aircanada.com** and through a network of independent travel agencies across Canada. The Air Canada Vacations business has also been impacted by the effects of the COVID-19 pandemic, including government-imposed travel restrictions and the suspension of all flights to Mexico and the Caribbean between February 1 and April 30, 2021. In 2019, Air Canada Vacations operated in the outbound leisure travel market (i.e., Caribbean, Mexico, U.S., Europe, Central and South America, South Pacific, Australia, and Asia) and the inbound leisure travel market to destinations within Canada by developing, marketing and distributing vacation travel packages. Air Canada Vacations also offered cruise packages in North America, Europe, and the Caribbean.

Over the last several years, Air Canada Rouge has been deployed to leisure destinations in the Caribbean, United States and in Canada, as well as to international leisure markets. Air Canada Rouge leverages the strengths of Air Canada, including its extensive network with enhanced connection options, operational expertise, and frequent flyer program. Air Canada Rouge seeks to maintain a cost structure consistent with that of its leisure market competitors, effectively lowering CASM on leisure routes with increased seat density, lower wage rates, more efficient work standards, and reduced overhead costs. Air Canada Rouge also provides Air Canada with the ability to compete against low-cost carriers and ultra-low-cost carriers. In 2021, the Air Canada Rouge fleet will consist of narrow-body aircraft only and will, subject to the impacts of the COVID-19 pandemic, primarily operate short and medium haul flights to leisure destinations in the Caribbean, the U.S., and Canada. As the COVID-19 pandemic recedes, Air Canada will rebuild its transatlantic network, focused on hub-to-hub markets and leisure-focused European destinations, using mainline aircraft and supported by its commercial partnership with Lufthansa.

AEROPLAN

On January 10, 2019, Air Canada completed its purchase of Aeroplan from Aimia Inc., the former owner and operator of the Aeroplan loyalty business. The aggregate purchase price for the acquisition consisted of $450 million in cash plus $67 million in cash for closing adjustments (total purchase consideration of $517 million). The acquisition also included the assumption of the Aeroplan points liability.

Concurrently, with the conclusion of the Aeroplan purchase, Air Canada, Aeroplan, the Toronto-Dominion Bank ("TD Bank"), Canadian Imperial Bank of Commerce ("CIBC") and Visa Canada Corporation ("Visa") finalized various commercial agreements relating to and in support of the acquisition, including credit card loyalty program and network agreements for future participation in the Aeroplan program. Similarly, in the first quarter of 2019, Air Canada, Aeroplan and Amex Bank of Canada ("AMEX") concluded agreements enabling AMEX's continued participation in the Aeroplan program. Air Canada received payments from TD Bank, CIBC, Visa and AMEX in the aggregate amount of $1,212 million.

In addition, TD Bank and CIBC made payments to Air Canada in the aggregate amount of $400 million as prepayments to be applied towards future monthly payments in respect of Aeroplan points.

Ahead of the program's relaunch, in response to the COVID-19 pandemic, Air Canada announced special benefits and accommodations for Aeroplan Members. These include pausing the expiration of Aeroplan points, extending 2020 Aeroplan Elite Status through the end of 2021, waiving certain change and cancellation fees for Aeroplan flight rewards, and launching special offers to help members earn Elite Status and additional points, without leaving home.

Consistent with its commitment of continued investments in its loyalty program, Air Canada launched a transformed Aeroplan program in November 2020. Aeroplan now offers a wide range of new features, including some which are first-in-market.

- **Improved Value on Flight Rewards**: Aeroplan offers flight rewards to hundreds of destinations worldwide on Air Canada and nearly 40 partner airlines. Members can redeem Aeroplan points to purchase any Air Canada seat that is available for sale, with no cash surcharges. With points + Cash, members also have the flexibility to save their Aeroplan points and pay for a portion of their flight reward in cash.

- **More Options for More Members**: Aeroplan offers additional features like Family Sharing, enabling members to combine Aeroplan points with others in their household, so they can redeem for travel sooner. In addition, members may earn Aeroplan points with every Air Canada flight booked in cash on Air Canada's website or app, now including Economy Basic fares. Members also have access to an expanded range of travel and merchandise rewards.

- **Upgraded Aeroplan Elite Status**: Air Canada Altitude is now Aeroplan Elite Status. Improvements include Priority Rewards, entitling members to 50% off the price in points on eligible flight rewards with Air Canada and its airline partners. In addition, using Status Pass, eligible Aeroplan Elite Status Members can share their benefits, such as priority boarding and lounge access, with friends and family members, even if they are not travelling together.

- **All-New Aeroplan Credit Cards:** The redesigned Aeroplan co-branded credit cards offer extensive Air Canada travel perks, such as a free first checked bag, and with certain cards, access to our Maple Leaf Lounges and priority boarding. Members who hold eligible credit cards issued by card partners TD, CIBC and American Express may earn rewards more quickly and have access to unique new benefits.

Shortly following launch in late 2020, JPMorgan Chase & Co. ("Chase'") and Air Canada announced a strategic partnership that will make Chase the exclusive issuer of the airline's Aeroplan U.S. credit card. This multi-year agreement is designed to provide U.S. customers with improved access to the unique rewards and flexibility offered by the Aeroplan program. The new Aeroplan credit card from Chase is scheduled to launch in late 2021.

Building upon its successful relaunch, in 2021, Aeroplan intends to introduce additional program features, while expanding its partnership network in various categories, to further grow and engage its membership base.

CONTRACTED CARRIERS

As discussed in the section entitled "*The Business*" of this AIF, Air Canada enhances its domestic and transborder network with regional flights operated on its behalf under the "Air Canada Express" banner.

The significant decline in demand for air travel services throughout most of 2020 resulting from the COVID-19 pandemic has also drastically impacted demand for regional carrier services and, as a result, Air Canada's utilization of its regional network is significantly reduced and is expected to remain so for the foreseeable future.

In February 2019, Air Canada concluded an agreement to amend and extend its capacity purchase agreement with Jazz ("Jazz CPA") and to provide for an equity investment by Air Canada in Chorus Aviation Inc. ("Chorus"), Jazz's parent corporation. The amendments extended the term of the CPA to 2035, provided for CPA cost savings and optimized network and fleet flexibility compared to the prior Jazz CPA.

Concurrent with the 2019 Jazz CPA amendments, Air Canada made a $97.26 million equity investment in Chorus, subscribing for 15,561,600 Class B voting shares in the capital of Chorus, representing, at time of issuance, approximately 9.99% of the issued and outstanding Class A variable voting shares and Class B voting shares of Chorus on a combined basis. Chorus shares were issued to Air Canada at a price of $6.25 per share, representing a 5% premium to their five-day volume weighted average price as of the close of trading on January 10, 2019. Concurrently with the closing of the equity investment, Air Canada and Chorus entered into an investor rights agreement under which, among other things, Air Canada will hold the investment shares for a period of at least 60 months, subject to certain limited exceptions, and grants Air Canada the right to one nominee on Chorus' board of directors.

In March 2021, Air Canada and Jazz concluded a further agreement to amend the Jazz CPA pursuant to which Air Canada will transfer operation of its Embraer 175 aircraft to Jazz from Sky Regional and Jazz will become Air Canada's sole Contracted Carrier. The amendment to the Jazz CPA is subject to Jazz reaching an agreement with the Air Line Pilots Association, International, which represents pilots at Jazz and Sky Regional. If this condition is satisfied, the Jazz CPA will be amended on a retroactive basis to January 1, 2021. As a result of the Jazz CPA revisions and consolidation of regional flying, Air Canada expects to realize $400 million in cost reductions over the 15-year term of the agreement ($43 million per year until 2026 and $18 million per year thereafter). This includes increasing near term-cost certainty as a result of the combined fleet under a single operator, reducing Air Canada's overall regional flying compensation and creating related operational costs savings. In addition, the revised Jazz CPA will lower future contractual capital expenditure and leasing costs through a restructured Jazz CPA fleet, avoiding an estimated $193 million in future capital expenditures.

SIGNIFICANT ACQUISITIONS

Proposed Acquisition of Transat

On October 10, 2020, Air Canada announced amendments to the acquisition transaction with Transat A.T. Inc. ("Transat") previously disclosed. The acquisition agreement provides for the acquisition by Air Canada of all the shares of Transat for $5.00 per share, payable at the option of Transat shareholders in cash or Shares of Air Canada at a fixed exchange ratio of 0.2862 Shares of Air Canada for each Transat share (representing a price for the Air Canada Shares of $17.47). However, the transaction remains subject to certain conditions including, notably, the ongoing approval process of certain regulatory authorities. The Canadian regulatory authorities approved the transaction on February 11, 2021, and the approval process of regulatory authorities in other jurisdictions, including the European Commission, is ongoing.

Under the acquisition agreement with Transat, closing of the transaction was to be completed no later than February 15, 2021; it may be extended at any time by agreement of the parties and remains in force unless terminated by either of them.

There can be no assurance that all required regulatory approvals will be granted, that relevant delays for completion will be extended or that the transaction will be successfully completed.

STAR ALLIANCE®

Air Canada is a founding member of the Star Alliance® network, the world's largest airline alliance group. Since its inception in 1997, the Star Alliance® network has grown to include 26 airlines.

The Star Alliance® network is an alliance that brings together flight networks, lounge access, check-in services, ticketing and other services to improve the travel experience for customers. Member airlines have implemented initiatives, such as the common utilization of facilities, and are focusing on capturing potential synergies in additional areas. Air Canada has codeshare arrangements with all Star Alliance® members with the exception of Copa Airlines and Shenzhen Airlines.

In 2020, as a result of the impacts of the COVID-19 pandemic, the operations of Air Canada and its Star Alliance carriers were drastically impacted. During 2020, Air Canada and Star Alliance® members collaborated to develop and implement new health hygiene standards at multiple touchpoints along the customer journey. Air Canada also continued to offer its customers reciprocal participation in frequent flyer programs.

JOINT ARRANGEMENTS AND CODESHARE PARTNERSHIPS

The development of commercial alliances with major international carriers is an important element of Air Canada's business strategy. These arrangements provide Air Canada with an effective means to leverage and broaden its network offerings. Air Canada achieves this through its membership in Star Alliance®, its revenue-sharing joint venture with Air China on routes between Canada and China, its A++ transatlantic revenue-sharing joint business agreement with United Airlines and Deutsche Lufthansa AG, which the parties are focused on enhancing to increase competitiveness, create operating efficiencies and improve customer experience. By coordinating pricing, scheduling and sales (under these agreements, that are sanctioned by competitive authorities), Air Canada is better able to serve customers by offering more travel options, while reducing travel times.

The airline's numerous codeshare and interline agreements further enable it to achieve greater critical mass and network scope. In addition to its 23 Star Alliance® codeshare partners, Air Canada also maintains a codeshare relationship with 10 non-member airlines. These include Aer Lingus, Cathay Pacific, Central Mountain Air, Etihad Airways, Eurowings, GOL Linhas Aéreas Inteligentes, Middle East Airlines, Qatar Airways, Sri Lankan Airlines and Virgin Australia. Subject to government approvals, Air Canada is also in the process of adding two new codeshare partners to its portfolio: Air Dolomiti and Vistara.

Air Canada continues to assess new strategic partnerships as the further development of commercial alliances with major international carriers is an important element of Air Canada's recovery plan.

CARGO

Air Canada Cargo, a division of Air Canada, is Canada's largest provider of air cargo services as measured by cargo capacity. Its primary customers are large freight forwarding companies and businesses whose products require the use of air services to expedite their time-sensitive cargo shipments. It offers shipping solutions tailored to specific commodities and time requirements to meet the needs of its customers efficiently and cost-effectively.

With a profit-driven and innovation focus, Air Canada Cargo develops applications and uses technology to consistently improve operational and business processes and deliver quality service to its customers. It is active in many industry initiatives and assumes a position of leadership in moving the air cargo industry forward.

In 2019, Air Canada Cargo provided direct cargo services to more than 150 Canadian, U.S. transborder and international destinations and had sales representation in over 50 countries.

In 2020, in addition to transporting cargo on passenger flights, Air Canada Cargo began operating dedicated, all-cargo flights. Air Canada Cargo operated over 4,000 all-cargo flights in 2020 on wide-body aircraft, including on seven aircraft converted to enable cargo transport in the cabin. The expansion of Air Canada Cargo is expected to play an important role in Air Canada's recovery, including by helping diversify Air Canada's revenue base.

Air Canada also expects to generate incremental cargo revenue by entering the e-commerce business, providing specialized e-commerce delivery services using its existing fleet. The airline's goal is to drive end-to-end value through enhanced technology, dynamic pricing, and transparency across the delivery supply chain. This new initiative will be implemented in phases and is expected to be completed over the next year or so in Canada. In addition, Air Canada plans to convert several of its owned Boeing 767 aircraft to dedicated freighters to leverage the growth of e-commerce and Air Canada's global footprint.

SUSTAINABILITY AND SOCIAL IMPACT

Being a global champion involves being a responsible corporate citizen and doing what is right for the longer-term interest of Air Canada's shareholders, employees, customers, communities, and other stakeholders; it includes supporting research and development of innovative ways to reduce Air Canada's environmental footprint and governing its business responsibly, safely, and ethically. Air Canada's social and environmental achievements are reported through its Corporate Sustainability Report "Citizens of the World" in accordance with the Global Reporting Initiative ("GRI") standards. Internationally recognized as a leader in sustainability reporting standards, GRI standards help maintain transparency in corporate reporting related to performance on governance, environmental, and social matters. Seven indicators, including Scope 1 and 2 greenhouse gas ("GHG") emissions, are verified by an independent external party, following internationally recognized standards. Information on Air Canada's carbon footprint, targets and climate protection strategy have been reported through the Climate Disclosure Project ("CDP") for the past 13 years. To access the CDP, please visit: **www.cdp.net**.

Air Canada is also committed to pursuing the sustainable development goals ("SDGs") and has joined the UN Global Compact, an organization that encourages all businesses to adopt sustainable and socially responsible practices. The 17 SDGs are at the heart of the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015 and provide a shared blueprint for peace and prosperity for people and the planet, now and into the future.

Air Canada's corporate sustainability reports, GRI Content Index (and related charts), and the 2019 United Nations Communication of Progress are available at **www.aircanada.com/citizensoftheworld**.

Below is a brief discussion of certain environmental, social and governance matters at Air Canada. An overview will be provided in our upcoming 2020 Annual Report and a more detailed ESG discussion will be provided in Air Canada's 2020 Corporate Sustainability Report.

Safety, Health and Wellness

Air Canada makes safety its first and core consideration in all that it does. Air Canada has extensive health and safety programs to prevent work accidents and injuries. Key to these measures is the Hazard Prevention Program, which allows health and safety committees to identify and assess workplace hazards and to determine appropriate controls for mitigating risks. These committees cover all employee groups at Air Canada. The Corporate Safety branch, through its Corporate Safety and Emergency Management department, is responsible for ensuring that employee safety programs are documented, implemented, effective and adapted to realize identified improvements. Among other activities, the Corporate Safety branch monitors compliance with applicable laws and regulations while tracking employee safety-related incidents. In addition, Air Canada continues to maintain exemplary IATA Operational Safety Audit results.

Biannual, voluntary and confidential safety culture surveys are conducted to collect employees' insight on safety.

Air Canada has been continually updating its health and safety policies and procedures for travellers and employees in airports, onboard aircraft and in other workplaces to account for new information about COVID-19 as it becomes available. In 2020, as part of its COVID-19 Mitigation and Recovery Plan, it developed and launched Air Canada CleanCare+, an industry-leading comprehensive program, along with several other measures, including TouchFree Bag Check for flights departing from Canadian airports and medical and testing collaborations. Air Canada is also working with the Creative Destruction Labs Rapid Screening Consortium on rapid antigen screening in the workplace starting with pilots in Toronto and Montréal.

Air Canada has workplace safety measures in place to ensure the safety of its employees. In addition to COVID-19-related measures, these include policies on workplace violence and harassment, drugs and alcohol, workplace safety training and automated external defibrillator units in all facilities.

Employees may benefit from the Employee and Family Assistance Program (or other similar programs), which provides confidential help for any work, health and other life concern, and Air Canada's unique corporate wellness program, Unlock the Best in You ("UBY"). UBY provides tools, resources and training in relation to health and wellness, mental health, financial health, and work health.

Air Canada has developed a cybersecurity framework and continues to implement its privacy action plan to progress its privacy maturity, cyber security resilience and manage risks through multi-layered means, including through more robust infrastructure, consistent processes and effective governance. Privacy efforts are focused notably in the areas of polices governance, vendor privacy risk management, record of processing activities, privacy impact assessments and data subject rights management. As part of its security efforts, Air Canada implemented a Multi-Factor Authentication Program for employee and customer-facing applications. Internal controls and Payment Card Industry Data Security Standard (PCI DSS) controls are assessed annually in accordance with the National Instrument 52-109 (NI 52-109) auditing standard and PCI DSS 3.2.1 respectively.

Employee and Labour Relations

Air Canada's deep and strong relationship with its major union groups is a fundamental pillar of Air Canada's sustainable future. This was exemplified through their close and constructive work to transform cargo operations and mitigate, as best as possible, the unavoidable workforce reduction effected as a result of the unprecedented impacts of the COVID-19 pandemic.

Retention and development of employees is the cornerstone of a healthy work culture and protects the longevity of a business while setting it up for future success. Air Canada focuses on building a sustainable workforce and, as such, contributes to the socio-economic development in Canada. Air Canada is an important contributor to the travel and tourism sector worldwide. Notwithstanding the impacts of the COVID-19 pandemic, talent management and retention remain a key focus for the future of the organization.

Diversity and Inclusion

Air Canada believes that having diverse perspectives maximizes the effectiveness and quality of decision-making. Air Canada's commitment to diversity was affirmed in a written Board Diversity Policy first adopted by the Board of Directors in February 2015 and, more recently, affirmed in an amended policy in February 2020. The diversity policy requires that candidates be selected for nomination based on merit and objective criteria, having due regard for the benefits of diversity, including the representation of members of designated groups (such as women, members of visible minorities, Indigenous Peoples and persons with disabilities).

Air Canada is a member of the 30% Club and a signatory to the Catalyst Accord 2022, whose objective is to increase the average percentage of women on boards and in executive positions in corporate Canada to 30% or greater by 2022. Air Canada established and exceeded a target of women representing at least 30% of senior management by 2020. One third of Air Canada's Executive Committee is composed of women and over 30% of the Board is represented by women. One out of the 12 directors (8%) is a member of a visible minority.

Air Canada pursues a comprehensive diversity management strategy with the goal of ensuring an inclusive and diverse workplace based on respect, where all employees feel they belong, which creates an environment in which they can best use their talents. In 2020, Air Canada signed the BlackNorth Initiative CEO Pledge that is focused on promoting the elimination of anti-Black systemic racism and on creating opportunities for Black people within the company. As part of the Pledge Air Canada committed to, at a minimum, have 3.5% of executive and board roles being held by Black leaders by 2025. In 2020, Air Canada also launched a new leadership bursary with Pinball Clemons Foundation for people of colour and introduced training on accessible transportation for persons with disabilities, for all customer-facing employees and management involved in decision-making or developing policies or procedure setting. On March 4, 2021, Air Canada announced that it been named one of Canada's Best Diversity Employers for the sixth consecutive year by MediaCorp Canada Inc. The airline was selected for its ongoing commitment to inclusiveness through various initiatives and programs that promote equal opportunities for all people and a work environment where all employees feel respected and recognized.

Community

Air Canada believes that an airline truly thrives when it fully participates in the communities it serves. In a year that was challenging unlike any other, Air Canada and the Air Canada Foundation continued to help Canadian communities in need through in-kind donations, employee volunteering, fundraising and special initiatives, including:

- Air Canada provided and promoted opportunities for Aeroplan Members to support communities through special offers, matching campaigns and donation opportunities, including during the Travel at Home campaign. In 2020, more than 150 million Aeroplan points were donated by Aeroplan Members to charities.

- A food rescue effort initiated across Canada, which provided more than 770,000 kilograms of food from April to December 2020, representing over 1.3 million meals. These efforts supported more than 70 front-line social service organizations across eight provinces and averted food waste, which would have resulted in approximately 1.5 million kg of GHG emissions from new food production, processing or retailoring.

Air Canada operated more than 4,000 all-cargo flights in 2020, providing consistent global capacity to ensure the flow of essential goods in the supply chain, including personal protective equipment (PPE). As of December 2020, more than 2.6 million kilograms of PPE were transported. Air Canada Cargo underwent an extensive preparedness exercise in 2020 to ensure its operations meet current requirements for the transport of vaccines. COVID-19 vaccines are being transported around the world, and Air Canada Cargo is proudly involved in bringing the vaccines to Canadians.

The Environment

Air Canada is conscious of the impact that its operations may have on the environment and has developed and implemented an environmental policy consistent with the requirements of IATA Environmental Assessment ("IEnvA"), and ISO 14001:2015, which documents its environmental commitments. Air Canada's environmental policy is the basis of Air Canada's Environmental Management System (EMS) through which Air Canada maintains environmental management programs to meet regulatory compliance requirements and other additional commitments to which it has subscribed. Air Canada's environmental policy and EMS are based on the following principles:

- Complying with applicable environmental obligations and with other additional environmental commitments.

- Reducing or preventing pollution and protecting the natural environment from the impact of its operation through its climate action plan and waste minimization strategy.

- Continually improving its environmental performance.

- Integrating environmental sustainability considerations into its business decisions, strategies and performance goals.

- Holding management accountable to provide strong leadership on environmental matters, to achieve the specific targets that Air Canada has developed, and to provide training and resources.

- Communicating openly with its employees and other stakeholders to resolve problems, engender cooperation and facilitate mutual understanding regarding environmental concerns.

In support of its efforts to reduce waste, pollution and GHG emissions and to improve environmental performance, Air Canada advanced to a third-party certified system through the IATA IEnvA program. IEnvA is a two-stage certification process specific for airlines that complies with and demonstrates equivalency to the ISO 14001: 2015 environmental management systems standard. Air Canada is proud to be the first airline in North America to be IEnvA Stage 2 certified, which provides recognition that its existing environmental compliance activities and sustainability initiatives are more integrated into Air Canada's operations.

Climate Change

Air Canada monitors its GHG emissions closely and is committed to mitigating its GHG footprint. The aviation industry, through IATA, has adopted a climate action plan with the following targets to mitigate CO_2 emissions from air transport:

- An average improvement in fuel efficiency of 1.5% per year from 2009 to 2020.
- A cap on net aviation CO_2 emissions from 2020 onwards (carbon-neutral growth).
- A reduction in net aviation CO_2 emissions of 50% by 2050, relative to 2005 levels.

Refer to the section entitled "Canada's Action Plan to Reduce Greenhouse Gas Emissions from Aviation" of this AIF for information on the Canadian aviation industry's progress on these targets.

IATA's stated approach to achieving these targets is through more efficient aircraft operations, improved technology and sustainable aviation fuels, infrastructure improvements and single, global market-based measures to address remaining emissions gaps. Air Canada has adopted this collective industry approach and works towards these targets.

Air Canada continues to bolster its climate change strategy to further improve on its emissions. To date, Air Canada is engaged in the following actions:

- ***Fleet Modernization.*** Air Canada's fleet modernization program offers substantive fuel efficiency improvements and meaningfully contributes to its environmental impact and emissions reduction efforts. In May 2020, Air Canada announced the permanent retirement of certain older aircraft from its fleet, consisting of its Airbus A319, Embraer 190 and some select Boeing 767 aircraft, leaving it with a more modern and fuel-efficient fleet. The Boeing 787-8 and Boeing 787-9, also known as Dreamliner, deliver an approximate 20% improvement in fuel efficiency over the aircraft they replaced. The airline is also renewing its narrow-body fleet with Airbus A220 and Boeing 737 MAX aircraft. These aircraft are expected to average approximately 20% less fuel consumption per seat and emit approximately 20% less CO_2 and 50% less nitrogen oxides (NO_x) than the aircraft they replace.

- ***Fuel Efficiency Working Group.*** Air Canada created a fuel efficiency working group that identifies opportunities to reduce weight on board its aircraft and reduce fuel consumption. Since 2016, over 100 projects have been implemented, resulting in more than 135,000 tCO_2e avoided.

- ***Sustainable Aviation Fuels.*** Air Canada has been involved in the advancement and development of sustainable aviation fuel since 2012, having performed eight biofuel flights and contributing to important Canadian initiatives on biojet fuel supply chain knowledge and research on biojet fuel impact on contrail development. Air Canada is a supporting airline of "The Sky's the Limit" Challenge through Natural Resources Canada, an initiative to accelerate innovation of sustainable aviation fuel in Canada. Through the National Airlines Council of Canada ("NACC"), Air Canada engages with governments in Canada on policy discussions for mechanisms needed to support a Canadian biofuel supply chain.

Air Canada is also a signatory, through the NACC, to the Canadian Action Plan to Reduce Greenhouse Gas Emissions from Aviation, an action plan between aviation industry stakeholders and the federal government outlining how the parties intend to reduce greenhouse gas emissions from aviation activities. Action plan collective targets are consistent with broader aviation industry targets. For further information, refer to the section entitled "Carbon Emissions" of this AIF.

Other Environmental Sustainability Initiatives

Despite the operational and financial impacts of the pandemic, Air Canada has maintained its commitment to waste reduction under its Corporate Waste Strategy. The strategy is focused on decreasing the amount of waste generated and sent to landfill by (1) reducing waste by 20% in offices, Maple Leaf Lounges and other facilities and (2) by recycling 50% of approved items on board domestic flights. Since 2017, Air Canada has made significant progress on these targets and will also be evaluating new goals taking into consideration the COVID-19 pandemic. This includes developing solutions for new waste streams created by the pandemic and working with departmental partners to re-evaluate the way waste is produced, disposed of and tracked across all lines of business. Despite the pandemic, Air Canada also diverted 64.8% of its waste from landfill in offices and facilities.

In 2020, 809 tonnes of Air Canada materials (banners, duvets, uniforms, food from its in-flight kitchens and other items) were donated for use rather than being sent to landfill.

In June 2020, Air Canada signed the Buckingham Palace Declaration, which confirms its commitment to work to stop the illegal wildlife trade. On September 30, 2020, Air Canada became Illegal Wildlife Trade ("IWT") certified by IATA — the first airline in North America to achieve this industry standard. Introduced in 2019 by IATA, the IWT certification incorporates the 11 commitments of the United for Wildlife Buckingham Palace Declaration for airlines engaged in fighting the trade in illegal wildlife.

Air Canada Vacations also acted on its commitment to no longer sell or promote packages to, or products that generate revenue from, attractions that involve the captivity of current or future generations of dolphins. It works with its suppliers and contracted hotels to reduce the practice of keeping dolphins in captivity.

FINANCIAL OVERVIEW

As discussed in the section entitled "Strategy and COVID-19 Mitigation Recovery Plan" of this AIF, Air Canada's operations were significantly impacted by the COVID-19 pandemic which resulted in a meaningful decline in its financial results in 2020. The table below sets forth some of Air Canada's financial results for the years 2018 through to 2020:

(Canadian dollars in millions)	2020	2019(1)	2018
Passenger revenue	$ 4,382	$ 17,232	$ 16,161
Cargo revenue	920	717	803
Other revenue	531	1,182	1,039
Total operating revenues	**5,833**	**19,131**	**18,003**
Total operating expenses	**9,609**	**17,481**	**16,507**
Operating income (loss)	**(3,776)**	**1,650**	**1,496**
Non-operating income (expense)	(1,077)	125	(1,268)
Income (loss) before income taxes	**(4,853)**	**1,775**	**228**
Income tax recovery (expense)	206	(299)	(191)
Net income (loss)	**$ (4,647)**	**$ 1,476**	**$ 37**

(1) Air Canada began consolidating Aeroplan's financial results on January 10, 2019, the date of its acquisition of Aeroplan.

The table below sets forth the proportions of passenger revenues derived from domestic, transborder and international services of Air Canada for the years 2018 through to 2020:

(in percent)	2020	2019	2018
Domestic	37%	30%	30%
Transborder	19%	22%	22%
International	44%	48%	48%
Total	**100%**	**100%**	**100%**

Prior to the onset of the COVID-19 pandemic, Air Canada had been focused on growing Sixth Freedom traffic through its world-class hub in Toronto and its strong international gateways in Montréal and Vancouver. The further development of the airline's Sixth Freedom strategy is an important element of Air Canada's recovery plan.

Air Canada's objective is to increase global international-to-international connecting Sixth Freedom traffic through its major Canadian hubs. Prior to the pandemic, the domestic and transborder markets had experienced continued growth in connecting traffic via Canada to international destinations.

Air Canada historically experiences greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. This demand pattern outside of the pandemic is principally a result of the high number of leisure travellers and their preference for travel during the spring and summer months. Air Canada has substantial fixed costs in its cost structure that do not meaningfully fluctuate with passenger demand in the short term.

For additional information on Air Canada’s financial results for 2020, refer to Air Canada's consolidated financial statements for the year ended December 31, 2020, and Air Canada’s 2020 MD&A, both of which are available on SEDAR at **www.sedar.com** or on Air Canada’s website at **aircanada.com**.

SIGNIFICANT FINANCING TRANSACTIONS

Air Canada entered into the following significant financing transactions from 2018 through to the date of this AIF:

In 2021:

- In January 2021, the underwriters of the public offering completed in December 2020, exercised their over-allotment option to purchase an additional 2,587,000 Shares at a price of $24 per Share, for gross proceeds of $62 million.
- In February 2021, Air Canada extended its US$600 million revolving credit facility which is part of its 2016 Credit Facility (described below) by one year to April 2024.
- In February 2021, Air Canada extended its $200 million revolving credit facility (described below) by one year to December 2023.

In 2020:

- In March 2020, Air Canada drew down its US$600 million revolving credit facility which is part of its 2016 Credit Facility and its $200 million revolving credit facility (both of which are described further below) for aggregate net proceeds of $1,027 million. The $200 million revolving credit facility is secured by certain designated aircraft and spare engines.
- In June 2020, Air Canada concluded an underwritten public offering of 35,420,000 Class A variable voting shares and/or Class B voting shares of Air Canada at a price of $16.25 per share, for aggregate gross proceeds of $576 million, and a concurrent private placement of convertible senior unsecured notes due 2025 for aggregate gross 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 proceeds from this financing together with cash on hand to repay in full a US$600 million ($803 million) 364-day term loan originally put in place in April 2020.
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- 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 facility, a bridge financing of $788 million put in place in April 2020 will be repaid concurrently. At December 31, 2020, there were 15 Airbus A220 aircraft financed under this facility with the corresponding bridge financing repaid.

- In October 2020, Air Canada completed sale and leaseback transactions for nine Boeing 737 MAX 8 aircraft for total proceeds of US$365 million ($485 million). The nine aircraft were delivered to Air Canada in the past three years.

- In December 2020, Air Canada concluded an underwritten public offering of 35,420,000 Class A variable voting shares and/or Class B voting shares of Air Canada at a price of $24 per share, for aggregate gross proceeds of $850 million.

In 2019:

- On November 19, 2019, Air Canada completed a third repricing of its 2016 Credit Facility (described below), reducing the interest rate by 25 basis points, to an interest rate of 175 basis points over LIBOR (no LIBOR floor).

- On November 19, 2019, Air Canada completed the extension of its $200 million revolving credit facility (described below) by one year to December 18, 2022.

In 2018:

- In connection with the financing of one new Boeing 787-9 aircraft and four new Boeing 737 MAX-8 aircraft, which were delivered in 2018, Air Canada entered into a certificate purchase agreement on March 8, 2018 for a private offering of two tranches of EETCs with a combined aggregate face amount of approximately $301 million and a weighted average interest rate of 3.76% per annum, and a final expected distribution date of April 15, 2030.

- Air Canada amended its 2016 Credit Facility, as described below, to increase its existing undrawn secured revolving credit facility from US$300 million to US$600 million and extend the availability date from 2021 to 2023. As part of this transaction, the US$800 million secured term loan (US$792 million outstanding), as described below, was reduced to US$600 million following a US$192 million cash repayment.

- Air Canada completed a new syndicated $200 million revolving credit facility on December 18, 2018.

- On February 28, 2018, Air Canada completed a second repricing of its 2016 Credit Facility (defined below in this paragraph), reducing the interest rate by 25 basis points, to an interest rate of 200 basis points over LIBOR (subject to a LIBOR floor of 75 basis points). At the time it was entered into, the 2016 Credit Facility was comprised of a term loan of US$800 million term loan, at the time maturing in 2023, and an undrawn US$300 million revolving credit facility expiring in 2021 (collectively with the term loan, the "2016 Credit Facility"). The 2016 Credit Facility had an initial interest rate of 275 basis points over LIBOR (subject to a LIBOR floor of 75 basis points) which was reduced, in a first repricing in June 2017, by 50 basis points, to an interest rate of 225 basis points over LIBOR (subject to a LIBOR floor of 75 basis points). Concurrently, with the 2016 Credit Facility, Air Canada completed a private offering of senior secured notes. Air Canada entered into a purchase agreement with a syndicate of initial purchasers relating to a private offering of $200 million aggregate principal amount of 4.75% senior secured first lien notes due 2023 (the "2016 Senior Notes"), which were sold at par.

RATINGS

The Corporation's access to long-term financing in the debt capital markets is dependent on its credit rating and market conditions. The Corporation believes that it continues to have access to the long-term debt capital markets. Rating downgrades could impact the Corporation's ability to access the capital markets and/or increase its borrowing costs.

Ratings are intended to provide investors with an independent view of credit quality. They are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

Air Canada's corporate ratings, their long-term debt securities and/or enhanced equipment trust certificates (long-term aircraft financing instruments) are rated by the following credit rating agencies:

- Moody's Investors Service, Inc. ("Moody's")
- Standard & Poor's Rating Services ("Standard & Poor's")
- Fitch Ratings, Inc. ("Fitch")

Air Canada Corporate Credit Ratings

Rating Agency	Rating	Rank
Moody's	Ba3 negative	13/21
Standard & Poor's	B+ negative	14/22
Fitch	BB- negative	13/21

Ratings for Air Canada Long-Term Debt

i. <u>Senior Secured Debt (First Lien)</u>

Rating Agency	Rating	Rank
Moody's	Ba1	11/21
Standard & Poor's	BB	12/22

ii. Senior Unsecured Notes

Rating Agency	Rating	Rank
Moody's	B2	15/21
Standard & Poor's	B	15/22

Ratings for Air Canada Enhanced Equipment Trust Certificates (EETC)

EETC 2013-1		
Rating Agency	Rating (Rank) A tranche	Rating (Rank) B tranche
Moody's	Baa3 (10/21)	Ba3 (13/21)
Standard & Poor's	BBB- (10/22)	BB- (13/22)
Fitch	A- (7/21)	BBB- (10/21)

EETC 2015-1		
Rating Agency	Rating (Rank) A tranche	Rating (Rank) B tranche
Standard & Poor's	A (6/22)	BBB- (10/22)
Fitch	A (6/21)	BBB (9/21)

EETC 2015-2			
Rating Agency	Rating (Rank) AA tranche	Rating (Rank) A tranche	Rating (Rank) B tranche
Moody's	A3 (7/21)	Baa2 (9/21)	Ba1 (11/21)
Standard & Poor's	AA- (4/22)	BBB+ (8/22)	BB (12/22)

EETC 2017-1			
Rating Agency	Rating/Rank AA tranche	Rating/Rank A tranche	Rating/Rank B tranche
Moody's	A3 (7/21)	Baa2 (9/21)	Ba1 (11/21)
Fitch	AA- (4/21)	A (6/21)	BBB (9/21)

CAD$ EETC 2018-1		
Rating Agency	Rating/Rank A tranche	Rating/Rank B tranche
Standard & Poor's	A+ (5/22)	BBB+ (8/22)

EETC 2020-1	
Rating Agency	**Rating/Rank C tranche**
Moody's	Ba3 (10/22)
Standard & Poor's	BB- (13/22)

EETC 2020-2		
Rating Agency	**Rating/Rank A tranche**	**Rating/Rank B tranche**
Standard & Poor's	A (6/22)	BBB- (10/22)
Fitch	A- (7/22)	BBB- (10/22)

General Note Regarding Long-Term Debt Securities

The table below shows the range of ratings that each agency may assign to long-term debt securities.

Rating Agency	Highest Rating for Long-Term Securities	Lowest Rating for Long-term Securities
Moody's	Aaa	C
Standard & Poor's	AAA	D
Fitch	AAA	C

The discussion below highlights information from each agency in respect of their ratings:

Moody's Rating Explanation – Long-Term Debt Securities

Moody's ratings are forward-looking opinions of the relative credit risks of the financial obligations issued by a company. Their long-term debt ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of a default.

Air Canada Senior Secured Debt (1st Lien)	Baa3	Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and may possess certain speculative characteristics. A modifier of "3" indicates a ranking in the lower end of this rating category.
Air Canada Senior Unsecured Notes	Ba2	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk. A modifier of "2" indicates a ranking in the middle of this rating category.

Standard & Poor’s Rating Explanation – Long-Term Debt Securities

Standard & Poor’s ratings are a forward-looking opinion about the creditworthiness of a company with respect to a specific financial obligation or a specific class of financial obligations. They take into consideration the likelihood of payment, i.e., a company’s capacity and willingness to meet its financial commitments as they come due, and they assess terms such as collateral security and subordination, which could affect ultimate payment in the event of a default.

Air Canada Senior Secured Debt (1st Lien)	BBB-	Obligations rated BBB exhibit adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. A modifier of plus (+) or minus (-) indicates relative standing within this rating category.
Air Canada Senior Unsecured Notes	BB+	Obligations rated BB are regarded as having significant speculative characteristics and face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inability to meet financial commitments on the obligation. A modifier of plus (+) or minus (-) indicates relative standing within this rating category.

Fitch Rating Explanation – EETC / Aircraft Financing

Fitch’s ratings provide an opinion on the relative ability of a company to meet its financial commitments, including interest, repayment of principal, or counterparty obligations. They are used by investors as an indication of the likelihood of receiving the money owed to them in accordance with the terms on which they invested. Fitch’s ratings are forward looking and include their analysts’ views of future performance. They are opinions on relative credit quality and not a predictive measure of specific default probability.

During the last two years, each of the rating agencies listed above charged Air Canada the usual customary fees for their ratings services which include annual surveillance fees and issuance fees for newly issued securities.

Moody’s Structured Finance Long-Term Ratings (EETCs)

Moody’s ratings on long-term structured finance obligations are stated to primarily address the expected credit loss an investor might incur on or before the legal final maturity of such obligations vis-à-vis a defined promise. These ratings incorporate Moody’s assessment of the default probability and loss severity of the obligations. Such obligations generally have an original maturity of one year or more, unless explicitly noted. Moody’s credit ratings are stated to address only the credit risks associated with the obligations; other non-credit risks have not been addressed but may have a significant effect on the yield to investors.

Standard & Poor’s Long-Term Issue Credit Ratings (EETCs)

Issue credit ratings are stated to be based on the following considerations:

- Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation.

- Nature of and provisions of the obligation.
- Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

PENSION PLAN ARRANGEMENTS

Air Canada maintains several defined benefit pension plans, including domestic registered pension plans, supplemental pension plans and pension plans for foreign employees. Air Canada also has several defined contribution pension plans as well as plans providing other retirement and post-employment benefits to its employees.

On a preliminary basis, at January 1, 2021, the aggregate solvency surplus in Air Canada's domestic registered pension plans was $3.0 billion. The final valuations will be completed in the first half of 2021. As permitted by applicable legislation and subject to applicable plan rules, amounts in excess of 105% on a solvency basis may be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan.

Total employer defined benefit pension funding contributions (including international and supplemental plans) were $103 million in 2020 and are forecasted to be $88 million in 2021.

At December 31, 2020, approximately 75% of Air Canada's pension assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk. Air Canada seeks to maintain a high percentage of long-term fixed income products to hedge pension liabilities.

AIRCRAFT FLEET

For information relating to Air Canada's fleet and fleet plans as at December 31, 2020, refer to section 7 "*Fleet*" of Air Canada's 2020 MD&A, which section is incorporated into the AIF by this reference.

On March 13, 2019, Transport Canada issued a safety notice closing Canadian airspace to Boeing 737 MAX aircraft. As a result of the grounding, Air Canada developed and implemented a contingency plan to address the impact on its operations, including on its fleet, fleet plans, routes and schedules. Following Transport Canada's Airworthiness Directive, on January 20, 2021, lifting the safety notice, the aircraft ungrounding by regulatory bodies worldwide, and Air Canada's own independent assessments of the aircraft and operating procedures by its specialized safety and flight operations experts, Air Canada resumed Boeing 737 MAX commercial operations on February 1, 2021.

As a result of the COVID-19 pandemic, in 2020, Air Canada announced that it was permanently retiring certain older aircraft from its fleet, consisting of its less efficient Boeing 767, Airbus A319 and Embraer 190 aircraft. Their retirement will reduce Air Canada's cost structure, simplify the airline's overall fleet, and lower its carbon footprint.

EMPLOYEES AND ARRANGEMENTS WITH UNIONS

In 2020, as a result of the COVID-19 pandemic, Air Canada completed a workforce reduction which significantly decreased the number of full-time equivalent employees, as evidenced below. The workforce reduction was achieved through layoffs, terminations of employment, voluntary separations, early retirements, and special leaves. In January 2021, Air Canada announced another workforce reduction of approximately 1,700 employees.

The following table provides a breakdown of Air Canada's average full-time equivalent ("FTE") employees for the years 2020 and 2019 together with the unions that represent them.

Employee Group	Union (1)	2020	2019
Management and Administrative Support	n/a (2)	4,518	5,553
Pilots	ACPA	3,490	3,733
Flight Attendants	CUPE	3,948	8,497
Customer Sales, Service Agents and Flight Dispatchers	Unifor/IBT /CALDA	3,345	5,461
Technical Services, Ramp and Cargo	IAMAW	5,425	9,166
United Kingdom Unionized Employees	UNITE	122	180
Other Unionized	Various	265	313
Total		**21,113**	**32,903**

(1) ACPA: Air Canada Pilots Association; CUPE: Canadian Union of Public Employees; CALDA: Canadian Airline Dispatchers Association; Unifor (formerly CAW: Canadian Auto Workers); IBT: International Brotherhood of Teamsters; IAMAW: International Association of Machinists and Aerospace Workers; and UNITE.

(2) Certain administrative support employees are represented by IAMAW.

Most of Air Canada's employees are unionized. Over the last several years, Air Canada entered into the following labour agreements:

- ACPA (Pilots) – In 2014, Air Canada and ACPA, representing pilots, ratified a new contract providing collective agreement terms for 10 years, ending September 29, 2024, subject to certain renegotiation provisions and benchmarks over this period. In 2017 and 2021, Air Canada and ACPA ratified amendments to their existing long-term labour agreement. The amendments provide additional commercial opportunities as well as increased operational flexibility.

- IAMAW (Maintenance, Operations and Baggage) – In 2016, Air Canada and the IAMAW, representing technical maintenance, operational support and airport baggage handlers, concluded a new contract providing collective agreement terms for 10 years, ending March 31, 2026, subject to certain renegotiation provisions over this period.

- CALDA (Dispatchers) – In 2016, Air Canada and CALDA, representing flight dispatchers, concluded a new contract providing collective agreement terms for 12 years, ending February 29, 2028, subject to certain renegotiation provisions over this period.

- CUPE (Flight Attendants) – In 2015, Air Canada and CUPE, representing flight attendants, concluded a new contract providing collective agreement terms for 10 years, ending March 31, 2025, subject to certain renegotiation provisions over this period.

- Unifor (Customer Service and Sales Agents) – In 2020, Air Canada and Unifor, representing the airline's customer service and sales agents, concluded a new contract providing collective agreement terms for six years, ending February 26, 2026. In 2019, Air Canada concluded an agreement with Unifor representing agents working in the Aeroplan customer service function.

- International Brotherhood of Teamsters (IBT) – In 2019, Air Canada and IBT, representing airport, cargo and call centre employees in the U.S., concluded a new contract providing collective agreements terms for 10 years, ending June 30, 2029.

- UNITE – In 2016, Air Canada and UNITE, representing U.K.-based employees, concluded a new contract providing collective agreements terms for 10 years, ending December 31, 2026.

FACILITIES

Air Canada owns or leases facilities in major airports and certain cities consisting of offices, hangar space, aircraft maintenance and ground handling facilities. The following describes the principal properties owned or leased by Air Canada as at December 31, 2020:

Principal Properties	Description	Square Footage	Nature of Right
Montréal - Air Canada Centre Headquarters	Head office and training facilities	257,820	Owned facilities on leased land
Montréal Trudeau Airport - Maintenance Base	Offices, computer centre, aircraft maintenance, hangars, workshops and training facilities	1,102,284	Owned facilities on leased land
Montréal Downtown	Offices (including lease transfer of Pension Fund & ACV, cargo)	335,650	Leased
Toronto Pearson Airport - Terminal Building	Counters, offices, lounges, passenger and baggage handling facilities	195,416	Leased
Toronto Pearson Airport - Maintenance Base	Offices, hangars, workshops and simulators	843,563	Owned facilities on leased land
Toronto Pearson Airport	Offices, workshops, training and equipment storage	277,664	Leased
Toronto - Cargo Facility and Equipment Maintenance	Offices, cargo and equipment maintenance facilities	472,247	Leased
Brampton, Ontario SOC Building	Systems Operations Control	79,646	Owned facility on owned land

Downtown Toronto	Offices	77,921	Leased
Vancouver - Technical Operations Centre	Offices, hangars, workshops and simulators	1,087,985	Owned facilities on leased land
Vancouver - South Hangar	Offices, hangars, workshops, stores	131,626	Owned facilities on leased land
Calgary International Airport	Hangar, commissary, ground support equipment and warehouse	267,891	Owned facilities on leased land
Winnipeg - Air Canada Building	Offices and computer centre	394,650	Owned facility on owned land
Winnipeg Airport - Maintenance Base	Offices, aircraft maintenance hangars and workshops	278,891	Owned facilities on leased land

Air Canada operates additional office, terminal, maintenance and/or cargo facilities under long-term leases at Toronto, Montréal, Vancouver, Calgary, and London (England). A portion of the hangar space and aircraft maintenance facilities in Calgary, Montréal, and Toronto are leased or subleased by Air Canada to Jazz and to other third parties.

TRADEMARKS

Air Canada believes that its branding, including its trademarks, add value and are important to its competitive position. Air Canada is Air Canada's trade name and trademark. Other Air Canada trademarks include Air Canada Express®, the Air Canada Jetz logo®, Air Canada Jazz®, Jazz®, Air Canada Vacations®, Vacances Air Canada MD, Skyriders®, Aéronautes MD, the Air Canada Maple Leaf logo®, le logo de la feuille d'érable MD, Maple Leaf Lounge™, salon Feuille d'érable MC, Air Canada Rouge®, and related design marks. Trademarks of Aeroplan include Aeroplan®, Aeronote®, Aero Platinum®, Aérogold®, Points Predictor Tool ™ and Aeroplan Elite™. Air Canada has granted Jazz a license to use Air Canada Express®, Rapidair®, Air Canada Jazz®, Jazz®, Air Canada®, the Air Canada logo®, and other trademarks in Canada and the United States in association with the provision of scheduled airline services in regions of Canada and across the Canada-United States border on behalf of Air Canada. Air Canada seeks to protect its proprietary and sensitive commercial information and intellectual property rights through a variety of means, including, as applicable, through registrations, confidentiality and other contract provisions, policies, restrictions and monitoring of access and other means.

REGULATORY ENVIRONMENT

In Canada, commercial air transportation, including policy, maintenance standards, operations standards, safety and ground and navigation facilities, falls wholly within the jurisdiction of the Government of Canada and is the responsibility of the Minister of Transport, and, to some extent, the Minister of Employment and Social Development. The Canadian Transportation Agency, an independent administrative body of the Government of Canada, acts as a quasi-judicial tribunal to resolve a range of commercial and consumer transportation-related disputes and acts as an economic regulator, to make determinations and to issue authorities, licenses and permits related to the air transportation industry. NAV Canada, a private sector, non-share capital corporation, is responsible for providing air navigation services in Canada. All major Canadian airports are operated by Canadian airport authorities that are not-for-profit corporations.

On May 23, 2018 *An Act to amend the Canada Transportation Act and other Acts respecting transportation and to make related and consequential amendments to other Acts* ("Transportation Modernization Act") received royal assent. Among other things, the Transportation Modernization Act amended the *Canadian Transportation Act* to require the Canadian Transportation Agency to establish a passenger rights regime and created a new process for approving international joint ventures in the airline industry taking into account competitive effects as well as broader public interest considerations. The new joint venture review process came into effect in 2019. *The Transportation Modernization Act* also increased foreign ownership limits in Canadian airlines 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 carrier. At its 2019 annual and special meeting of shareholders, Air Canada received shareholder approval for a plan of arrangement under section 192 of the *Canada Business Corporations Act* to effect amendments to Air Canada's restated articles of incorporation to align the restrictions on the level of non-Canadian ownership and voting control with those prescribed by the definition of "Canadian" in the *Canadian Transportation Act*. The Québec Superior Court subsequently issued a final order approving this plan of arrangement and Air Canada's amended articles were filed and became effective on May 8, 2019. Additional information on Air Canada's Shares and ownership limits is available in the section entitled "*Description of Capital Structure"* of this AIF.

The *Air Passenger Protection Regulations* were brought into effect in two phases, the first on June 15, 2019 and the second on December 15, 2020, and are stated to govern flights to, from and within Canada, including connecting flights, and specify a carrier's obligations in the case of flight delay, cancellation or denial of boarding, as well as minimum standards of treatment, compensation and assistance in completing the planned itinerary. The regulations prescribe minimum compensation for lost or damaged baggage, obligations with respect to delays over three hours where an aircraft is on the tarmac, and a carrier's obligation to seat young children near a parent, guardian or tutor. There is currently no obligation in these regulations for carriers to refund passengers for disruptions outside of their control. On March 13, 2020, in response to the COVID-19 pandemic, the Canadian Transportation Agency issued a determination temporarily exempting carriers from certain standards of treatment, compensation for inconvenience requirements and alternative travel arrangement requirements. The temporary exemptions were to remain in force until April 12, 2020 and were extended to June 30, 2020. In December 2020, the Minister of Transport made an order, directing the Canadian Transportation Agency to develop a new regulation that will apply to flights that are cancelled for reasons outside an air carrier's control, such as a pandemic, where it is not possible for the carrier to complete the passenger's itinerary within a reasonable timeframe. At this time, the content and nature of any requirements that might result and the timing for implementing any is not known.

Most provisions of the first phase of the Canadian Transportation Agency's *Accessible Transportation for Persons with Disabilities Regulations* (the "*Accessible Transportation Regulations"*) came into effect on June 25, 2020, and others came into effect on December 31, 2020. The stated purpose of these regulations is to create a single comprehensive set of accessible transportation regulations in Canada. The *Accessible Transportation Regulations* are being implemented in phases, with phases 2 and 3 to come into effect in June 2021 and June 2022 respectively. They will apply to large carriers serving Canada, such as Air Canada, and certain requirements will only apply in respect of aircraft with 30 or more passenger seats operated by larger Canadian carriers.

U.S. Transborder Services

Transborder services between Canada and the United States are operated pursuant to the Open Skies Agreement between Canada and the United States, which came into force in 2007. The Open Skies Agreement allows air carriers of both countries (i) to pick up passenger and/or cargo traffic in the other country and carry that traffic to a third country as part of a service to or from the carrier's home country, (ii) to operate stand-alone all-cargo services between the other country's territory and third countries, and (iii) greater pricing flexibility for services between the other country and a third country. The Open Skies Agreement also permits Air Canada to offer code share services with certain Star Alliance® partners between Canada and the United States. In addition, some of these Star Alliance® partners' codes appear on certain transborder flights operated by Contracted Carriers on behalf of Air Canada under the Air Canada Express banner.

The carriage of local traffic between points within one country by carriers of the other country, commonly known as cabotage, remains prohibited.

International Services

Scheduled international air services are regulated by the applicable Canadian and foreign governments involved. The Canadian Minister of Transport has the authority to designate which Canadian air carriers may serve scheduled international routes. International route rights are obtained through bilateral negotiations between the Government of Canada and foreign countries. Bilateral agreements provide for the rights which may be exercised over agreed routings and the conditions under which carriers may operate, including the number of carriers which may operate, the capacity and/or flight frequencies that may be provided and the controls over tariffs to be charged. Most bilateral agreements to which Canada is a party provide for the designation of more than one Canadian carrier, however, some provide for the designation of only one Canadian carrier.

Transport Canada applies a liberalized multiple designation policy to scheduled international air services by Canadian carriers (excluding services to the United States). Any Canadian carrier may apply for designation to serve any foreign country regardless of the size of the air travel market. If the number of Canadian carriers permitted is restricted under existing bilateral agreements, the Government of Canada will pursue negotiations with the appropriate countries to seek the necessary rights for Canadian carriers. In addition, an incumbent carrier's designation in a particular market will be subject to reallocation only in circumstances where the bilateral agreement limits designation and the carrier is not operating its own aircraft or code share services.

Transport Canada’s international air transportation policy, called Blue Sky, includes a more liberalized approach to Canada's bilateral air transportation negotiations. Under this policy, when it is in Canada’s overall interest, Transport Canada will proactively pursue opportunities to negotiate more liberalized agreements for international scheduled air transportation, in order to provide maximum opportunities for the addition of passenger and all-cargo services according to market conditions. In 2008, Canada concluded negotiations with the European Union on a comprehensive air transport agreement. That agreement includes, among other things, unrestricted direct air services between Canada and European Union member states, flexible pricing arrangements, increased flexibility on code sharing and improved flexibility on cargo services. These rights and others contained in this air transport agreement were made available, on a provisional basis, since December 18, 2009. On May 16, 2019, the *Agreement on Air*

Transport Between Canada and the European Community and its Member States entered into force. On December 31, 2020, aligned with the United Kingdom's exit from the European Union, Canada and the United Kingdom implemented a bilateral air transport agreement ensuring the continued operation of air services.

Charter Services

Subject to certain exceptions, charter operations are generally not covered by bilateral agreements. Government of Canada policy permits Canadian carriers to operate charter services between Canada and any point in the world subject to the prior approval of the Canadian and other applicable regulatory authorities.

The policy governing international passenger charter air services does not contain restrictions relating to advance booking, minimum stay requirements or prohibitions on one-way travel. However, it requires that the entire seating capacity of an aircraft be chartered and that charter carriers are prohibited from selling seats directly to the public.

Carbon Emissions

There continues to be heightened focus on carbon (also referred to as "greenhouse gas") emissions produced by the aviation industry. Legislation in various jurisdictions is being considered or adopted. Legislative initiatives include carbon taxes, market-based mechanisms such as emissions trading systems, and mandated fossil fuels carbon intensity reductions.

Air Canada is subject to and participates in various mitigation mechanisms, both in Canada and internationally.

<u>Canada's Action Plan to Reduce Greenhouse Gas Emissions from Aviation</u>

In 2012, the Government of Canada and the Canadian aviation industry**,** through its representative aviation sector associations, collectively developed and adopted *Canada's Action Plan to Reduce Greenhouse Gas Emissions from Aviation*, which is a voluntary action plan that sets an aspirational goal to improve fuel efficiency from a 2005 baseline by an average annual rate of 2% per year until 2020 (the "Voluntary Action Plan"). The Voluntary Action Plan forms the basis for the Government of Canada's response to the International Civil Aviation Organization's ("ICAO") Assembly Resolution A37-19, which encouraged member states to submit national action plans setting out measures each state is taking or will take to address aviation emissions. It also supports the aspirational goal for international aviation of carbon neutral growth from 2020 onwards and absolute greenhouse gas emission reductions of 50%, relative to 2005 levels by 2050.

In 2015, the Voluntary Action Plan underwent its three-year review by all parties to the plan. The parties to the Voluntary Action Plan agreed to adopt a global industry-recognized fuel efficiency target of a 1.5% annual average improvement between 2008 and 2020 as a more realistic goal for the Canadian industry. The principal measures for the industry to achieve this target are technology improvements through fleet renewals and upgrades and sustainable aviation fuels, more efficient air operations, and improved infrastructure such as air traffic management efficiency improvements. Between 2008 and 2018, the Canadian aviation sector reached an average annual improvement rate of 2%, which exceeded the Action Plan's target of 1.5%. Due to the pandemic, the 2019 Voluntary Action Plan report published by Transport Canada has been delayed due to the inability of certain Canadian operators to produce the data required for the report.

Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA")

The International Civil Aviation Organization's Carbon Offsetting and Reduction Scheme for International Aviation ("CORSIA"), adopted in 2016, includes emissions from international flights. Under CORSIA, any growth in emissions beyond the applicable baseline year will be offset by the emitters (airlines) through the acquisition and remittance of carbon offsets or the use of sustainable aviation biofuels. Transport Canada is addressing the implementation of CORSIA through amendments to the *Canadian Aviation Regulations* ("CARs"), and carbon offsetting obligations under the amended CARs became effective January 1, 2021.

The baseline year was initially set to be based on 2019 and 2020 emissions, however, due to the impacts of the COVID-19 pandemic, the baseline year has been changed to 2019 for the first compliance period (2021–2023). Consequently, airlines will likely start incurring CORSIA obligations once the aviation industry, as a whole, returns and exceeds its 2019 emission levels.

On the basis of CORSIA, the European Parliament and Council has continued exempting flights between Europe and third countries from the European Union emissions trading system.

Greenhouse Gas Pollution Pricing Act

In 2016, the Government of Canada proposed a pan-Canadian benchmark for carbon pricing to be implemented in all Canadian jurisdictions. The *Greenhouse Gas Pollution Pricing Act* received Royal Assent on June 21, 2018, as a part of Bill C-74 and covers emissions from intra-provincial flights. Under the act, effective on April 1, 2019, the Government of Canada set a minimum CO_2 price of $20 per tonne for 2019, rising annually by $10 to $50 per tonne by 2022 ("Benchmark Pricing"), applicable to all fossil fuels (including jet fuel and other fuels used in ground operations and stationary combustion equipment).

In December 2020, as part of its release of *A Healthy Environment and A Healthy Economy Plan*, the Government of Canada announced a gradual increase in the federal carbon tax on fuels by $15 a tonne each year from 2022 to 2030, reaching $170 a tonne in 2030.

The Government of Canada, recognizing the need for a national approach to cover inter-jurisdictional flights, indicated they will engage in discussion with provincial and territorial governments and stakeholders to determine how to cover inter-jurisdictional aviation emissions. In the meantime, the Benchmark Pricing only applies to jet fuel used in intra-jurisdictional flights in jurisdictions that do not have a carbon system in place. The Canadian government has indicated that it will not seek to apply the Benchmark Pricing in jurisdictions that have a carbon system in place. Court challenges asserting that the *Greenhouse Gas Pollution Pricing Act* is unconstitutional have been filed by the provinces of Saskatchewan, Ontario and Alberta and remain pending. Air Canada cannot predict the outcome of these challenges.

Clean Fuel Standard

The Government of Canada published the proposed *Clean Fuel Standard Regulations* for the liquids class on December 18, 2020. Final regulations are expected to be published in late 2021 and scheduled to come into force in mid-2022. The proposed *Clean Fuel Regulations* would require liquid fossil fuel primary suppliers (i.e., producers and importers) to reduce the carbon intensity of the liquid fossil fuels they produce in and import into Canada by 2.4 gCO_2e/MJ in 2022 from 2016 CI reference levels, increasing to 12 gCO_2e/MJ in 2030. The proposed regulations would also establish a credit market whereby the annual CI reduction requirement could be met via specific credit-creating actions.

Conventional jet fuel has not been listed as required to achieve a carbon intensity target. Under Category 2, sustainable aviation fuel is indicated as eligible to generate compliance credits. Jet fuel was planned to be considered during the Phase II timeframe (solids and gaseous phases); however, the Government of Canada has indicated that they will no longer pursue the inclusion of solid and gaseous phase fuels in the *Clean Fuel Standard Regulations.*

Official Languages Act

Pursuant to the *Air Canada Public Participation Act* ("ACPPA"), Air Canada is subject to the *Official Languages Act* (Canada), (the "OLA"). The OLA contains numerous provisions applicable to Air Canada such as provisions that members of the travelling public be able to communicate with and obtain services in French and English (including where such services are performed on behalf of Air Canada by another party), where there is significant demand for those services in that language and to allow Air Canada employees to work in either official language where required by regulation. The ACPPA also imposes on Air Canada the obligation to ensure that its subsidiaries' customers can communicate with the subsidiary in respect of air services and incidental services, and obtain those services, in either official language, where the number of customers warrants such services.

The federal government has announced its intention to modernize the OLA. On February 19, 2021, the Minister for Canadian Heritage tabled a document entitled *English and French: Towards a substantive equality of official languages in Canada* setting out the Canadian government's vision of the modernization of the OLA. The document tabled sets out six principles that will guide the official languages reform, including enhanced powers to the Commissioner of Official Languages as well as the extension of obligations under the OLA to federally regulated employers not otherwise covered by the OLA. A Committee of experts is being formed to further consider and develop these points. At this time, the content and nature of any requirements that might result and the timing for implementing any is not known.

Anti-Terrorism Legislation

The *Act to enact the Security of Canada Information Sharing Act and the Secure Air Travel Act, to amend the Criminal Code, the Canadian Security Intelligence Service Act and the Immigration and Refugee Protection Act and to make related and consequential amendments to other Acts* (the "Anti–Terrorism Act"), received royal assent on June 18, 2015. The Anti–Terrorism Act provides a legislative framework for identifying and responding to persons who may engage in an act that poses a threat to transportation security or who may travel by air for the purpose of committing a terrorism offence. The *Anti–Terrorism Act* authorizes the Federal Minister of Public Safety and Emergency Preparedness to establish a list of such persons and to direct air carriers to take any necessary actions to prevent the commission of such acts. Under the *Anti-Terrorism Act*, the Federal Minister of Transport also has the power to detain an aircraft for inspection and require the owner to provide the Minister all reasonable assistance to enable such inspection. If the Minister is of the opinion that the owner of the aircraft has failed to comply with the legislation, the Minister may make orders in respect of the movement of the aircraft.

Security

Air Canada is committed to the security of its operations, passengers, employees and assets. Air Canada works with the other stakeholders in the aviation industry, as well as regulators, airports, industry associations, service providers and other third parties, to ensure that the appropriate security measures are implemented in an efficient and effective manner.

Transport Canada regulations require the aviation industry to put security management systems in place. Air Canada has an approved security management system in place which it continues to monitor and refine. The security management system uses threat/risk assessments in conjunction with government regulations to define appropriate security measures and then monitors compliance through audits and incident reporting. Air Canada has been using its security management system as part of the IATA Operational Safety Audit ("IOSA") compliance process and has found it to be beneficial in driving continuous improvement in the security of its operations.

Air Canada's Corporate Security department provides 24/7 support to the operations world-wide to ensure the security and compliance of the airline's operations.

On June 21, 2019, *An Act respecting national security matters* (the "National Security Matters Act") received Royal Assent. The *National Security Measures Act* provides for certain amendments to be made to the *Secure Air Travel Act* and its regulations, which will be adopted and implemented by the Government of Canada in a phased approach. Effective September 2019, Phase 1 of the amendments modified the *Secure Air Travel Regulations* to further prescribe acceptable identification for travel, and clarified passenger identification verification requirements for air carriers. In the second and final phase, the amendments will authorize, among other things, the Minister of Public Safety and Emergency Preparedness to collect personal information from individuals for the purpose of issuing a unique identifier to assist with pre-flight identity verification. They will also authorize the Minister to collect information from air carriers and operators of aviation reservation systems about individuals who are on board or expected to be on board an aircraft for any flight prescribed by regulation for purposes of the "Passenger Protect Program" (sometimes referred to as the "no-fly list"). Air Canada cannot predict the timing for entry into force of the second phase of amendments to the *Secure Air Travel Act* and its regulations.

Safety

In order to improve the safety performance of Canadian air operators and increase accountability in the aviation sector, Canadian Aviation Regulations require air operators to implement a Safety Management System ("SMS") in their organizations and appoint executives who are accountable for safety.

Air Canada and Air Canada Rouge have approved SMS's in place which meet and exceed the requirements outlined within the CARS. Air Canada's President and Chief Executive Officer has been appointed as the "Accountable Executive" for the Air Canada SMS and the Air Canada Rouge SMS. Air Canada's Vice President, Safety is assigned the day-to-day administration and oversight of the Air Canada SMS. The Director, Safety, Security & Regulatory Affairs of Air Canada Rouge is assigned the day-to-day administration and oversight of the Air Canada Rouge SMS.

In February 2021, Air Canada successfully completed a process inspection with Transport Canada. The purpose of the process inspection is to verify that the Air Canada SMS is compliant with regulatory requirements and has the systems and processes in place to ensure ongoing compliance. Further, as a founding member of the Star Alliance® network, Air Canada is actively engaged in helping ensure that the Star Alliance® members, including Air Canada, are guided by best industry practices and enhanced safety performance. Additional non-regulated measures, such as the completion of Line Operations Safety audits, the establishment of an advanced Flight Data Monitoring programs, the implementation of Fatigue Risk Management programs and compliance with IATA, Operational Safety Audit standards are key examples where Air Canada is among those leading international safety efforts.

Air Canada is a leading and engaged member of international safety initiatives and is actively involved in IATA, ICAO, A4A, NACC, ASIAS and regional safety meetings and working groups. Air Canada is closely aligned with IATA and the Star Alliance® network concerning international benchmarking of standards and safety performance and shares its experience and knowledge, especially in the field of Flight Data Analysis, to help develop advanced safety tools to better understand risk, threats and hazards.

The IATA IOSA program is an internationally recognized and accepted evaluation system designed to assess the operational management and control systems of an airline. IATA members are IOSA registered and must remain registered to maintain their IATA membership. Air Canada is required to successfully complete a biennial audit to remain a Star Alliance® member. In November 2019, Air Canada and Air Canada Rouge conducted the IOSA audits in parallel with each other. Both airlines successfully completed the IOSA audits, comprising over 900 standards to be met using a structured audit methodology, including standardized checklists, with the following results: Air Canada received three findings, and seven observations, and Air Canada Rouge received two findings, and eight observations.

Privacy and Anti-Spam

As discussed in section 17 "*Risk Factors*" in Air Canada's 2020 MD&A (which section is incorporated into the AIF by this reference), Air Canada is subject to applicable Canadian privacy laws and a growing number of increasingly complex foreign privacy laws regarding the collection, use, handling, disclosure and protection of passenger and employee data. Canada's federal private sector privacy legislation, the *Personal Information Protection and Electronic Documents Act* ("PIPEDA"), governs the collection, use, storage and disclosure of personal information including employee personal information by Air Canada. PIPEDA obligations to notify affected persons, report to relevant authorities and keep records of all breaches of personal information came into force as of 2018.

In 2020, the federal government tabled Bill C-11, the *Digital Charter Implementation Act*, proposing the creation of a new *Consumer Privacy Protection Act* ("CPPA") and *Data Protection Tribunal Act* to replace PIPEDA. The CPPA would provide for enhanced consent standards and new rights for individuals and require greater transparency on processing activities. It would also provide for stronger enforcement measures, granting order-making powers to the Privacy Commissioner, and providing for significant fines and a private right of action for violations. Also, in 2020, the Québec government introduced Bill 64, *an Act to modernize legislative provisions as regards the protection of personal information*, which would apply to provincially regulated entities and introduce privacy by default, mandatory breach reporting, restrictions on cross-border data transfers, data impact assessments and data portability. It would also significantly increase potential fines on the basis of worldwide turnover and introduce a private right of action and punitive damages.

As an international airline, Air Canada is subject to privacy and data protection laws in other jurisdictions as well, including the European Union's *General Data Protection Regulation* ("GDPR") which came into force on May 25, 2018 and other laws influenced by GDPR.

Air Canada is also subject to Canadian federal legislation known as "*Canada's Anti-Spam Law*" ("CASL"), which regulates if, when and how commercial electronic messages may be sent. This law also prohibits the installation of programs on a third-party computer without consent. A private right of action by individuals and organizations that claim to be affected by a violation of CASL was to come into effect in July 2017 but was postponed pending the outcome of the third anniversary parliamentary review mandated by the legislation. Although the review has been completed, the private right of action has not come into force. Air Canada cannot predict the timing for entry into force of the private right of action under CASL.

Cybersecurity

As discussed in section 17 "*Risk Factors*" in Air Canada's 2020 MD&A (which section is incorporated into the AIF by this reference), Air Canada faces risks relating to cyber-attacks. The cyber security threat landscape is highly dynamic and continually evolving; it is generally viewed that cyber-attacks have and will continue to increase in both prevalence and sophistication. The protection of Air Canada's infrastructure, applications and information repositories (systems) are central to the secure and continuous operation of Air Canada's business. As part of its efforts to address the growing threat of cyber-attacks, Air Canada invests in security initiatives that include technology, processes, resourcing, training, disaster recovery plans and continually testing and benchmarking against best practices.

INDUSTRY OVERVIEW AND COMPETITIVE ENVIRONMENT

As discussed in the section entitled "*Strategy and COVID-19 Mitigation and Recovery Plan*" of this AIF, the COVID-19 pandemic has been having a significant negative impact on the airline industry and on Air Canada, including its operations. The discussion below will focus on the airline industry and the competitive environment prior to the onset of the COVID-19 pandemic.

The airline industry has traditionally been characterized by large established network carriers. Network carriers generally benefit from brand name recognition and a long operating history. They offer scheduled flights to major domestic and international cities while also serving smaller cities. They generally concentrate most of their operations in a limited number of hub cities, serving most other destinations in their network by providing one-stop or connecting service through their hubs.

Over the past four decades, governments gradually reduced economic regulation of commercial aviation. This has resulted in a more open and competitive environment for domestic, transborder and international airline services, for both scheduled and leisure charter operations. This deregulation transformed the airline industry and allowed the emergence of low-cost and ultra-low-cost carriers, which resulted in a rapid shift in the competitive environment. With their relatively low unit costs largely resulting from lower labour costs and a simplified operational model and product offering, low-cost carriers are generally able to operate profitably while achieving lower yields than network carriers. By offering lower fares, many of these carriers have expanded and succeeded in gaining market share from network carriers. While the majority of low-cost carriers offer predominantly point-to-point services between designated cities, some utilize a "hub and spoke" strategy similar to the network carriers.

Domestic Market

The Canadian domestic market is characterized by a large geographic territory with a limited number of high-density markets accounting for the majority of passenger traffic and revenue. This leads to a concentration of routes in Canada around major hubs: Toronto, Montréal, and Vancouver.

Air Canada is Canada's largest domestic airline. Jazz is Canada's largest regional airline.

Competition in the domestic market is primarily from WestJet and Swoop which, in the last few years, have moved away from their low-cost and ultra-low-cost model to develop into a network carrier with a low-cost brand.

Porter Airlines Inc. ("Porter") is a regional passenger carrier based at and operating primarily from Billy Bishop Toronto City Airport in the eastern triangle market, Ontario, as well as into Atlantic Canada. Porter competes with Air Canada's Rapidair services as well as other services in Atlantic Canada and within Ontario.

Other airlines operating in the domestic market with which Air Canada competes include: Air Creebec, Canadian North, Central Mountain Air, Air Transat, First Air, Flair Airlines, Pacific Coastal Airlines, Pascan Aviation, Provincial Airlines, and to a lesser extent: Air North, Air Inuit, and Bearskin Airlines.

As a result of the COVID-19 pandemic, both Air Canada and WestJet have drastically reduced their domestic operations, with route suspensions across Canada. Porter has suspended its operations until May 19, 2021, based on its most recent announcement.

U.S. Transborder Market

Air Canada is the largest provider of scheduled passenger services in the U.S. transborder market.

Competition in the U.S. transborder market is primarily from U.S. network carriers, their regional affiliates, and WestJet. The U.S. network carriers tend to operate flights between the United States and Canada into their hubs, connecting to flights to other U.S. and international destinations. U.S. network carriers with U.S. transborder operations include American Airlines, United Airlines, Delta Airlines and Alaska Airlines.

Canadian low-cost carriers also operate U.S. transborder services and may further expand these operations in the future.

Given the Canada-U.S. border travel and entry restrictions due to the COVID-19 pandemic, Air Canada has drastically reduced its U.S. transborder operations, with route suspensions across the United States.

International Market

Air Canada is the largest provider of scheduled passenger services in the international market to and from Canada and has a broad portfolio of international route rights.

Competition in the transatlantic, transpacific, and South American markets is primarily from foreign network carriers and, to a lesser extent, from charter carriers on higher-density routes during peak travel seasons. Transat was also operating services to leisure destinations in Europe during peak travel periods. In addition, in 2019, WestJet announced its intention to further expand its international footprint using their Boeing 787 fleet. U.S. network carriers also compete by flying Canadian passengers through their hubs to destinations in international markets.

Competition in the Mexico and Caribbean markets is mainly from WestJet and Canadian low-cost carriers and tour operators, such as Transat, Sunwing Airlines ("Sunwing") and Swoop.

Prior to the COVID-19 pandemic, Air Canada Rouge provided Air Canada with the ability to compete more effectively against low-cost carriers serving international leisure destinations. In 2021, the Air Canada Rouge fleet will consist of narrow-body aircraft only and will, subject to the impacts of the COVID-19 pandemic, primarily operate short and medium haul flights to leisure destinations in the Caribbean, the U.S., and Canada. As the COVID-19 pandemic recedes, Air Canada will rebuild its transatlantic network, focused on hub-to-hub markets and leisure-focused

European destinations, using mainline aircraft and supported by its commercial partnership with Lufthansa.

As a result of the COVID-19 pandemic and the related travel restrictions Air Canada and its domestic and foreign competitors have drastically reduced international operations. Air Canada expects to, and expects Canadian and foreign carriers to, rebuild their operations to and from Canada as the COVID-19 pandemic recedes and travel restrictions are lifted.

Air Canada has effective tools, processes and other competitive attributes to profitably pursue international route opportunities. It has the capability and means to appreciably increase international-to-international traffic through its strategic international gateways in Toronto, Vancouver and Montréal.

Air Canada has the capability and means to broaden its network appeal through its membership in Star Alliance®, its revenue-sharing joint ventures and through numerous codeshare and interline agreements. Furthermore, Air Canada has access to Canada's wide portfolio of international route rights, and Canada's multi-ethnic demographic profile provides the airline with further opportunities to profitably capture demand for international travel.

RISK FACTORS

For a description of risk factors associated with Air Canada and its business, refer to section 17 "*Risk Factors*" in Air Canada's 2020 MD&A, which section is incorporated into the AIF by this reference.

MARKET FOR SECURITIES

Effective November 3, 2014, the Variable Voting Shares and the Voting Shares started 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 Variable Voting Shares and the Voting Shares as reported by the TSX for the months of January to December 2020.

	Variable Voting Shares and Voting Shares (AC)			
	High	Low	Average Daily Trading Volume	Total Monthly Volume
January	$ 52.71	43.40	1,559,081	34,299,783
February	$ 48.06	31.67	2,277,932	43,280,707
March	$ 36.65	9.26	6,678,514	146,927,308
April	$ 22.78	13.53	6,236,580	130,968,176
May	$ 19.56	12.80	6,949,099	138,981,974
June	$ 23.55	15.61	9,160,931	201,540,479
July	$ 18.45	15.02	4,206,319	92,539,016
August	$ 18.20	15.02	4,946,973	98,939,469
September	$ 19.48	15.21	4,973,803	104,449,868
October	$ 17.31	14.50	4,141,017	86,961,347

November	$	25.95	14.48	7,227,821	151,784,236
December	$	28.24	21.03	6,628,563	139,199,818

TRANSFER AGENT AND REGISTRAR

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

DIVIDEND RECORD

The Corporation has not declared or paid dividends on its Voting Shares and Variable Voting Shares for any of the financial years ended December 31, 2020, 2019 and 2018.

Air Canada's current policy is to reinvest earnings in order to finance the growth and development of its business and to improve liquidity levels, pay down debt and, when appropriate, buy back Shares. Certain agreements described in the section entitled "*Significant Financing Transactions*" impose conditions with respect to Air Canada's ability to declare and pay dividends. In addition, certain other agreements Air Canada has or may enter into from time to time may restrict and/or impose conditions with respect to the Corporation's ability to declare and pay dividends. Any future determination to declare and pay cash dividends is subject to legal restrictions applicable at the time to Air Canada and to the discretion of Air Canada's Board of Directors. It will also depend on Air Canada's financial condition, results of operations, capital requirements, restrictive covenants in contracts and such other factors as Air Canada's Board of Directors deems relevant.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Air Canada comprises an unlimited number of Variable Voting Shares and Voting Shares. As at December 31, 2020, an aggregate of 111,926,060 Variable Voting Shares and 220,246,228 Voting Shares were issued and outstanding for an aggregate amount of 332,172,288 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 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. Each 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:

(i) 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);

(ii) 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 (i) 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

(iii) 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 (i) and (ii) 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 (i) or (ii) 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 (i) above.

If the threshold in (iii) 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.

Repurchase of Shares

Air Canada may be allowed, from time to time, to purchase Shares for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase would constitute an “issuer bid” under Canadian provincial securities legislation and would be conducted in accordance with the applicable requirements thereof. Any future decision to purchase Shares for cancellation will depend on Air Canada's financial condition, results of operations, capital requirements, restrictive covenants in contracts and such other factors as Air Canada's Board of Directors deems relevant. Agreements entered into in relation to the Senior Notes, Unsecured Notes and the Credit Facility described in the section entitled "*Significant Financing Transactions*" in this AIF include conditions with respect to Air Canada's ability to purchase Shares for cancellation.

In May 2019, Air Canada received approval from the TSX for the renewal of its normal course issuer bid for its Shares, authorizing, between May 31, 2019 and May 30, 2020, the purchase of up to 24,130,551 Shares, representing 10% of the public float as at May 17, 2019 ("Issuer Bid"). The renewal followed the conclusion of the 2018 normal course issuer bid which expired on May 30, 2019.

In May 2019, Air Canada renewed its automatic share purchase plan (the "Plan") with a designated broker to facilitate the purchase of Shares under the Issuer Bid at times when Air Canada would ordinarily not be permitted to purchase its Shares due to regulatory restrictions or self-imposed blackout periods.

In response to the COVID-19 pandemic, in early March 2020, Air Canada suspended share purchases under its normal course issuer bid (which had received approval from the Toronto Stock Exchange for the renewal of its previous normal course issuer bid). Air Canada's normal course issuer bid and the Plan expired in May 2020 and were not renewed. As such, no Shares were purchased in the last three quarters of 2020.

In the first quarter of 2020, Air Canada purchased, for cancellation, a total of 2,910,800 Shares at an average cost of $43.76 per share for aggregate consideration of $127 million.

Air Canada Shareholder Rights Plan

On March 24, 2017, the Board of Directors adopted a shareholder rights plan (the "Rights Plan") in order to amend and restate the then existing shareholder rights Plan which was set to expire the day after the 2017 annual meeting of shareholders which was held May 5, 2017. The Rights Plan was ratified at the 2017 annual meeting of shareholders held May 5, 2017 to remain in effect until the close of business on the date of Air Canada's annual meeting of shareholders in 2020. The renewal of the Rights Plan was approved by the Board of Directors on May 4, 2020, approved by shareholders on June 25, 2020 and came into effect on June 26, 2020. The Rights Plan remains in effect until the close of business on the date on which the annual meeting of the shareholders of the Corporation is held in 2023 and can be renewed in accordance with its terms for an additional period of three years (from 2023 to 2026) provided that the Board of Directors and shareholders ratify such renewal at or prior to the annual meeting of shareholders to be held in 2023.

In adopting the Rights Plan, the Board of Directors considered the existing legislative framework governing takeover bids in Canada, as amended as of May 9, 2016. As such legislative amendments do not apply to exempt takeover bids, the Board of Directors considered that there continued to be a role for rights plans in protecting issuers and preventing the unequal treatment of shareholders. As a result, the Rights Plan also addresses the following:

- protecting against "creeping bids" (the accumulation of more than 20% of the Variable Voting Shares and Voting Shares on a combined basis) through purchases exempt from Canadian takeover bid rules, such as (i) purchases from a small group of shareholders under private agreements at a premium to the market price not available to all shareholders, (ii) acquiring control through the slow accumulation of shares not available to all shareholders, (iii) acquiring control through the slow accumulation of shares over a stock exchange without paying a control premium, or (iv) through other transactions outside of Canada (that may not be formally subject to Canadian takeover bid rules), and requiring the bid to be made to all shareholders; and

- preventing a potential acquirer from entering into lock-up agreements with existing shareholders prior to launching a takeover bid, except for permitted lock-up agreements as specified in the Rights Plan.

The Rights Plan is available on SEDAR at **www.sedar.com.**

Air Canada Long-Term Incentive Plan

Certain of the Corporation’s employees participate in the Air Canada Long-term Incentive Plan (the “Long-term Incentive Plan”). The Long-term Incentive Plan provides for the grant of options, performance share units and restricted share units to senior management and officers of Air Canada. 19,381,792 Shares are authorized for issuance under the Long-term Incentive Plan. As at December 31, 2020, after taking into account the issued and outstanding stock options, and after deducting stock options which have been exercised, 6,803,772 shares remained available for future issuance under the Long-term Incentive Plan. The outstanding performance share units and restricted share units will generally not result in the issuance of new Shares as these share units will be redeemed for Shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

DIRECTORS AND OFFICERS

Directors

The name, municipality of residence and principal occupation of each of the directors are, as of the date hereof, as set forth below. Such individuals have served as directors of Air Canada since the dates set forth opposite their respective names.

Name and Municipality of Residence	Principal Occupation	Director since
Amee Chande (1)(4) Los Altos, California	Corporate Director and Strategy Consultant	June 25, 2020
Christie J.B. Clark (1)(2) Toronto, Ontario	Corporate Director	June 27, 2013
Gary A. Doer (3)(4) Winnipeg, Manitoba	Corporate Director	April 30, 2018
Rob Fyfe (3)(4) Auckland, New Zealand	Corporate Director	September 30, 2017
Michael M. Green (3)(4) New York, New York	Chief Executive Officer and Managing Director, Tenex Capital Management	March 30, 2009
Jean Marc Huot (3)(4) Montréal, Québec	Partner, Stikeman Elliott LLP	May 8, 2009
Madeleine Paquin (2)(4) Montréal, Québec	President and Chief Executive Officer, Logistec Corporation	May 12, 2015

Name and Municipality of Residence	Principal Occupation	Director since
Michael Rousseau Saint-Lambert, Québec	President and Chief Executive Officer, Air Canada	February 15, 2021
Vagn Sørensen (2)(5) London, United Kingdom	Corporate Director	November 15, 2006
Kathleen Taylor (1)(2)(3) Toronto, Ontario	Corporate Director	May 10, 2016
Annette Verschuren (1)(2) Toronto, Ontario	Chair and Chief Executive Officer, NRStor Inc.	November 12, 2012
Michael M. Wilson (1)(3)(6) Bragg Creek, Alberta	Corporate Director	October 1, 2014

(1) Member of the Audit, Finance and Risk Committee.
(2) Member of the Governance and Nominating Committee.
(3) Member of the Human Resources and Compensation Committee.
(4) Member of the Safety, Health, Environment and Security Committee.
(5) Mr. Sørensen became the Chairman of the Board of Air Canada on May 5, 2017.
(6) Mr. Wilson also served on the Board of Air Canada from May 21, 2008 to May 8, 2009.

Unless otherwise indicated below, each of the directors has held the occupation listed above for more than five years. Ms. Chande was Managing Director at Alibaba Group from 2015 to 2018 and Chief Commercial Officer for Waymo in 2019. Mr. Doer served as the Canadian Ambassador to the United States from 2009 to 2016. Mr. Fyfe was Chief Executive Officer of Icebreaker from 2014 to 2017. Mr. Rousseau was Executive Vice President and Chief Financial Officer from 2007 to 2018 and Deputy Chief Executive Officer and Chief Financial Officer from 2019 to 2021.

Executive Officers

The Board of Directors of Air Canada may, from time to time, appoint one or more executive officers of Air Canada.

The name, municipality of residence and position held with Air Canada of each of the executive officers are, as of the date hereof, as set forth below:

Name and Municipality of Residence	Position with Air Canada	Officer Since
Michael Rousseau Saint-Lambert, Québec	President and Chief Executive Officer	October 22, 2007
Lucie Guillemette Beaconsfield, Québec	Executive Vice President and Chief Commercial Officer	February 6, 2008

Name and Municipality of Residence	Position with Air Canada	Officer Since
Amos S. Kazzaz Saint-Laurent, Québec	Executive Vice President and Chief Financial Officer	May 3, 2010
Craig Landry Montréal, Québec	Executive Vice President, Operations	August 1, 2010
Arielle Meloul-Wechsler Montréal, Québec	Executive Vice President, Chief Human Resources Officer and Public Affairs	September 18, 2013
David J. Shapiro Hampstead, Québec	Executive Vice President, International and Regulatory Affairs and Chief Legal Officer	November 12, 2004
Mark Galardo Mont-Royal, Québec	Senior Vice President, Network Planning and Revenue Management	January 1, 2017
Catherine Luelo Beaconsfield, Québec	Senior Vice President and Chief Information Officer	August 15, 2017
Mark Nasr Toronto, Ontario	Senior Vice President, Products, Marketing and eCommerce	July 11, 2017
Richard Steer Georgetown, Ontario	Senior Vice President, Operations and Express Carriers	January 1, 2015
Murray Strom Burlington, Ontario	Senior Vice President, Flight Operations	March 6, 2018
Carolyn M. Hadrovic Beaconsfield, Québec	Vice President and Corporate Secretary	February 16, 2006

Unless otherwise indicated below, each of the executive officers has held a position with Air Canada similar to that listed above for more than five years. Mr. Galardo was Senior Director, Network Planning from 2014 to 2016. Ms. Guillemette was Senior Vice President, Revenue Optimization from 2015 to 2016. Mr. Landry was Vice President, Marketing from 2010 to 2016, President, Air Canada Leisure Group from 2016 to 2017 and Senior Vice President, Revenue Optimization from 2017 to 2018. Ms. Luelo was Chief Information Officer of Enbridge Inc. from 2015 to 2017. Mr. Nasr was Managing Director, Corporate Strategy and Development of United Airlines from 2015 to 2016 and Managing Director, Loyalty, eCommerce and Ancillary Revenues of Air Canada from 2016 to 2017. Mr. Rousseau was Executive Vice President and Chief Financial Officer from 2007 to 2018 and Deputy Chief Executive Officer and Chief Financial Officer from 2019 to 2021. Mr. Steer was Vice President, Maintenance and Engineering from 2015 to 2017. Captain Murray Strom was Chief Pilot, B777/B787 from 2016 to 2018.

As at December 31, 2020, the directors and executive officers mentioned above, as a group, owned, or had control or direction over, directly or indirectly, 496,051 Voting Shares representing approximately 0.2252% of the outstanding Voting Shares and 19,300 Variable Voting Shares representing approximately 0.0172% of the outstanding Variable Voting Shares.

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 AIF, or was, within 10 years before the date of this AIF, 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, 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 AIF, or has been within the 10 years before the date of this AIF, 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 AIF, 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.

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.

AUDIT, FINANCE AND RISK COMMITTEE

Audit Committee Charter

The charter of the Audit, Finance and Risk Committee ("Audit Committee") is attached as Appendix A to this AIF.

Composition of Audit Committee

As of the date hereof, the Audit Committee of Air Canada consists of Christie J.B. Clark (Chair), Amee Chande, Kathleen Taylor, Annette Verschuren and Michael M. Wilson. Each member of the Audit Committee is independent and financially literate as defined under National Instrument 52-110 - *Audit Committees*.

Relevant Education and Experience of Audit Committee Members

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

(i) Christie J.B. Clark is a corporate director. Mr. Clark is a director of Loblaw Companies Limited and SNC-Lavalin Group Inc. and a trustee of Choice Properties Real Estate Investment Trust. From 2005 to 2011, Mr. Clark was Chief Executive Officer and the senior partner of PricewaterhouseCoopers LLP. Mr. Clark is also a member of the Board of the Canadian Olympic Committee, the Canadian Olympic Foundation, Own The Podium and the Sunnybrook Hospital Foundation, and a member of the Advisory Council of the Stephen J.R. Smith School of Business at Queen's University. Mr. Clark has served as a director of Hydro One Limited, Hydro One Inc., Brookfield Office Properties Inc. and IGM Financial Inc. Mr. Clark graduated from Queen's University with a Bachelor of Commerce degree and the University of Toronto with a Master of Business Administration degree. He is a Fellow Chartered Accountant. Mr. Clark is a former National Academic Director for the Institute of Corporate Directors' course entitled Audit Committee Effectiveness.

(ii) Amee Chande is a corporate director and strategy consultant. Ms. Chande is a director of Signature Aviation plc, as well as a senior advisor to leading companies in the mobility sector such as ChargePoint. In 2019, Ms. Chande was Chief Commercial Officer for Waymo, Google's self-driving car project, where she was responsible for defining the overall strategy and laying the foundation for a strong commercial business. From 2015 to 2018, she was a Managing Director at Alibaba Group where she was the first senior executive hired to lead globalization. Ms. Chande has also held divisional Managing Director and Chief Executive Officer roles at global retailers including Tesco, Staples and Wal-Mart in both Europe and the United States. She began her career as a strategy consultant with McKinsey & Company. Ms. Chande serves on the Advisory Board of Livingbridge Private Equity and is an active volunteer with the World Association of Girl Guides and Girl Scouts where she recently completed her term as a member of the World Board. Ms. Chande holds a Bachelor of Business Administration degree from Simon Fraser University, a Master of Science degree from the London School of Economics and a Master of Business Administration from Harvard Business School.

(iii) Kathleen Taylor is a corporate director. Ms. Taylor is Chair of the Board of the Royal Bank of Canada, Vice-Chair of the Adecco Group and a director of the Canada Pension Plan Investment Board. She serves as Chair of Altas Partners, a Toronto-based private equity investment firm. Ms. Taylor is also the immediate past Chair of the Board of the SickKids Foundation, a member of the Board of Trustees for the Hospital for Sick Children and a Co-Chair of the SickKids Capital Campaign. Ms. Taylor is the former President and Chief Executive Officer of Four Seasons Hotels and Resorts. During her 24-year career, she held a number of senior leadership roles and was instrumental in building the firm's global brand and its international portfolio of luxury properties. Ms. Taylor is also a member of the C.D. Howe Institute's National Council and Chair of their Human Capital Policy Council. She serves on the Dean's Advisory Council of the Schulich School of Business and on the Principal's International Advisory Board of McGill University. Ms. Taylor is a member of the Order of Canada and has received an Honorary Doctorate of Laws from the University of Toronto, McGill University, York University and Trent University, and an Honorary Doctorate of Humane Letters from Mount Saint Vincent University. Ms. Taylor holds a Master of

Business Administration degree from the Schulich School of Business, a law degree from Osgoode Hall Law School and a Bachelor of Arts (Honours) from the University of Toronto.

(iv) Annette Verschuren is Chair and Chief Executive Officer of NRStor Inc., an energy storage development company. From 1996 to 2011, Ms. Verschuren was President of The Home Depot Canada where she oversaw the company's growth from 19 to 179 Canadian stores and led its entry into China. Prior to joining The Home Depot, Ms. Verschuren was President and co-owner of Michaels of Canada, a chain of arts and crafts stores. Previously, Ms. Verschuren was Vice President, Corporate Development of Imasco Ltd. and Executive Vice President of Canada Development Investment Corporation. Ms. Verschuren is a director of Canadian Natural Resources Limited, Liberty Mutual Insurance Group and Saputo Inc., and is Chair of both MaRS Discovery District and Sustainable Development Technology Canada (SDTC). In addition, she serves as Chancellor of Cape Breton University and a director of the Verschuren Centre for Sustainability in Energy and the Environment in Cape Breton, and supports numerous non-profit organizations including the CAMH Foundation as a board member. In 2011, Ms. Verschuren was made an Officer of the Order of Canada for her contribution to the retail industry and corporate social responsibility and in 2019 became a companion in the Canadian Business Hall of Fame. At the request of the federal government, Ms. Verschuren sits on the NAFTA Advisory Council. Ms. Verschuren holds honorary doctorate degrees from ten universities including St. Francis Xavier University where she also earned a Bachelor of Business Administration degree.

(v) Michael M. Wilson is a corporate director. Mr. Wilson is Chair of Celestica Inc. and Suncor Energy Inc. Mr. Wilson is the former President and Chief Executive Officer of Agrium Inc., a position he held from 2003 until his retirement in 2013. He previously served as Executive Vice President and Chief Operating Officer. Mr. Wilson has significant experience in the petrochemical industry, serving as President of Methanex Corporation and holding various positions with increasing responsibility in North America and Asia with Dow Chemical Company. Mr. Wilson holds a Bachelor of Science degree in Chemical Engineering from the University of Waterloo.

Pre-approval Policies and Procedures

The Audit Committee reviews and approves the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporation's external auditor prior to the commencement of such work. In this regard, the Audit Committee will prepare a report for presentation to the shareholders of the Corporation annually, as required, regarding the Audit Committee's approval of such non-audit services in the period.

The Audit Committee will also review a report from the external auditor that describes any relationship between the external auditor and the Corporation and states that, in the external auditor's professional judgment, it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor.

Auditors' Fees

PricewaterhouseCoopers LLP has served as Air Canada's auditing firm since April 26, 1990. Fees payable for the years ended December 31, 2020 and December 31, 2019 to PricewaterhouseCoopers LLP and its affiliates are $5,111,065 and $4,433,694, respectively, as detailed below.

	2020	2019
Audit fees	$ 2,901,400	$ 3,060,000
Audit-related fees	1,155,572	707,065
Tax fees	296,563	97,367
All other fees	757,530	569,262
Total	**$ 5,111,065**	**$ 4,433,694**

The nature of each category of fees is described below:

Audit fees

Audit fees were paid for professional services rendered for the audit of Air Canada's annual consolidated financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements related to the annual consolidated financial statements, including review engagements performed on the interim condensed consolidated financial statements of Air Canada.

Audit-related fees

Audit-related fees were paid for professional services related to the audit of the non-consolidated financial statements of Air Canada, pension plan audits, audits of subsidiary companies, where required, specified procedures reports, and other audit engagements not related to the consolidated financial statements of Air Canada.

Tax fees

Tax fees were paid for professional services for tax compliance and tax advice.

All other fees

Other fees were paid for translation services, advisory services and fees related to the auditors' involvement with offering documents, if any.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of the (i) directors or executive officers of Air Canada, (ii) shareholders of Air Canada, that, to the knowledge of Air Canada, beneficially own, or control, directly or indirectly, more than 10% of any class of shares of Air Canada, or (iii) any associate or affiliate of the persons referred to in (i) and (ii), has or has had any material interest, direct or indirect, in any transaction during the three most recently completed financial years or the current financial year that has materially affected or is reasonably expected to materially affect Air Canada or any of its subsidiaries.

LEGAL PROCEEDINGS

A description of certain legal proceedings to which Air Canada is a party appears under the heading "Current Legal Proceedings" in section 17 "*Risk Factors*" in Air Canada's 2020 MD&A, which section is incorporated into the AIF by this reference.

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2020, or before such year but which are still in effect, and which are required to be filed with Canadian securities regulatory authorities in accordance with section 12.2 of National Instrument 51-102 - Continuous Disclosure Obligations, are as follows:

(i) the Indenture dated October 6, 2016 governing the 2016 Senior Notes, and the Collateral Trust Agreement dated October 6, 2016 governing the holding of collateral securing the 2016 Senior Notes, all as amended.

(ii) the Loan Agreement dated October 6, 2016 governing the 2016 Credit Facility, as amended.

(iii) the Amended and Restated Capacity Purchase Agreement between Air Canada and Jazz dated January 1, 2015, as amended.

EXPERTS

The Corporation's independent auditors are PricewaterhouseCoopers LLP, Chartered Professional Accountants. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Corporation within the standards of the Code of Ethics of the Chartered Professional Accountants of Canada.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Air Canada's securities and securities authorized for issuance under equity compensation plans, is contained in Air Canada's management proxy circular for its 2020 annual meeting of shareholders held on June 25, 2020.

Additional financial information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2020 and Air Canada's 2020 MD&A. These documents and additional information related to Air Canada are available on Air Canada's website at **aircanada.com** or on SEDAR at **www.sedar.com**.

The following documents can be obtained by contacting Shareholder Relations at 514-422-6644, via email at shareholders.actionnaires@aircanada.ca, or by mail at Air Canada Centre, Zip 1273, P.O. Box 14000, Station Airport, Dorval, Québec H4Y 1H4:

(i) this AIF, together with any document incorporated herein by reference.

(ii) the Consolidated Financial Statements of Air Canada as at and for the year ended December 31, 2020, including the Independent auditor's report and notes related thereto, Air Canada's 2020 MD&A, and any interim financial statements filed after the audited financial statements for Air Canada's most recently completed financial year.

(iii) any other documents that are incorporated by reference into a short form prospectus pursuant to which securities of Air Canada are in the course of a distribution.

GLOSSARY OF TERMS

"2016 Credit Facility" has the meaning ascribed thereto under "Significant Financing Transactions".

"2016 Senior Notes" has the meaning ascribed thereto under "Significant Financing Transactions".

"Accessible Transportation Regulations" *means the Accessible Transportation for Persons with Disabilities Regulations.*

"ACPA" means the Air Canada Pilots Association.

"ACPPA" means the *Air Canada Public Participation Act,* as amended.

"Aeroplan" means Aeroplan Inc. (formerly Aimia Canada Inc.), Air Canada's wholly owned subsidiary.

"AIF" means this Annual Information Form.

"Air Canada's 2020 MD&A" means Air Canada's 2020 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 12, 2021.

"Air Canada Cargo" means the cargo services division of Air Canada.

"Air Canada Vacations" means Touram Limited Partnership (doing business as Air Canada Vacations®), a limited partnership established under the laws of the Province of Québec.

"Air Canada Rouge" means Air Canada Rouge LP (doing business as Air Canada Rouge), a limited partnership established under the laws of the Province of Québec.

"AMEX" means Amex Bank of Canada.

"Anti-Terrorism Act" means The *Act to enact the Security of Canada Information Sharing Act and the Secure Air Travel Act, to amend the Criminal Code, the Canadian Security Intelligence Service Act and the Immigration and Refugee Protection Act and to make related and consequential amendments to other Acts.*

"ASMs" means the Available Seat Miles which refers to a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the mile flown.

"Audit Committee" means the Audit, Finance and Risk Committee of Air Canada.

"**Benchmark Pricing**" has the meaning ascribed thereto under "Carbon Emissions".

"Boeing" means The Boeing Company.

"CALDA" means the Canadian Airline Dispatchers Association.

"Canadian", in relation to a shareholder of the Corporation, has the meaning ascribed thereto under "Class B Voting Shares".

"Canadian Airlines" means Canadian Airlines International Ltd.

"CARS" means Canadian Aviation Regulations.

"CASL" has the meaning ascribed thereto under "Privacy and Anti-Spam".

"CASM" means the operating expense per ASM.

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

"Chorus" means Chorus Aviation Inc., Jazz's parent corporation.

"CIBC" means Canadian Imperial Bank of Commerce.

"**Contracted Carriers**" means Jazz, Sky Regional and other airlines operating flights on behalf of Air Canada under capacity purchase agreements with Air Canada.

"Corporation" shall have the meaning ascribed thereto under "Explanatory Notes".

"CORSIA" means Carbon Offsetting and Reduction Scheme for International Aviation.

"CPAs" means Capacity Purchase Agreements.

"CTA" means the Canada Transportation Act, as amended.

"CUPE" means the Canadian Union of Public Employees.

"De Havilland" means De Havilland Aircraft of Canada Limited.

"EETCs" means Enhanced Equipment Trust Certificates.

"Embraer" means EMBRAER - Empresa Brasileira de Aeronautica S.A.

"EMS" means environmental management system.

"ETS" means emission trading system.

"Fitch" means Fitch Ratings, Inc.

"FTE" has the meaning ascribed thereto under the section entitled "*Employees and Arrangements with Unions*" of this AIF.

"GAAP" means generally accepted accounting principles in Canada as set out in the CPA Canada Handbook - Accounting which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

"GDPR" means the *General Data Protection Regulation*.

"GHG" means greenhouse gas.

"**GRI**" means Global Reporting Initiative.

"IAMAW" means the International Association of Machinists and Aerospace Workers.

"IASB" means International Accounting Standards Board.

“**IATA**” means the International Air Transport Association.

“IBT” means the International Brotherhood of Teamsters.

“ICAO” means the International Civil Aviation Organization.

“IEnvA” means the IATA Environmental Assessment.

“IFRS” means International Financial Reporting Standards.

“Independent” means independent as defined in National Policy 58-201 — Corporate Governance Guidelines.

“Issuer Bid” shall have the meaning ascribed thereto under "Repurchase of Shares".

“IOSA” means IATA Operational Safety Audit.

“Jazz” means Jazz Aviation LP.

“Jazz CPA” means the Amended and Restated Capacity Purchase Agreement between Air Canada and Jazz dated January 1, 2015, as amended.

“Long-term Incentive Plan” has the meaning ascribed thereto under “Long-term Incentive Plan”.

“Lufthansa” means Deutsche Lufthansa AG.

“MD&A” means Management's Discussion and Analysis.

“Mitsubishi” means Mitsubishi Heavy Industries, Ltd.

“Montréal Trudeau Airport” means Montréal’s Pierre Elliott Trudeau International Airport.

“Moody’s” means Moody’s Investors service, Inc.

“NACC” means National Airlines Council of Canada.

“National Security Matters Act” has the meaning ascribed thereto under “Security”.

“Non-Canadian Air Carrier” has the meaning ascribed thereto under “Class A Variable Voting Shares”.

“OLA” means the *Official Languages Act* (Canada), as amended.

“Open Skies Agreement” means the agreement negotiated between the governments of Canada and the United States which came into force on March 12, 2007.

“Order” has the meaning ascribed thereto under “Cease Trade Orders, Bankruptcies, Penalties or Sanctions”.

“**PCR**” polymerase chain reaction.

“PIPEDA” means the *Personal Information Protection and Electronic Documents Act* (Canada), as amended.

“**Plan”** has the meaning ascribed thereto under “Repurchase of Shares”.

“Porter” means Porter Airlines Inc.

“Rights Plan” has the meaning ascribed thereto under “Air Canada Shareholder Rights Plan”.

“SDGs” means sustainable development goals.

“Shares” means both Variable Voting Shares and Voting Shares.

“Sixth Freedom” has the meaning ascribed there under “Routes and Schedules”.

“Sky Regional” means Sky Regional Airlines Inc.

“SMS” means the Safety Management System.

“SOC” means the System Operations Centre.

“Standard & Poor’s” means Standard & Poor’s Rating Services.

“Sunwing” means Sunwing Airlines.

"TD Bank” means The Toronto-Dominion Bank.

“Toronto Pearson Airport” means Toronto Pearson International Airport.

“Transat” means Transat A.T. Inc.

“TSX” means the Toronto Stock Exchange.

“UBY” refers to the Unlock the Best in You program.

“Unifor” refers to a trade union in Canada, launched in 2013, as a merger of the Canadian Auto Workers and Communications, Energy and Paperworkers unions.

“United Airlines” means United Airlines Inc.

“Variable Voting Shares” means the Class A Variable Voting Shares in the capital of Air Canada.

“**Visa**” means Visa Canada Corporation.

“VFR” means Visiting Friends and Relatives.

“Voluntary Action Plan” has the meaning ascribed thereto under “Carbon Emissions”.

“Voting Shares” means the Class B Voting Shares in the capital of Air Canada.

“WestJet” means WestJet Airlines Ltd.

SCHEDULE A

CHARTER OF THE
AUDIT, FINANCE AND RISK COMMITTEE
(the "Audit Committee")
OF THE BOARD OF DIRECTORS
OF AIR CANADA
(the "Corporation")

1. GENERAL PURPOSE

The purpose of the Audit Committee is as follows:

(a) To assist the Board of Directors (the "Board") in the discharge of its responsibility to monitor the component parts of the Corporation's financial reporting and audit process.

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

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

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

(e) To provide independent communication among the Board, the head of corporate audit and advisory, and the external auditor.

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

(g) To assist the Board in the discharge of its oversight responsibility in relation to the Corporation's enterprise risk management process, except in regard to risks for which the Human Resources and Compensation Committee and the Safety, Health, Environment and Security Committee have been delegated responsibility by the Board.

2. COMPOSITION AND QUALIFICATION

(a) The Audit Committee shall be composed of not less than three directors, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations as determined by the Board of Directors. The members of the Audit Committee shall have no relationships with management, the Corporation and its related entities that in the opinion of the Board may interfere with their independence from management and from the Corporation. In addition, an Audit Committee member shall not receive, other than for service on the Board or the Audit Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation or any of its related entities, parties or subsidiaries. The members of the Audit

Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Audit Committee and in particular each member of the Audit Committee shall be "financially literate" and at least one member shall be a "financial expert" as defined by relevant securities legislation or regulations.

(b) The members of the Audit Committee shall be appointed by the Board to hold office from the time of their appointment until the next annual general meeting of the shareholders or until their successors are appointed. Unless a Chair and a Secretary are appointed by the Board, the members of the Audit Committee may designate a Chair and a Secretary by a majority vote of all the Audit Committee members.

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

(d) The Board, may, at any time, remove any member of the Audit Committee at its discretion and may accept the resignation of any member of the Audit Committee. Vacancies at any time occurring on the Audit Committee shall be filled by the Board.

3. MEETINGS AND PROCEDURE

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

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

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

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

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

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

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

4. RESPONSIBILITIES AND DUTIES

To achieve its objectives, the Audit Committee shall:

(a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the head of corporate audit and advisory. This will include a review of the annual and quarterly financial statements and Management's Discussion and Analysis ("MD&A") to be filed with regulatory authorities and provided to shareholders, and financial statements and other financial disclosure included in prospectuses, earnings press releases and other similar documents. The Audit Committee shall also review the Corporation's annual information form and other similar documents. These reviews include:

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

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

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

(iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements. The Audit Committee is responsible for the resolution of disagreements between management and the external auditor regarding financial reporting;

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

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

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

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

(ix) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes.

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

(c) Review with management, the external auditor and legal counsel, the Corporation's procedures to be satisfied that it complies with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements. The Audit Committee should be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and must periodically assess the adequacy of those procedures.

(d) Meet with the Corporation's external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the corporate audit and advisory department. The Audit Committee is responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.

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

(f) Review and approve, or delegate to a member of the Audit Committee the responsibility to review and approve, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporation’s external auditor prior to the commencement of such work. In this regard the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee’s approval of such non-audit services in the period. The pre-approval of non-audit services by a member of the Audit Committee to whom such authority is delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval.

(g) Review a report from the external auditor that describes any relationship between the external auditor and the Corporation and states that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations and to confirm that it is not the subject of any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm.

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

(i) At each quarterly meeting of the Audit Committee, meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit or review, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.

(j) In conjunction with management, on an annual basis, evaluate the performance of the external auditor, and if so determined, recommend that the Board either take steps to replace the external auditor or provide for the reappointment of the external auditor by the shareholders.

(k) Regarding the services provided by the corporate audit and advisory department, the Audit Committee will:

  (i) meet privately with the head of corporate audit and advisory at least quarterly to, amongst other things, understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work;

  (ii) periodically review and approve the mandate, reporting relationships and resources of the corporate audit and advisory department to ensure that it is independent of management and has sufficient resources to carry out its mandate;

  (iii) review the objectivity, qualifications, adequacy and experience of the corporate audit and advisory staff and approve the appointment, dismissal or replacement of the head of the corporate audit and advisory department;

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

  (v) at each quarterly meeting, review the reports of the corporate audit and advisory department which describe the activities of the corporate audit and advisory department for the preceding period, except those reports that have been requested directly by the Human Resources and Compensation Committee or the Safety, Health, Environment and Security Committee; and

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

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

(m) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Corporation's financial statements.

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

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

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

(q) Receive regular reports from the Corporation's Disclosure Committee and Internal Control Compliance group with respect to the Corporation's system of disclosure controls and procedures and internal controls over financial reporting.

(r) Review and approve all related party transactions as such term is defined from time to time in *Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions* of the Autorité des marchés financiers and Multilateral Instrument 61-101 issued by the Ontario Securities Commission, as may be amended from time to time.

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

(t) Report regularly to the Board on the activities, findings and conclusions of the Audit Committee.

(u) Review this Charter on an annual basis and recommend to the Board any changes to it that the Audit Committee considers advisable.

(v) Complete a self-assessment annually to determine how effectively the Audit Committee is meeting its responsibilities.

(w) Perform such other functions as may be delegated from time to time by the Board.

(x) Review and confirm the selection of the lead audit partner and any other audit engagement team partner of the external auditor of the Corporation.

(y) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

5. <u>OTHER RESPONSIBILITIES AND DUTIES</u>

(a) **Public Disclosure**

The Audit Committee shall:

(i) Review and approve the Corporation’s Public Disclosure Policy and any changes related thereto and satisfy itself that such policy is consistent with current developments and best practices;

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

(b) **Enterprise Risk Management**

The Audit Committee shall:

(i) Be responsible for the oversight of the enterprise risk management (ERM) program and the work carried out by the corporate audit and advisory department in this regard. This work includes the preparation of the quarterly update to the Audit Committee comprising the executive dashboard, the risk landscape, the ERM risk register and the risk status.

(ii) Satisfy itself as to the effective risk management of the individual risks for which oversight has been delegated to the Audit Committee by the Board. The Audit Committee, through the receipt of periodic reports from the corporate audit and advisory department and management, shall review and discuss with the corporate audit and advisory department and management all key enterprise risk exposures (with the exception of risks for which the Human Resources and Compensation Committee and the Safety, Health, Environment and Security Committee have been delegated responsibility by the Board) and the steps management has taken to monitor/control and mitigate those exposures. The Audit Committee shall be entitled, from time to time, to retain experts and consultants to assist the Audit Committee with the discharge of such mandate. The Audit Committee shall have the discretion in the discharge of these duties to address what it considers to be emerging risks to the Corporation’s strategic, financial and operational goals. The Chair of the Audit Committee shall periodically report to the Board on any major issues arising with respect to the management of these risks.

(c) **Contingent Liabilities**

The Audit Committee shall monitor contingent liabilities of the Corporation and its subsidiaries. In the discharge of this duty, the Audit Committee shall have the discretion to retain experts and consultants and to review any matters, whether of a financial nature or otherwise, that can give rise to a contingent liability. The Audit Committee shall make recommendations, from time to time, to the Board on these matters.

(d) **Corporate Authorizations Policies**

The Audit Committee shall:

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

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

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

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

(e) **Performance to Budget**

The Audit Committee shall monitor the Corporation's performance compared to budget for both its annual operating and capital plans.

(f) **Responsibilities**

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

Members of the Audit Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided to the Corporation by the external auditor.

Approved by the Board of Directors effective as of April 29, 2018