

This document is important and requires your immediate attention. If you are in any doubt as to how to deal with it, you should consult your investment dealer, stock broker, bank manager, lawyer or other professional advisor. The Offer (as defined herein) has not been approved or disapproved by any securities regulatory authority in Canada or the United States Securities and Exchange Commission (the "SEC"), nor has any securities regulatory authority in Canada or the SEC passed upon the fairness or merits of the Offer or upon the accuracy or adequacy of the information contained in this document. Any representation to the contrary is a criminal offense.

This document does not constitute an offer or a solicitation to any person in any jurisdiction in which such offer or solicitation is unlawful. The Offer is not being made to, and deposits will not be accepted from or on behalf of, Noteholders in any jurisdiction in which the making or acceptance thereof would not be in compliance with the laws of any such jurisdiction. However, Air Canada may, in its sole discretion, take such action as it may deem necessary to extend the Offer to Noteholders in any such jurisdiction.



AIR CANADA

AIR CANADA

OFFER TO PURCHASE FOR CASH

up to US\$300,000,000 in aggregate principal amount of the issued and outstanding 4.000% Convertible

Senior Notes due 2025

at a purchase price of US\$1,220

per US\$1,000 principal amount of 4.000% Convertible Senior Notes due 2025

CUSIP/ISIN: 008911 BF5 / US008911BF52

Air Canada ("Air Canada" or the "Corporation") hereby offers to purchase from holders (the "Noteholders") of 4.000% Convertible Senior Notes due July 1, 2025 of the Corporation (the "Notes"), issued under and pursuant to the provisions of the trust indenture dated June 2, 2020 between Air Canada and American Stock Transfer & Trust Company, LLC (the "Indenture"), up to US\$300,000,000 in aggregate principal amount (the "Maximum Purchase Amount") of the issued and outstanding Notes (or such larger principal amount as the Corporation, in its sole discretion, may determine it is willing to take up (often referred to as "accepted for purchase" in the United States) and pay for, subject to applicable law) at a purchase price of US\$1,220 in cash per US\$1,000 principal amount of Notes (the "Purchase Price"), on the terms and subject to the conditions set forth herein.

The offer and all deposits (often referred to as "tenders" in the United States) of Notes are subject to the terms and conditions set forth in this offer to purchase (the "Offer to Purchase"), the accompanying issuer bid circular (the "Circular"), and the related letter of transmittal (the "Letter of Transmittal") (which together constitute and are hereinafter referred to as the "Offer").

Each Noteholder who has properly deposited Notes and who has not withdrawn such Notes (in accordance with the terms and conditions of the Offer) will receive the Purchase Price, payable in cash (subject to applicable withholding taxes, if any), for all Notes purchased, on the terms and subject to the conditions of the Offer, including the provisions relating to pro-ration described herein. See "Offer to Purchase — Conditions of the Offer". Air Canada will return, or cause to be returned, all Notes not purchased under the Offer, including Notes not purchased because of pro-ration, promptly after expiration or termination of the Offer. Concurrently or promptly after Air Canada has taken up Notes in the Offer, Notes taken up and paid for by the Corporation will be cancelled. In addition, Noteholders who deposit their Notes to the Offer, and whose Notes are taken up by the Corporation, will receive a cash payment in respect of all accrued and unpaid interest outstanding on such Notes up to, but excluding, the date on which such Notes are taken up by the Corporation pursuant to the Offer.

This Offer expires at 11:59 p.m. (Montréal time) on December 19, 2022, unless extended, varied or withdrawn by Air Canada (the "Expiration Date"). There are no guaranteed delivery provisions with respect to this Offer.

The Offer is not conditional upon any minimum principal amount of Notes being deposited. The Offer is, however, subject to certain other conditions. Subject to applicable law, Air Canada reserves the right to terminate or withdraw the Offer and not take up and pay for any Notes deposited under the Offer unless certain conditions are satisfied. The Corporation also reserves the right, subject to applicable law, to increase, decrease or waive the Maximum Purchase Amount in its sole discretion. See “Offer to Purchase — Conditions of the Offer”.

The Class A variable voting shares (“Variable Voting Shares”) and Class B voting shares (“Voting Shares” and, together with the Variable Voting Shares, the “Shares”) of Air Canada are listed on the Toronto Stock Exchange (the “TSX”), under a single trading symbol “AC”. The Notes are convertible prior to the close of business on the business day immediately preceding March 1, 2025 only under the circumstances and subject to satisfaction of the conversion conditions set out in the Indenture, and at any time on or after March 1, 2025 until the close of business on the second scheduled trading day immediately preceding July 1, 2025, the maturity date of the Notes, regardless of the foregoing conditions, in each case at the option of the Noteholders, into Voting Shares (if the Notes are owned and controlled by a Canadian as defined in the Canada Transportation Act (the “CTA”)) or into Variable Voting Shares (if the Notes are owned and controlled by a non-Canadian) at a current conversion ratio of approximately 65.1337 Shares per US\$1,000 principal amount of Notes (equivalent to a conversion price of approximately US\$15.35 per Share), subject to adjustment in certain events in accordance with the Indenture. This Offer will not trigger a conversion rate adjustment under the Notes.

The Offer was announced on November 14, 2022. The closing price of the Shares on the TSX on November 11, 2022, the last full trading day immediately preceding the announcement of the Offer, was Cdn\$18.50, or approximately US\$13.94 per Share (based on the exchange rate published by Bloomberg on November 11, 2022 of US\$1.00 : Cdn\$1.3275).

As of November 11, 2022, there was US\$540,206,000 principal amount of Notes issued and outstanding and, accordingly, the Offer is for up to approximately 56% of the aggregate principal amount of the issued and outstanding Notes (or such larger percentage as Air Canada, in its sole discretion, may determine it is willing to take up and pay for, subject to applicable law). Notes that are not deposited and purchased pursuant to the Offer will remain outstanding. No amendments to the Indenture are being sought and there is no consent solicitation being made as a part of the Offer.

The Corporation may not redeem the Notes prior to the maturity date (being July 1, 2025), except that upon the occurrence of certain tax law changes described in the Indenture, the Corporation will have the right to redeem all, but not less than all, of the Notes at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding the tax redemption date (as defined in the Indenture).

Noteholders should carefully consider the income tax consequences of accepting the Offer and depositing Notes in the Offer. See “Issuer Bid Circular — Income Tax Considerations”.

Any Noteholder desiring to deposit or tender Notes should (i) do so through The Depository Trust Company (“DTC”) pursuant to DTC’s Automated Tender Offer Program (“ATOP”) or (b) request the Noteholder’s investment dealer, broker or other nominee to effect the transaction through the related Letter of Transmittal. Noteholders must complete and submit the documentation prior to 11:59 p.m. (Montréal time) on December 19, 2022 following the instructions provided by their investment dealer, broker or other nominee. Your investment dealer, broker or other nominee may set a deadline that is earlier than this deadline, and as such you should contact your investment dealer, broker or other nominee for assistance. By using the ATOP procedures to deposit the Notes, Noteholders will not be required to deliver the Letter of Transmittal to the Tender Agent (as defined below), but will be bound by the terms of the Letter of Transmittal and will be deemed to have made the representations therein just as if such Noteholder had signed it. See “Offer to Purchase — Procedure for Depositing Notes”.

None of Air Canada, its board of directors (the “Board of Directors”), the Dealer Manager (as defined below), the Tender Agent or the Valuator (as defined below) makes any recommendation to any Noteholder as to whether to deposit or refrain from depositing Notes. Noteholders are urged to consult their own investment and tax advisors and make their own decision whether to deposit or refrain from depositing their Notes to the Offer and, if deposited, what principal amount of Notes to deposit. See “Issuer Bid Circular — Valuation”.

All dollar references in the Offer are in United States dollars (US\$), except where otherwise indicated.

- “Canadian” when used to qualify the status of a Noteholder or of a holder of Shares shall mean “Canadian” as defined in CTA;
- “non-Canadian” when used to qualify the status of a Noteholder or of a holder of Shares shall mean a person that is not a “Canadian” as defined in CTA; and
- references to “Shares” refer to, as the context requires, the Variable Voting Shares, which may only be held, beneficially owned or controlled, directly or indirectly, by a person who is a non-Canadian, or Voting Shares, which may only be held, beneficially owned and controlled, directly or indirectly, by persons who are Canadians, and references to Shares are references to the applicable class of Shares based on whether the holder of the Notes is (i) Canadian and has delivered a declaration confirming Canadian status in the form attached to the Indenture (a “Declaration”), in which case the Shares being referred to shall be the Voting Shares; or (ii) is a non-Canadian or has not provided a Declaration, in which case the Shares being referred to shall be Variable Voting Shares.

Any questions or requests for assistance concerning the Offer may be directed to Morgan Stanley & Co. LLC (the “Dealer Manager”) at its address and telephone number set forth on the back cover of the Circular. Requests for additional copies of this Offer to Purchase, the Letter of Transmittal, the Circular or any other documents may be directed to D.F. King & Co., Inc. (the “Tender Agent”) at the address and telephone numbers set forth on the back cover of the Circular.

The Dealer Manager for the Offer is:

Morgan Stanley & Co. LLC

The date of this Offer to Purchase is November 14, 2022

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SUMMARY TERM SHEET

We are providing this summary term sheet for your convenience. It highlights material information relating to the Offer, but you should understand that it does not describe all of the details of the Offer to the same extent described elsewhere herein. We urge you to read the entire Offer to Purchase, Circular and Letter of Transmittal because they contain important information. We have included references to the sections of the Offer where you will find a more complete discussion.

Who is offering to purchase my Notes?	Air Canada, which we refer to as “we,” “us”, the “Corporation” or “Air Canada”.
What securities are included in this Offer?	We are offering to purchase up to US\$300,000,000 in aggregate principal amount of the issued and outstanding 4.000% Convertible Senior Notes due July 1, 2025 of Air Canada (or such larger principal amount as we, in our sole discretion, may determine we are willing to take up and pay for, subject to applicable law).
What will the purchase price of the Notes be?	<p>The Purchase Price for the Notes will be US\$1,220 per US\$1,000 principal amount of Notes.</p> <p>If your Notes are purchased under the Offer, you will be paid the Purchase Price (subject to applicable withholding taxes, if any (See “Income Tax Considerations — Non-Residents of Canada”)) in cash, promptly following the Expiration Date (but in any event no later than the Settlement Date (as defined below)), plus a cash payment in respect of all accrued and unpaid interest up to, but excluding, the date they are taken up or accepted for purchase by the Corporation pursuant to the Offer. Under no circumstances will interest accrue or be paid by the Corporation or Tender Agent on the Purchase Price, even if there is a delay in making payment. See “Offer to Purchase — The Offer”.</p> <p>On November 14, 2022, Ernst & Young LLP (the “Valuator”) delivered its valuation report to the Board of Directors. The valuation report has been prepared in compliance with the provisions of applicable Canadian securities laws. A copy of the valuation report is attached to the Circular as Appendix 1. Noteholders should carefully review and consider the valuation report in its entirety. The valuation report is subject to the assumptions, limitations and qualifications set out therein.</p> <p>The valuation report, dated November 14, 2022 and effective as at November 11, 2022, contains the Valuator’s opinion that, based on the scope of their review and subject to the assumptions, restrictions and limitations provided therein, the fair market value of the Notes, per US\$1,000 principal amount of Notes, at November 11, 2022, ranges from approximately US\$1,165 to US\$1,235, or a mid-point of US\$1,200. See “Issuer Bid Circular — Valuation” and the complete copy of the valuation report attached to the Circular as Appendix 1.</p>
What happens if the principal amount of Notes deposited exceeds the Maximum Purchase Amount?	If the principal amount of Notes properly deposited by the Expiration Date (and not withdrawn in accordance with the section “Offer to Purchase — Withdrawal Rights”) exceeds US\$300,000,000 in aggregate principal amount (or such larger principal amount as the Corporation, in its sole discretion, may determine it is willing to take up and pay for, subject to applicable law), then the Notes to be purchased by Air Canada will be purchased on a <i>pro rata</i> basis according to the principal amount of Notes deposited by the Noteholders. In addition, to avoid purchases of Notes in principal amounts other than integral multiples of US\$1,000, if necessary,

the Corporation will make appropriate adjustments to the nearest US\$1,000 principal amount with respect to each Noteholder who is subject to proration and validly deposits or tenders (and does not withdraw in accordance with the section “Offer to Purchase — Withdrawal Rights”) Notes.

Will I receive accrued and unpaid interest on the Notes I tender?

The Notes bear interest at a rate of 4.000% per year, payable semi-annually in arrears on July 1 and January 1 of each year. Noteholders accepting the Offer will receive a cash payment in respect of all accrued and unpaid interest on the Notes up to, but excluding, the date they are taken up or accepted for purchase by the Corporation pursuant to the Offer. Notes that are not taken up will continue to be paid interest in accordance with the Indenture.

Why is Air Canada making this Offer?

The Board of Directors believes that the purchase of Notes pursuant to the Offer is in the best interests of the Corporation and represents an efficient use of the Corporation’s financial resources, allowing it to further deleverage its balance sheet. Notes taken up and paid for by the Corporation will be cancelled. See “Issuer Bid Circular — Purpose and Effect of the Offer”.

How will Air Canada pay for the Notes?

We expect to fund the purchase of Notes under the Offer and the payment of related fees and expenses with cash on hand. See “Issuer Bid Circular — Source of Funds”.

In what currency will Air Canada pay for the Notes I tender?

The Purchase Price will be denominated in U.S. dollars and payments of amounts owing to holders of deposited Notes will be made in U.S. dollars.

How do I tender my Notes?

Any Noteholder desiring to deposit or tender Notes should (i) do so through DTC pursuant to ATOP or (b) request the Noteholder’s broker, dealer or other nominee to effect the transaction through the related Letter of Transmittal. As such, in order to tender your Notes to the Offer, you must complete the documentation prior to 11:59 p.m. (Montréal time) on December 19, 2022 following the instructions provided by your investment dealer, broker or other nominee. Your investment dealer, broker or other nominee may set a deadline that is earlier than this deadline, and as such you should contact your investment dealer, broker or other nominee for assistance. Your investment dealer, broker or other nominee must tender your Notes in accordance with the procedures for book-entry transfer established by DTC pursuant to ATOP. By using the ATOP procedures to deposit the Notes, Noteholders will not be required to deliver the Letter of Transmittal to the Tender Agent. However, any Noteholder who uses the ATOP procedures to deposit Notes will be bound by the terms of the Letter of Transmittal and will be deemed to have made the representations therein just as if such Noteholder had signed it. See “Offer to Purchase — Procedure for Depositing Notes”.

How long do I have to tender my Notes? Can the Offer be extended, varied or terminated?

You may tender your Notes until the Offer expires. The Offer expires at 11:59 p.m. (Montréal time) on December 19, 2022, unless extended, varied or withdrawn by Air Canada. Your investment dealer, broker or other nominee may set a deadline that is earlier than this deadline, and as such you should contact your investment dealer, broker or other nominee for assistance.

We can extend or vary the Offer in our sole discretion, subject to applicable law. See “Offer to Purchase — Extension and Variation of the Offer”. We can also terminate the Offer under certain circumstances. See “Offer to

Purchase — Conditions of the Offer”.

How will I be notified if Air Canada extends the Offer?

We will issue a press release by 9:00 a.m. (Montréal time) on the business day after the previously scheduled expiration date of the Offer if we decide to extend the Offer. See “Offer to Purchase — Extension and Variation of the Offer”.

Are there any conditions to the Offer?

Yes. The Offer is subject to a number of conditions, including, but not limited to, the absence of court and governmental action prohibiting the Offer and changes in general market conditions or our business that, in our judgment, make it inadvisable to proceed with the Offer. See “Offer to Purchase — Conditions of the Offer”.

Once I have tendered Notes in the Offer, can I withdraw my tender?

Yes. You may withdraw any Notes you have tendered (i) at any time prior to the Expiration Date, (ii) at any time if the Notes have not been taken up by the Corporation before actual receipt by the Tender Agent of a notice of withdrawal with respect to such Notes, (iii) if the Notes have been taken up but not paid for by the Corporation within three business days of being taken up, and (iv) before the expiration of 10 days from the date that a notice of change or notice of variation (other than a variation that (A) consists solely of an increase in the consideration offered for the Notes under the Offer where the time for deposit is not extended for greater than 10 days, or (B) consists solely of the waiver of a condition of the Offer (in each case, subject to applicable law)) has been given in accordance with the Offer to Purchase. Withdrawn Notes may be redeposited prior to the Expiration Date by again following the procedures described herein. See “Offer to Purchase — Withdrawal Rights”.

How do I withdraw Notes I previously tendered?

Withdrawals of Notes deposited pursuant to the Offer must be effected via DTC’s ATOP procedures and through your investment dealer, broker or other nominee holding your Notes prior to the Expiration Date. You should contact your investment dealer, broker or other nominee holding your Notes for assistance if you wish to withdraw your Notes deposited pursuant to the Offer. Withdrawn Notes may be redeposited prior to the Expiration Date by again following the procedures described herein. See “Offer to Purchase — Withdrawal Rights”.

What happens to untendered or unpurchased Notes?

Notes that are tendered and not taken up will be returned to their tendering Noteholder without expense. Notes not deposited or otherwise taken up pursuant to the Offer will remain outstanding. No amendments to the Indenture are being sought and there is no consent solicitation being made as a part of the Offer.

What impact will the Offer have on the liquidity of the market for the Notes?

The purchase of Notes pursuant to the Offer will reduce the amount of Notes that might otherwise be traded, and may reduce the number of Noteholders, and, depending on the number of Noteholders depositing and the amount of Notes purchased under the Offer, could adversely affect the liquidity and market value of the Notes that remain outstanding following completion of the Offer. See “Issuer Bid Circular — Purpose and Effect of the Offer”.

Assuming we take up and purchase the Maximum Purchase Amount in the Offer, there will be an aggregate US\$240,206,000 principal amount of Notes issued and outstanding immediately following the completion of the Offer.

Subject to certain exceptions, Canadian securities laws prohibit the Corporation and its affiliates from acquiring any Notes, other than pursuant

to the Offer, until at least 20 business days after the Expiration Date or date of termination of the Offer. Subject to applicable law, Air Canada may in the future purchase additional Notes in private transactions, through issuer bids or otherwise. Any such purchases may be on the same terms or on terms that are more or less favorable to Noteholders than the terms of the Offer. Any possible future purchases by the Corporation will depend on a number of factors, including the market price of the Notes, the Corporation's business and financial position, the results of the Offer and general economic and market conditions.

How will Air Canada accept and pay for the Notes I tender?

We will take up the Notes to be purchased pursuant to the Offer promptly after the Expiration Date, in accordance with applicable law, and within three business days after the Expiration Date (the "Settlement Date"), will pay the Purchase Price (subject to applicable withholding taxes, if any) for such Notes. See "Offer to Purchase — Acceptance for Payment and Payment for Notes".

Has Air Canada or its Board of Directors adopted a position on this Offer?

In making the decision to present the Offer to Noteholders, neither Air Canada nor its Board of Directors makes any recommendation to any Noteholder as to whether to deposit or refrain from depositing Notes. You are urged to consult your own investment and tax advisors and make your own decision whether to deposit or refrain from depositing Notes to the Offer and, if so, what principal amount of Notes to deposit. See "Issuer Bid Circular — Valuation".

Will I have to pay brokerage commissions?

In depositing your Notes, you will not be obligated to pay brokerage fees or commissions to us or the Tender Agent. However, we recommend that you consult with your own investment dealer, broker or other nominee to determine whether any fees or commissions are payable to your own investment dealer, broker or other nominee in connection with your deposit of Notes pursuant to the Offer.

What are the income tax consequences if I tender my Notes?

You should carefully consider the income tax consequences of depositing Notes pursuant to the Offer. We urge you to consult your own investment and tax advisors. See "Issuer Bid Circular — Income Tax Considerations".

Can I still convert my Notes into Air Canada Shares?

Yes, subject to the terms of the Indenture and, to the extent you deposit your Notes pursuant to the Offer, only if you first properly withdraw your Notes from the Offer before your right to withdraw has expired. The Notes are convertible prior to the close of business on the business day immediately preceding March 1, 2025 only under the circumstances and subject to satisfaction of the conversion conditions set out in the Indenture, and at any time on or after March 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date (being July 1, 2025), regardless of the foregoing conditions, in each case at the option of the Noteholders, into Voting Shares (if the Notes are owned and controlled by a Canadian) or into Variable Voting Shares (if the Notes are owned and controlled by a non-Canadian), at a current conversion ratio of approximately 65.1337 Shares per US\$1,000 principal amount of the Notes (equivalent to a conversion price of approximately US\$15.35 per Share), subject to adjustment in certain events in accordance with the Indenture. This Offer will not trigger a conversion rate adjustment under the Notes.

The Shares are listed on the TSX under a single trading symbol "AC". On November 11, 2022, the last full trading day before the announcement of

the Offer, the closing price of the Shares on the TSX was Cdn\$18.50, or approximately US\$13.94 per Share (based on the exchange rate published by Bloomberg on November 11, 2022 of US\$1.00 : Cdn\$1.3275).

Can Air Canada redeem outstanding Notes?

Air Canada may not redeem the Notes prior to the maturity date (being July 1, 2025), except that upon the occurrence of certain tax law changes described in the Indenture, Air Canada will have the right to redeem all, but not less than all, of the Notes at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding the tax redemption date (as defined in the Indenture).

Who can I talk to if I have questions?

For further information regarding the Offer, you may contact the Tender Agent or you may consult your own investment dealer, broker or other nominee. The addresses and telephone and email of the Tender Agent are set forth on the last page of this Offer.

NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY RECOMMENDATION ON BEHALF OF THE CORPORATION AS TO WHETHER NOTEHOLDERS SHOULD DEPOSIT OR REFRAIN FROM DEPOSITING NOTES PURSUANT TO THE OFFER. NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFER OTHER THAN AS SET FORTH IN THIS OFFER. IF GIVEN OR MADE, ANY SUCH RECOMMENDATION OR ANY SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE CORPORATION.

INFORMATION FOR UNITED STATES NOTEHOLDERS

The Notes are not registered under Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Air Canada is exempt from the reporting obligations of Sections 13 and 15(d) of the Exchange Act pursuant to Rule 12g3-2(b) thereunder. Air Canada is a reporting issuer in Canada, and, as such, is subject to continuous disclosure and other obligations applicable to Canadian reporting issuers under applicable Canadian securities laws. See “Issuer Bid Circular — Additional Information”.

The enforcement by Noteholders of civil liabilities under the United States federal securities laws may be adversely affected by the fact that the Corporation is incorporated under the laws of Canada and a majority of its officers and directors are residents of countries other than the United States. Enforcement of civil liabilities under U.S. securities laws may further be adversely affected by the fact that some or all of the experts named in this Offer to Purchase and the Circular may be residents of Canada.

Financial statements of the Corporation referenced herein are reported in Canadian dollars and have been prepared in accordance with generally accepted accounting principles in Canada as set out in the CPA Canada Handbook — Accounting, which incorporates International Financial Reporting Standards, as issued by the International Accounting Standards Board, and thus are not comparable in all respects to financial statements of United States companies.

Noteholders should be aware that acceptance of the Offer may have tax consequences under United States and Canadian law. Noteholders should consult their own tax advisors regarding the U.S. federal, state, local and non-U.S. tax considerations applicable to them with respect to the disposition of Notes pursuant to the Offer. See “Issuer Bid Circular — Income Tax Considerations”.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Offer to Purchase and Circular may contain statements that constitute forward-looking information or statements within the meaning of applicable securities laws (“forward-looking statements”), that include, but are not limited to, statements respecting: statements regarding the expiration of the Offer; the timing of the expiry of the Offer, and the take up and payment for the Notes deposited under the Offer; the funding sources for the Offer; the Corporation continuing to have sufficient financial resources and working capital to conduct its business affairs; future purchases of additional Notes of the Corporation following expiry of the Offer.

Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified using terms and phrases such as “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 the documents incorporated by reference 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.

During the period from March 2020 until early 2022, Air Canada and the rest of the global airline industry faced significantly lower traffic than in 2019, 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 including in Canada. Conditions have improved significantly and travel restrictions have been lifted in many countries, including in Canada, but the wide-ranging impact of the COVID-19 pandemic and certain other factors have impeded Air Canada’s and the global airline industry’s restart efforts, particularly during the summer of 2022, and has also affected the ability of some of its participants, on which Air Canada’s operations are dependent, to support the surge in traffic. Over the period from June to mid-July, this led to a meaningful increase in flight delays and cancellations, and other operational disruptions and challenges. Flight delays and cancellations started to decrease in August and there was a progressive increase in operational stability experienced in the second half of the third quarter of 2022, however there can be no assurance that further significant disruptions will not reoccur.

Other factors that may cause results to differ materially from results indicated in forward-looking statements include volatility in the market price of the securities of the Corporation, satisfaction or waiver of the conditions to the Offer, the extent to which Noteholders determine to tender their Notes to the Offer, the ongoing effects from the COVID-19 pandemic, economic and geopolitical conditions such as the military conflict between Russia and Ukraine, 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, competition, Air Canada's dependence on technology, cybersecurity risks, energy prices, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), other epidemic diseases, terrorist acts, war, Air Canada's dependence on key suppliers (including government agencies and other stakeholders supporting airport and airline operations), Air Canada's ability to successfully operate its loyalty program, interruptions of service, Air Canada's ability to attract and retain required personnel, the availability and onboarding of Air Canada's workforce, casualty losses, changes in laws, regulatory developments or proceedings, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from anthropogenic sources), 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, pending and future litigation and actions by third parties, currency exchange, limitations due to restrictive covenants, insurance issues and costs, pension plans, 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 18 "Risk Factors" in Air Canada's management's discussion and analysis ("MD&A") for the year ended December 31, 2021 and section 14 "Risk Factors" of Air Canada's MD&A for the three and nine months ended September 30, 2022. The forward-looking statements contained or incorporated by reference in this Offer to Purchase and Circular represent Air Canada's expectations as of the date of this Offer to Purchase and Circular (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.

IMPORTANT NOTICE RELATING TO ACQUISITIONS AND DISPOSITIONS OF NOTES

We and our affiliates, including our executive officers and directors, will be prohibited by Rule 14e-5 under the Exchange Act, from purchasing any of the Notes outside of the Offer until the expiration of the Offer, subject to certain exceptions.

In addition, under applicable Canadian securities laws, except in limited circumstances, we are not permitted to acquire, or make or enter into an agreement, commitment or understanding to acquire, beneficial ownership of the Notes, other than under the Offer until after the Expiration Date. Further, except for purchases made in accordance with applicable Canadian securities laws, during the period commencing on the Expiration Date and ending at the end of the 20th business day after the Expiration Date, whether or not any Notes are taken up under the Offer, we must not acquire or offer to acquire beneficial ownership of any Notes except by way of a transaction that is generally available to all Noteholders on identical terms.

Following the dates set forth above, we expressly reserve the absolute right, in our sole discretion from time to time in the future, to purchase any of the Notes, whether or not any Notes are purchased pursuant to the Offer, through open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise, upon such terms and at such prices as we may determine, which may be more or less than the price to be paid pursuant to the Offer and could be for cash or other consideration.

We also expressly reserve the absolute right, in our sole discretion from time to time, to purchase the Notes through redemption upon the occurrence of certain tax law changes described in, and pursuant to the terms of, the Indenture, whether or not any Notes are purchased pursuant to the Offer.

We cannot assure you as to which, if any, of the foregoing alternatives, or combinations thereof, we will pursue.

OFFER TO PURCHASE

To the holders of 4.000% Convertible Senior Notes due July 1, 2025 of Air Canada.

THE OFFER

Air Canada (“Air Canada” or the “Corporation”) hereby offers to purchase from holders (the “Noteholders”) of 4.000% Convertible Senior Notes due July 1, 2025 of the Corporation (the “Notes”), issued under and pursuant to the provisions of the trust indenture dated June 2, 2020 between Air Canada and American Stock Transfer & Trust Company, LLC (the “Indenture”), up to US\$300,000,000 in aggregate principal amount (the “Maximum Purchase Amount”) of the issued and outstanding Notes (or such larger principal amount as the Corporation, in its sole discretion, may determine it is willing to take up (often referred to as “accepted for purchase” in the United States) and pay for, subject to applicable law), at a purchase price of US\$1,220 in cash per US\$1,000 principal amount of Notes (the “Purchase Price”), on the terms and subject to the conditions set forth in this offer to purchase (the “Offer to Purchase”), the accompanying issuer bid circular (the “Circular”) and the related letter of transmittal (the “Letter of Transmittal”) (which together constitute and are hereinafter referred to as the “Offer”).

The Offer will expire at 11:59 p.m. (Montréal time) on December 19, 2022, unless withdrawn, varied or extended by Air Canada (the “Expiration Date”).

All Noteholders who have, prior to the Expiration Date, properly deposited and not withdrawn their Notes (in accordance with the “Withdrawal Rights” section of this Offer to Purchase) will receive in cash the Purchase Price (subject to applicable withholding taxes, if any), all on the terms and subject to the conditions of the Offer, including the provisions relating to pro-ration described herein. See “Acceptance for Payment and Payment for Notes — Principal Amount of Notes; Pro-Ration”. Air Canada will return, or cause to be returned, all Notes not purchased under the Offer, including Notes not purchased because of pro-ration, promptly after expiration or termination of the Offer. Notes taken up and paid for by the Corporation will be cancelled. In addition, Noteholders who tender their Notes to the Offer will receive a cash payment in respect of all accrued and unpaid interest outstanding on such Notes up to, but excluding, the date they are taken up or accepted for purchase by the Corporation pursuant to the Offer. Notes not taken up will continue to be paid interest in accordance with the Indenture.

For purposes of the Offer, the Corporation will be deemed to have taken up and accepted for payment Notes properly deposited (and not withdrawn in accordance with the “Withdrawal Rights” section of this Offer to Purchase), if, as and when the Corporation gives oral (to be confirmed in writing) or written notice to the Tender Agent of its acceptance of such Notes, subject to pro-ration, for payment pursuant to the Offer. The Corporation will take up the Notes to be purchased pursuant to the Offer promptly after the Expiration Date, in accordance with applicable law. Air Canada will pay the Purchase Price (subject to applicable withholding taxes, if any) for such Notes no later than the Settlement Date. The Corporation will acquire Notes to be purchased pursuant to the Offer and title thereto under this Offer upon having taken up such Notes even if payment therefore shall have not yet been effected.

The Purchase Price will be denominated in United States dollars. All dollar amounts set forth herein are expressed in United States dollars, except where otherwise indicated.

The Offer is not conditional upon any minimum principal amount of Notes being deposited. The Offer is, however, subject to certain other conditions. See “Offer to Purchase — Conditions of the Offer”.

If the principal amount of all Notes properly deposited by the Expiration Date (and not withdrawn in accordance with the “Withdrawal Rights” section of this Offer to Purchase) exceeds in the aggregate the Maximum Purchase Amount of Notes (or such larger principal amount as the Corporation, in its sole discretion, may determine it is willing to take up and pay for, subject to applicable law), then the Notes to be purchased by Air Canada will be purchased on a *pro rata* basis according to the principal amount of Notes deposited by the Noteholders. In addition, to avoid purchases of Notes in principal amounts other than integral multiples of US\$1,000, if necessary, the Corporation will make appropriate adjustments to the nearest US\$1,000 principal amount with respect to each Noteholder who is subject to pro-ration and validly deposits or tenders (and does not withdraw in accordance with the section “Offer to Purchase — Withdrawal Rights”) Notes. If pro-ration would cause the

Corporation to return less than the minimum denomination to any Noteholder, then the Corporation will, at its option, either accept or reject all or such portion of such Noteholder's deposited or tendered Notes such that it will hold either no Notes or at least the minimum denomination of Notes following the consummation of the Offer.

This Offer to Purchase, the accompanying Circular and Letter of Transmittal contain important information and should be read carefully before making a decision with respect to the Offer.

PROCEDURE FOR DEPOSITING NOTES

Manner of Acceptance

A Noteholder who wishes to deposit Notes under the Offer and who holds Notes through an investment dealer, broker, bank, trust company or other nominee should immediately contact such nominee in order to take the necessary steps to be able to deposit such Notes under the Offer. Participants of The Depository Trust Company ("DTC") should contact DTC with respect to the deposit of Notes under the terms of the Offer.

All of the Notes were issued in book-entry form, and all of the Notes are currently represented by one or more global certificates registered in the name of a nominee of DTC. Accordingly, to tender Notes in the Offer, such Notes must be deposited using DTC's Automated Tender Offer Program ("ATOP") procedures. DTC participants may electronically transmit their acceptance of the Offer by causing DTC to transfer their outstanding Notes to the Tender Agent using the ATOP procedures. In connection with each book-entry transfer of Notes to the Tender Agent, DTC will send an "agent's message" to the Tender Agent, which, in turn, will confirm its receipt of the book entry transfer (a "Book-Entry Confirmation"). The term "agent's message" means a message transmitted by DTC to, and received by, the Tender Agent and forming a part of the Book-Entry Confirmation, stating that DTC has received an express acknowledgement from the participant in DTC depositing Notes that such participant has received and agrees to be bound by the terms of the Offer and that the Corporation may enforce such agreement against the participant.

By using the ATOP procedures to deposit the Notes, Noteholders will not be required to deliver the Letter of Transmittal to the Tender Agent. However, any Noteholder who uses the ATOP procedures to deposit Notes will be bound by the terms of the Letter of Transmittal just as if such Noteholder had signed it.

The Corporation will not be required to pay for Notes deposited pursuant to the Offer unless those Notes are validly deposited and accepted by the Corporation for take up and purchase. Similarly, the Corporation will be able to retain deposited Notes that have been properly taken up and paid for if the applicable Noteholder does not validly comply with the procedures to withdraw the Notes. The Corporation will have the right, in its sole discretion, subject to applicable law, to decide whether a deposit or withdrawal was made validly and the Corporation's decision will be final and binding on all parties. Noteholders should note the following with respect to the Offer:

- If the Corporation determines that a Noteholder has not validly deposited its Notes, or has not validly complied with the procedures to withdraw its Notes previously deposited, such Noteholder will have to correct the problem in the time period determined by the Corporation.
- Neither the Corporation, the Dealer Manager, the Tender Agent, the trustee of the Notes or any other person is under any obligation to advise a Noteholder of any defect in its deposit or withdrawal.
- The Corporation has the right, in its sole discretion, to waive any defect in the deposit or withdrawal of Notes, and the Corporation may waive a defect with respect to one Noteholder and not another.

If the Corporation determines that a Noteholder has not validly deposited its Notes and the Corporation determines not to waive such defective deposit, such Noteholder's defectively deposited Notes will be returned to such Noteholder at the Corporation's expense via a credit to the appropriate DTC account promptly following the Expiration Date or the earlier termination of the Offer.

A Noteholder who has deposited Notes under the Offer also agrees, pursuant to the terms of the Letter of Transmittal, to execute, upon request, any additional documents, transfers and other assurances as may be necessary or desirable in connection with the foregoing or the Offer in order to complete the sale, assignment and transfer of the Notes deposited under the Offer.

No Guaranteed Delivery

There are no guaranteed delivery provisions provided for by the Corporation in conjunction with the Offer under the terms of the Offer. Accordingly, Noteholders must allow sufficient time for the necessary tender and deposit procedures to be completed during the normal business hours of DTC prior to the expiration time on the Expiration Date. Noteholders wishing to participate in the Offer must deposit their Notes in accordance with the procedures set forth under "Procedure for Depositing Notes". Subject to applicable law, the Corporation reserves the right to permit the Offer to be accepted in a manner other than that set forth above under "Procedure for Depositing Notes".

Determination of Validity

All questions as to the form of documents and the validity, eligibility (including time of receipt) and acceptance for payment of any deposit of Notes, will be determined by the Corporation, in its sole discretion, which determination will be final and binding on all parties. Air Canada reserves the absolute right to reject any or all deposits of Notes determined by it in its sole discretion not to be in proper form nor completed in accordance with the instructions set forth herein and in the Letter of Transmittal or the acceptance for payment of, or payment for, which may, in the opinion of the Corporation's counsel, be unlawful under the laws of any jurisdiction. Air Canada also reserves the absolute right to waive any of the conditions of the Offer or any defect or irregularity in any deposit of Notes. No deposit of Notes will be deemed to be properly made until all defects and irregularities have been cured or waived. None of the Corporation, the Dealer Manager, the Tender Agent or any other person will be under any duty to give notification of any defect or irregularity in deposits or incur any liability for failure to give any such notice. The Corporation's interpretation of the terms and conditions of the Offer (including the Letter of Transmittal) will be final and binding on all parties.

Formation of Agreement

The proper deposit of Notes pursuant to the procedures referred to above will constitute a binding agreement between the depositing Noteholder and the Corporation, effective as of the Expiration Date, upon the terms and subject to the conditions of the Offer.

WITHDRAWAL RIGHTS

Except as otherwise expressly provided herein, deposits of Notes pursuant to the Offer will be irrevocable. Notes deposited pursuant to the Offer may be withdrawn by a Noteholder:

- (i) at any time prior to the Expiration Date;
- (ii) at any time if the Notes have not been taken up by the Corporation before actual receipt by the Tender Agent of a notice of withdrawal with respect to such Notes;
- (iii) if the Notes have been taken up but not paid for by the Corporation within three business days of being taken up; and
- (iv) before the expiration of 10 days from the date that a notice of change or notice of variation (other than a variation that (A) consists solely of an increase in the consideration offered for the Notes under the Offer where the time for deposit is not extended for greater than 10 days, or (B) consists solely of the waiver of a condition of the Offer (in each case, subject to applicable law)) has been given in accordance with the Offer to Purchase.

Noteholders who wish to withdraw Notes tendered pursuant to the Offer should immediately contact their investment dealer, broker or other nominee in order to take the necessary steps to be able to withdraw such Notes. Participants of DTC should contact the Tender Agent with respect to the withdrawal of Notes tendered pursuant to the Offer.

Withdrawal of Notes deposited pursuant to the Offer may be accomplished by complying with the applicable ATOP procedures for withdrawal of tenders or deposits. The Tender Agent must receive the "request message" relating to a Noteholder's withdrawal prior to the Expiration Date, assuming no additional withdrawal rights are so required.

A notice of withdrawal of Notes must actually be received by the Tender Agent in a manner such that the Tender Agent has a written copy of such notice of withdrawal (including by way of a request message). A withdrawal of Notes deposited pursuant to the Offer may only be accomplished in accordance with the foregoing procedure.

The withdrawal shall take effect only upon actual receipt by the Tender Agent of a written copy of a properly completed and executed notice of withdrawal (including by way of a request message).

All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by the Corporation, in its sole discretion, which determination shall be final and binding on all parties. None of the Corporation, the Dealer Manager, the Tender Agent, the trustee of the Notes or any other person is under any obligation to advise a Noteholder of any defect in its deposit or withdrawal and none of them shall incur any liability for failure to give any such notice.

Any Notes properly withdrawn will thereafter be deemed not deposited for purposes of the Offer. However, withdrawn Notes may be redeposited prior to the Expiration Date by again following the procedures described herein. See "Procedure for Depositing Notes". Any Notes that are tendered and not accepted for purchase will be promptly returned to their tendering Noteholder without expense. Notes that are not deposited or otherwise taken up pursuant to the Offer will remain outstanding. No amendments to the Indenture are being sought and there is no consent solicitation being made as a part of the Offer.

If a Noteholder tenders Notes in the Offer, such Noteholder may convert such Notes subject to the terms of the Indenture only if the Noteholder withdraws such Notes from the Offer prior to the time the Noteholder's right to withdraw has expired. The Notes are convertible prior to the close of business on the business day immediately preceding March 1, 2025 only under the circumstances and subject to satisfaction of the conversion conditions set out in the Indenture, and at any time on or after March 1, 2025 until the close of business on the second scheduled trading day immediately preceding July 1, 2025, the maturity date of the Notes, regardless of the foregoing conditions, in each case at the option of the Noteholders, into Voting Shares (if the Notes are owned and controlled by a Canadian) or into Variable Voting Shares (if the Notes are owned and controlled by a non-Canadian), at a current conversion ratio of approximately 65.1337 Shares per US\$1,000 principal amount of the Notes (equivalent to a conversion price of approximately US\$15.35 per Share), subject to adjustment in certain events in accordance with the Indenture. This Offer will not trigger a conversion rate adjustment under the Notes.

If Air Canada extends the period of time during which the Offer is open, is delayed in its purchase of Notes or is unable to purchase Notes pursuant to the Offer for any reason, then, without prejudice to Air Canada's rights under the Offer, the Tender Agent may, subject to applicable law, retain on behalf of Air Canada all Notes deposited under the Offer. The Corporation's reservation is limited by Rule 14e-1 promulgated under the Exchange Act, which requires that the Corporation pay the consideration offered or return the Notes tendered promptly after termination or withdrawal of the Offer. In the event of such retention, such Notes may not be withdrawn except to the extent depositing Noteholders are entitled to withdrawal rights as described under this section.

It is a violation of Rule 14e-4 promulgated under the Exchange Act for a person, directly or indirectly, to deposit or tender securities in a partial tender offer for its own account unless the person so tendering its securities (a) has a net long position equal to or greater than the aggregate principal amount of the securities being tendered and (b) will cause such securities to be delivered in accordance with the terms of the tender offer. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person.

A deposit or tender of Notes in the Offer under any of the procedures described above will constitute a binding agreement between the Noteholder and Air Canada with respect to the Offer upon the terms and subject to the conditions of the Offer, including the Noteholder's acceptance of the terms and conditions of the Offer, as well as the Noteholder's representation and warranty that (i) such Noteholder has a net long position in the Notes being deposited or tendered pursuant to the Offer within the meaning of Rule 14e-4 under the Exchange Act and (ii) the tender of such Notes complies with Rule 14e-4.

CONDITIONS OF THE OFFER

Notwithstanding any other provision of the Offer, the Corporation shall not be required to accept for purchase, to purchase or to pay for any Notes deposited, and may withdraw, terminate, cancel or amend the Offer or may postpone the take up and payment for Notes deposited, if, at any time before the payment for any such Notes, any of the following events shall have occurred (or shall have been determined by the Corporation to have occurred) which, in the Corporation's sole judgment in any such case and regardless of the circumstances, makes it inadvisable to proceed with the Offer or with such acceptance for purchase or payment:

- (a) there shall have been threatened, taken or pending any action, suit or proceeding by any government or governmental authority or regulatory or administrative agency in any jurisdiction, or by any other person in any jurisdiction, before any court or governmental authority or regulatory or administrative agency in any jurisdiction (i) challenging or seeking to cease trade, make illegal, delay or otherwise directly or indirectly restrain or prohibit the making of the Offer, the acceptance for payment of some or all of the Notes by the Corporation or otherwise directly or indirectly relating in any manner to or affecting the Offer, or (ii) seeking material damages or that otherwise, in the sole judgment of the Corporation, acting reasonably, has or may have a material adverse effect on the Notes or the business, income, assets, liabilities, condition (financial or otherwise), properties, operations, results of operations or prospects of the Corporation or its affiliates taken as a whole or has impaired or may materially impair the contemplated benefits of the Offer to the Corporation;
- (b) there shall have been any action or proceeding threatened, pending or taken or approval withheld or any statute, rule, regulation, stay, decree, judgment or order or injunction proposed, sought, enacted, enforced, promulgated, amended, issued or deemed applicable to the Offer or the Corporation or its affiliates by any court, government or governmental authority or regulatory or administrative agency or any statute, rule or regulation shall become operative or applicable in any jurisdiction that, in the sole judgment of the Corporation, acting reasonably, might directly or indirectly result in any of the consequences referred to in clauses (i) or (ii) of paragraph (a) above or, in the sole judgment of Air Canada, acting reasonably, would or might prohibit, prevent, restrict or delay consummation of the Offer or would or might impair the contemplated benefits to the Corporation of the Offer;
- (c) there shall have occurred (i) any general suspension of trading in, or limitation on prices for, securities on any securities exchange or in the over-the-counter market in Canada or the United States, (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in Canada or the United States (whether or not mandatory), (iii) any actual or potential existence, occurrence or continuation of any force majeure events, including any earthquakes, floods, hurricanes, a natural disaster, pandemic, outbreak, epidemic, or the commencement of a war, armed hostilities, act of terrorism, political instability or other international, national or regional calamity, crisis, emergency, act of God or any governmental or other response to any of the foregoing, in each case whether or not directly or indirectly involving or affecting Canada, the United States, Europe, Asia or any other region where the Corporation maintains significant business activities, (iv) any limitation (whether or not mandatory) by any government or governmental authority or regulatory or administrative agency or any other event that, in the sole judgment of the Corporation, acting reasonably, might affect the extension of credit by banks or other lending institutions, (v) any increase or decrease, in the sole judgment of the Corporation, acting reasonably, in the fair market value of the Notes by a significant amount (including, without limitation, an amount greater than 10%) since the close of business on November 11, 2022, (vi) any change in the general political, market, economic or financial conditions that, in the sole judgment of the Corporation, acting reasonably, has or may have a material adverse effect on the Corporation's or its affiliates', taken as a whole, business, operations or prospects or the trading in, or value of, the Shares or the Notes (including any change attributable to the COVID-19 pandemic, or the current conflict between Russia and Ukraine), (vii) any decline in any of the S&P/TSX Composite Index, the Dow Jones Industrial Average or the Standard and Poor's Index of 500 Industrial Companies by an amount in excess of 10%, measured from the close of business on November 11, 2022, or (viii) in the case of any of the foregoing existing at the time of the commencement of the Offer, an acceleration or worsening thereof;
- (d) there shall have occurred any change or changes (or any development involving any prospective change or changes) in the business, assets, liabilities, properties, condition (financial or otherwise), operations, results of operations or prospects of the Corporation or any of its affiliates that, in the sole judgment of the Corporation, acting reasonably, has, have or may have, individually or in the aggregate, material adverse significance with respect to the Corporation or its affiliates taken as a whole;
- (e) any take-over bid or tender or exchange offer with respect to some or all of the securities of the Corporation, or any merger, amalgamation, arrangement, business combination or acquisition proposal, disposition of assets, or other similar transaction with or involving the Corporation or any of its affiliates, other than the Offer, or any solicitation of proxies, other than by management, to seek to control or

influence the Board of Directors, shall have been proposed, announced or made by any individual or entity;

- (f) the Valuator shall have withdrawn or amended its valuation report for the Notes;
- (g) the Corporation shall have concluded, in its sole judgment, acting reasonably, that the Offer or the taking up and payment for any or all of the Notes by the Corporation is illegal or not in compliance with applicable law, or that necessary exemptions under applicable securities legislation are not available or not available on acceptable terms to the Corporation for the Offer and, if required under any such legislation, the Corporation shall not have received the necessary exemptions from or approvals or waivers of the appropriate courts or applicable securities regulatory authorities in respect of the Offer, or such exemptions or waivers are rescinded or modified in a manner that is not in form and substance satisfactory to the Corporation;
- (h) any change shall have occurred or been proposed to the *Income Tax Act (Canada)* or the *Income Tax Regulations*, as amended, the application thereof pursuant to any judicial decision or to the publicly available administrative policies or assessing practices of the Canada Revenue Agency, or to the *Canada Transportation Act*, as amended, or the application thereof pursuant to any judicial decision, that, in the sole judgment of the Corporation, acting reasonably, is detrimental to Air Canada or its affiliates taken as a whole or to a Noteholder, or with respect to making the Offer or taking up and paying for Notes deposited under the Offer; or
- (i) any change shall have occurred or been proposed to the *United States Internal Revenue Code of 1986*, as amended, the Treasury regulations promulgated thereunder, or publicly available administrative policies of the U.S. Internal Revenue Service or the application thereof pursuant to any judicial decision that, in the sole judgment of the Corporation, acting reasonably, is detrimental to Air Canada or its affiliates taken as a whole or to a Noteholder, or with respect to making the Offer or taking up and paying for Notes deposited under the Offer.

The foregoing conditions are for the sole benefit of the Corporation and may be asserted by the Corporation regardless of the circumstances (including any action or inaction by the Corporation) giving rise to any such conditions, or may be waived by the Corporation, in whole or in part, at any time, without prejudice to any other rights which the Corporation may have. The failure by the Corporation at any time to exercise its rights under any of the foregoing conditions shall not be deemed a waiver of any such right; and the waiver of any such right with respect to particular facts and other circumstances shall not be deemed a waiver with respect to any other facts and circumstances and each such right shall be deemed an ongoing right which may be asserted at any time or from time to time. Any determination by the Corporation concerning the events described in this section shall be final and binding on all parties.

Any waiver of a condition or the withdrawal of the Offer by the Corporation shall be deemed to be effective on the date on which notice of such waiver or withdrawal by the Corporation is delivered or otherwise communicated to the Tender Agent. Air Canada, after giving notice to the Tender Agent of any waiver of a condition or the withdrawal of the Offer, shall immediately make a public announcement of such waiver or withdrawal and provide and cause to be provided notice of such waiver or withdrawal to the applicable Canadian securities regulatory authorities. In addition, if required by applicable securities laws, the Corporation will cause the Tender Agent to provide to DTC, as the registered holder of all Notes, a copy of the notice in the manner set forth below under "Notice" as soon as practicable thereafter. If the Offer is withdrawn, the Corporation shall not be obligated to take up, accept for purchase or pay for any Notes deposited under the Offer.

ACCEPTANCE FOR PAYMENT AND PAYMENT FOR NOTES

Principal Amount of Notes; Pro-Ration

For purposes of the Offer, the Corporation will be deemed to have taken up and accepted for payment Notes properly deposited (and not withdrawn in accordance with the "Withdrawal Rights" section of this Offer to Purchase) if, as and when the Corporation gives oral (to be confirmed in writing) or written notice to the Tender Agent of its acceptance of such Notes for payment pursuant to the Offer.

Upon the terms and provisions of the Offer (including pro-ration and the ability of the Corporation to take-up such larger principal amount as the Corporation, in its sole discretion, may determine it is willing to take-up and pay for) and subject to and in accordance with applicable securities laws, the Corporation will take up Notes

properly deposited under the Offer in accordance with the terms thereof promptly after the Expiration Date, provided that the conditions of the Offer (as the same may be amended) have been satisfied or waived. Any Notes taken up or accepted for purchase will be paid for no later than the Settlement Date. The Corporation will acquire Notes to be purchased pursuant to the Offer and title thereto upon having taken up such Notes even if payment therefore shall have not been effected.

Upon the terms and subject to the conditions of the Offer, the Corporation will accept for payment and purchase up to the Maximum Purchase Amount of Notes (or such larger principal amount as the Corporation, in its sole discretion, may determine it is willing to take up and pay for, subject to applicable law) as are properly deposited at or prior to the Expiration Date, as defined in “The Offer” section of the Offer to Purchase (and not withdrawn in accordance with the “Withdrawal Rights” section of the Offer to Purchase).

For a description of the Corporation’s right to extend the period of time during which the Offer is open, and to delay, terminate or amend the Offer, see the “Extension and Variation of the Offer” section.

If the principal amount of all Notes properly deposited by the Expiration Date (and not withdrawn in accordance with the “Withdrawal Rights” section of the Offer to Purchase) is in the aggregate less than or equal to the Maximum Purchase Amount of Notes (or such larger principal amount as the Corporation, in its sole discretion, may determine it is willing to take up and pay for, subject to applicable law), the Corporation will purchase all Notes deposited upon the terms and subject to the conditions of the Offer.

If the principal amount of all Notes properly deposited by the Expiration Date (and not withdrawn in accordance with the “Withdrawal Rights” section of the Offer to Purchase) exceeds in the aggregate the Maximum Purchase Amount of Notes (or such larger principal amount as the Corporation, in its sole discretion, may determine it is willing to take up and pay for, subject to applicable law) then the Corporation will take up and pay for the deposited Notes on a *pro rata* basis according to the principal amount of Notes deposited upon the terms and subject to the conditions of the Offer. In addition, to avoid purchases of Notes in principal amounts other than integral multiples of US\$1,000, if necessary, the Corporation will make appropriate adjustments to the nearest US\$1,000 principal amount with respect to each Noteholder who is subject to pro-ration and validly deposits or tenders (and does not withdraw in accordance with the section “Offer to Purchase — Withdrawal Rights”) Notes.

Air Canada’s determination as to pro-ration shall be final and binding on all parties.

Payment

The Purchase Price payable by the Corporation will be denominated in United States dollars and payments of amounts owing to holders of deposited Notes will be made in U.S. dollars.

Payment for Notes taken up pursuant to the Offer will be made through a wire transfer of the aggregate Purchase Price for such Notes and the amount of all accrued and unpaid interest on such Notes up to, but excluding, the date they are taken up or accepted for purchase by the Corporation pursuant to the Offer to DTC for the account of the depositing Noteholders. Receipt by DTC from the Corporation of payment for such Notes will be deemed to constitute receipt of payment by such depositing Noteholders. Under no circumstances will interest accrue or be paid on the Purchase Price by the Corporation or the Tender Agent to Noteholders depositing Notes by reason of any delay in paying for any Notes or otherwise.

The Offer provides Noteholders with the opportunity to sell their Notes without incurring brokerage commissions to the Corporation or the Tender Agent. However, Noteholders are cautioned to consult with their own investment dealers, brokers or other nominees to determine whether any fees or commissions are payable to their investment dealers, brokers or other nominees in connection with a deposit of Notes pursuant to the Offer. Air Canada will pay all fees and expenses of the Tender Agent in connection with the Offer.

In the event of pro-ration of Notes deposited pursuant to the Offer, the Corporation will determine the pro-ration factor and pay for those deposited Notes accepted for payment no later than the Settlement Date and will announce the final results of any such pro-ration.

EXTENSION AND VARIATION OF THE OFFER

Subject to applicable law, the Corporation expressly reserves the right, in its sole discretion, and regardless of whether any of the conditions specified herein shall have occurred, at any time or from time to time, to extend the period of time during which the Offer is open or to vary the terms and conditions of the Offer by giving written notice, or oral notice (to be confirmed in writing), of extension or variation to the Tender Agent and by causing

the Tender Agent to provide to DTC, as the registered holder of all Notes, a copy of the notice in the manner set forth below under "Notice" as soon as practicable thereafter. As promptly as practicable after giving notice of an extension or variation to the Tender Agent, the Corporation will make a public announcement of the extension or variation (such announcement, in the case of an extension, to be issued no later than 9:00 a.m. (Montréal time), on the next business day after the last previously scheduled or announced expiration date) and provide or cause to be provided notice of such extension or variation to the applicable Canadian securities regulatory authorities. Any notice of extension or variation will be deemed to have been given and be effective on the day on which it is delivered or otherwise communicated to the Tender Agent.

Where the terms of the Offer are varied (other than a variation consisting solely of a waiver of a condition of the Offer or any extension of the Offer resulting from the waiver), the period during which Notes may be deposited pursuant to the Offer shall not expire before ten business days after the notice of variation has been mailed, delivered or otherwise properly communicated to Noteholders unless otherwise permitted by applicable legislation. During any such extension or in the event of any variation, all Notes previously deposited and not taken up or withdrawn will remain subject to the Offer and may be accepted for purchase by the Corporation in accordance with the terms of the Offer, subject to the terms and conditions set forth in this Offer to Purchase under "Acceptance for Payment and Payment for Notes" and "Withdrawal Rights". An extension of the Expiration Date or a variation of the Offer does not constitute a waiver by the Corporation of its rights in this Offer to Purchase.

Notwithstanding the foregoing, except as required by applicable Canadian securities legislation, the Offer may not be extended by the Corporation if all the terms and conditions of the Offer have either been complied with or waived by the Corporation, unless the Corporation first takes up and pays for all Notes properly deposited under the Offer (and not withdrawn in accordance with the "Withdrawal Rights" section of the Offer to Purchase).

The Corporation also expressly reserves the absolute right, in its sole discretion, (i) to terminate or withdraw the Offer and not take up and pay for any Notes not theretofore taken up and paid for upon the occurrence of any of the conditions specified in this Offer to Purchase under "Conditions of the Offer", and/or (ii) at any time or from time to time, to amend the Offer in any respect, including increasing, decreasing or waiving the Maximum Purchase Amount or increasing or decreasing the price it may pay pursuant to the Offer, subject to applicable Canadian and U.S. securities legislation.

Any such extension, delay, termination or amendment will be followed as promptly as practicable by a public announcement, with the announcement in the case of an extension to be issued no later than 9:00 a.m. (Montréal time) on the next business day after the last previously scheduled or announced expiration date. Without limiting the manner in which the Corporation may choose to make any public announcement, except as provided by applicable law, the Corporation shall have no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a release through its usual news wire service.

If the Corporation makes a material change in the terms of the Offer or the information concerning the Offer, the Corporation will extend the time during which the Offer is open to the extent required under applicable Canadian and U.S. securities legislation.

ENCUMBRANCES AND ACCRUED INTEREST

Notes acquired pursuant to the Offer shall be acquired by the Corporation free and clear of all hypothecs, liens, charges, encumbrances, security interests, claims, restrictions and equities whatsoever, together with all rights and benefits arising therefrom.

The Notes bear interest at a rate of 4.000% per year, payable semi-annually in arrears on July 1 and January 1 of each year. Noteholders accepting the Offer will receive a cash payment in respect of all accrued and unpaid interest on the Notes up to, but excluding, the date they are taken up or accepted for purchase by the Corporation pursuant to the Offer. Notes that are not taken up will continue to be paid interest in accordance with the Indenture.

NOTICE

Without limiting any other lawful means of giving notice, any notice to be given by the Corporation or the Tender Agent under the Offer will be deemed to have been properly given if it is mailed by first-class mail, postage prepaid, to the registered Noteholders at their respective addresses as shown on the subject Note registers

maintained in respect of the Notes and will be deemed to have been received on the first business day following the date of mailing. These provisions apply despite (i) any accidental omission to give notice to any one or more Noteholders, and (ii) an interruption of mail service following mailing. In the event of an interruption of mail service following mailing, the Corporation will use reasonable efforts to disseminate the notice by other means, such as publication. If post offices are not open for deposit of mail, or there is reason to believe there is or could be a disruption in all or any part of the postal service, any notice which the Corporation or the Tender Agent may give or cause to be given under the Offer will be deemed to have been properly given and to have been received by Noteholders if it is issued by way of a news release and if it is published once in the *National Post* or *The Globe and Mail*, in *La Presse* and in *The Wall Street Journal*.

OTHER TERMS OF THE OFFER

- (a) No broker, dealer or other person has been authorized to give any information or to make any representation on behalf of the Corporation other than as contained in the Offer, and, if any such information or representation is given or made, it must not be relied upon as having been authorized by the Corporation.
- (b) The Offer and all contracts resulting from the acceptance thereof shall be governed by and construed in accordance with the laws of the Province of Québec and the laws of Canada applicable therein. Each party to a contract resulting from an acceptance of the Offer unconditionally and irrevocably attorns to the jurisdiction of the courts of the Province of Québec.
- (c) Air Canada, in its sole discretion, shall be entitled to make a final and binding determination of all questions relating to the interpretation of the Offer, the *pro rata* entitlement of each depositing Noteholder, if applicable, the validity of any acceptance of the Offer and the validity of any withdrawals of Notes.
- (d) The Offer is not being made to, and deposits of Notes will not be accepted from or on behalf of, Noteholders residing in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction. Air Canada may, in its sole discretion, take such action as it may deem necessary to extend the Offer to Noteholders in any such jurisdiction.

None of Air Canada, its Board of Directors, the Dealer Manager, the Tender Agent or the Valuator makes any recommendation to any Noteholder as to whether to deposit or refrain from depositing Notes. Noteholders are urged to consult their own investment and tax advisors and make their own decision whether to deposit or refrain from depositing their Notes to the Offer and, if deposited, what principal amount of Notes to deposit.

The accompanying Circular, together with this Offer to Purchase, constitutes the issuer bid circular required under Canadian securities legislation and the tender offer information required to be delivered to security holders under U.S. securities legislation applicable to the Corporation with respect to the Offer.

The accompanying Circular contains additional information relating to the Corporation and the Offer and the Corporation urges you to read it and the Letter of Transmittal.

DATED this 14th day of November 2022.

AIR CANADA

By: (Signed) Michael Rousseau
President and Chief Executive Officer

By: (Signed) Amos S. Kazzaz
Executive Vice President and Chief Financial
Officer

ISSUER BID CIRCULAR

This Circular is being furnished in connection with the offer by Air Canada to purchase up to US\$300,000,000 in aggregate principal amount (the "Maximum Purchase Amount") of the issued and outstanding Notes (or such larger principal amount as the Corporation, in its sole discretion, may determine it is willing to take up and pay for, subject to applicable law). Terms defined in the Offer to Purchase and not otherwise defined herein have the same meaning in this Circular. The terms and conditions of the Offer to Purchase are incorporated into and form part of this Circular. Reference is made to the Offer to Purchase for details of its terms and conditions.

AIR CANADA

Nature of Business

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 through a capacity purchase agreement ("CPA") with Jazz Aviation LP ("Jazz"), a wholly owned subsidiary of Chorus Aviation Inc., with regional flights operated on behalf of Air Canada under the Air Canada Express banner. Regional flying forms an integral part of the airline's international network strategy, providing valuable traffic feed to Air Canada and Air Canada Rouge routes. On March 1, 2021, Air Canada announced an agreement revising its CPA and consolidating all its regional flying with Jazz.

In the third quarter of 2022, Air Canada together with its regional partner operated, on average, 1,090 daily scheduled flights to 158 direct destinations on six continents. In comparison, in 2021, Air Canada together with its regional partners operated, on average, 448 daily scheduled flights to 154 direct destinations on six continents (although, as a result of the COVID-19 pandemic, operations to many destinations were suspended or did not operate continually throughout 2021).

At September 30, 2022, Air Canada mainline (including Air Canada Cargo) had 191 aircraft in its operating fleet, which consisted of 110 Boeing and Airbus narrow-body aircraft and 81 Boeing and Airbus wide-body aircraft, while Air Canada Rouge had an operating fleet of 39 Airbus narrow-body aircraft. At September 30, 2022, the Air Canada Express fleet comprised 50 Mitsubishi regional jets, 39 De Havilland Dash-8 turboprop aircraft and 25 Embraer 175 aircraft for a total of 114 aircraft. Air Canada is a founding member of the Star Alliance® network. Through the 26-member airline network, Air Canada can 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 other membership benefits.

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, including on dedicated freighter aircraft. Air Canada Cargo operated two Boeing 767 freighter as at September 30, 2022. Air Canada Cargo plans to leverage its fleet of dedicated freighters to benefit from the growth in freight.

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.

Corporate Structure and Share Capital

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”).

Air Canada’s Voting Shares and Variable Voting Shares are listed for trading on the Toronto Stock Exchange (“TSX”) under the single ticker “AC” as well as quoted on the 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.

Authorized and Issued and Outstanding Capital

The authorized share capital of Air Canada comprises an unlimited number of Variable Voting Shares and Voting Shares. As at November 11, 2022, an aggregate number of 358,152,963 Shares were issued and outstanding. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares and the Voting Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, the terms of Air Canada’s restated articles of incorporation (the “Articles”).

Constraints on Ownership of Shares.

The description of the share capital of Air Canada provided for in its Articles contains provisions to ensure compliance with the foreign ownership limitations of the *Canada Transportation Act* (the “CTA”). The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians. As a result, an issued and outstanding Variable Voting Share shall be converted into one Voting Share, automatically and without any further act of Air Canada or of 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. The Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by a Canadian. An issued and outstanding Voting Share shall be 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. Hence, upon a transfer of Variable Voting Shares to a Canadian, such Variable Voting Shares will automatically be converted into Voting Shares and upon a transfer of Voting Shares to a non-Canadian, such Voting Shares will automatically be converted into Variable Voting Shares.

Variable Voting Shares

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 or distributions, any dividends or distributions 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 the Articles.

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.

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

Unless the foreign ownership restrictions of the CTA are repealed and not replaced with other similar restrictions, 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 Articles.

Notes

Noteholders may convert all or any portion of their Notes, in multiples of US\$1,000 principal amount, at their option prior to the close of business on the business day immediately preceding March 1, 2025 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2020 (and only during such calendar quarter), if the last reported sale price (as defined in the Indenture) of the Shares for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five consecutive business day period immediately after any ten consecutive trading day period (the "measurement period") in which the trading price (as defined in the Indenture) per US\$1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Shares and the conversion rate on each such trading day; (3) if Air Canada calls any or all of the Notes for redemption in the event of certain tax law changes (as set out in the Indenture) prior to the close of business on the business day immediately preceding March 1, 2025; or (4) upon the occurrence of specified corporate events. At any time on or after March 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date (being July 1, 2025), Noteholders may convert all or any portion of their Notes, in multiples of US\$1,000 principal amount, at the option of the Noteholder regardless of the foregoing conditions. So long as the TSX is the primary exchange for the Shares, the "last reported sale price" (as set out in the Indenture) of the Shares will be translated into United States dollars using the "prevailing exchange rate" (as defined in the Indenture) prior to determining if any of the conversion conditions have been satisfied.

The current conversion rate is approximately 65.1337 Shares per US\$1,000 principal amount of Notes (equivalent to a conversion price of approximately US\$15.35 per Share). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest or as a result of the Offer. In addition, following certain corporate events that occur prior to the maturity date (being July 1, 2025), or following delivery of a notice of tax redemption, Air Canada will increase, in certain circumstances, the conversion rate for a Noteholder who elects to convert its Notes in connection with such a corporate event or notice of tax redemption. Any calculation of the last reported sale price of the Shares or trading price of the Notes for purposes of determining convertibility, as well as adjustments to the conversion price, will be calculated by translating any Share prices expressed in a currency other than US dollars into US dollars at the prevailing exchange rate. This Offer will not trigger a conversion rate adjustment under the Notes.

Upon conversion of a Note, Air Canada will pay or deliver, as the case may be, cash, Shares or a combination of cash and Shares, at Air Canada's election, together with a cash payment in lieu of delivering any fractional shares.

If the Corporation settles its conversion obligation solely through the issuance of Shares or through the payment and delivery, as the case may be, of a combination of cash and Shares, the Corporation will issue to Noteholders Variable Voting Shares, provided that Air Canada will issue Voting Shares to Noteholders that are Canadians as defined in the *Canada Transportation Act*. If the Corporation settles its conversion obligation solely in cash or through the payment and delivery, as the case may be, of a combination of cash and Shares, the amount of cash and Shares, if any, due upon conversion will be determined in accordance with the terms and conditions set out in the Indenture.

Noteholders are not entitled to any rights with respect to Shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on Shares) prior to the conversion date relating to such Notes (if the Corporation has elected to settle the relevant conversion by delivering solely Shares (other than paying cash in lieu of delivering any fractional share)) or the last trading day of the relevant observation period (if the Corporation elects to pay and deliver, as the case may be, a combination of cash and Shares in respect of the relevant conversion).

The Corporation may not redeem the Notes prior to the maturity date (being July 1, 2025), except that upon the occurrence of certain tax law changes described in the Indenture, the Corporation will have the right to redeem all, but not less than all, of the Notes at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding the tax redemption date (as defined in the Indenture). No "sinking fund" is provided for the Notes, which means that the Corporation is not required to redeem or retire the Notes periodically.

If the Corporation undergoes a fundamental change (as defined in the Indenture), subject to certain conditions, the Corporation will be required to make an offer to Noteholders to repurchase for cash all or any portion of their Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date (as defined in the Indenture).

The Notes are Air Canada's general unsecured obligations and rank senior in right of payment to all of Air Canada's indebtedness that is expressly subordinated in right of payment to the Notes; equally in right of payment with all of Air Canada's liabilities that are not so subordinated; and effectively junior to any of Air Canada's secured indebtedness to the extent the value of the assets securing such indebtedness. The Notes are not guaranteed by any of Air Canada's subsidiaries, and as a result, the Notes rank structurally subordinate to all indebtedness and other liabilities of Air Canada's subsidiaries.

The foregoing summary of the rights, privileges, restrictions and conditions that are attached to the Notes does not purport to be complete and is subject to, and is qualified in its entirety by, the terms of the Indenture.

Shareholder Rights Plan

Air Canada's existing shareholder rights plan was renewed on May 4, 2020 (the "Rights Plan"). The Rights Plan is substantially unchanged from the version described under the heading "Description of Capital Structure — Air Canada Shareholder Rights Plan" of Air Canada's Annual Information Form dated February 25, 2022 (the "AIF"), which section is incorporated by reference herein.

Additional Information

The Corporation is subject to the continuous and timely disclosure requirements of applicable Canadian securities legislation, and the rules, policies and guidelines of the TSX and in accordance therewith files or furnishes reports and other information with Canadian securities regulators and the TSX.

Noteholders may access documents filed with Canadian securities regulators through the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

The Corporation's consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with generally accepted accounting principles in Canada, as set out in the CPA Canada Handbook — Accounting, which incorporates International Financial Reporting Standards as issued by the International Accounting Standards Board.

In this Circular and the Offer, references to “Cdn\$” are to Canadian dollars, and references to “US\$”, U.S. dollars or “\$” are to United States dollars.

BACKGROUND OF THE OFFER

Management of the Corporation believes that purchases of the Notes will create value for the Corporation’s shareholders by reducing the Corporation’s cash interest payments, de-levering its balance sheet, improving its debt maturity profile and eliminating potential dilution should the Notes be converted to Shares prior to their maturity.

Management and the Board of Directors evaluate the capital allocation of the Corporation on a regular basis. After giving consideration to, among other things, the financial resources of the Corporation and the then prevailing market price of the Notes, it was proposed that the Corporation consider repurchasing Notes.

On August 2, 2022, the Board of Directors created an ad hoc committee composed of independent directors (the “Ad Hoc Committee”), namely Vagn Sørensen, Kathleen Taylor and Jean Marc Huot, to determine and approve whether and on what terms any purchase of Notes should be effected, subject to certain conditions. Pursuant to such delegation and authority, the Ad Hoc Committee approved the Private Repurchases (as defined herein).

On October 28, 2022, the Board of Directors met to confirm and continue the authority and delegated powers of the Ad Hoc Committee to determine whether to launch an issuer bid to acquire Notes for cash, within certain parameters, and with such other terms and conditions to be approved by the Ad Hoc Committee. The Board of Directors also approved the engagement of Ernst & Young LLP as independent valuator to prepare the formal valuation of the Notes in connection with the Offer, under the supervision of the Ad Hoc Committee.

At a meeting of the Ad Hoc Committee held on November 11, 2022, the Ad Hoc Committee unanimously determined, after discussion and consideration of the factors set forth below in the “Purpose and Effect of the Offer” section of this Circular, among other factors, that the Offer was in the best interests of the Corporation and approved the making of the Offer, including the terms and conditions of the Offer, and the delivery of the Circular to Noteholders. On November 14, 2022, the Corporation announced the Offer.

The Board of Directors and the Ad Hoc Committee have reviewed the Offer and the Circular and, based on that review, approved the contents and the sending, communicating or delivery of the Offer and the Circular and the related Letter of Transmittal.

PURPOSE AND EFFECT OF THE OFFER

Air Canada is making the Offer because the Board of Directors and its Ad Hoc Committee believe that the purchase of Notes represents an efficient use of Air Canada’s financial resources and is in the best interests of the Corporation, allowing it to further deleverage its balance sheet. Notes taken up and paid for by the Corporation will be cancelled.

In considering whether the Offer would be in the best interests of the Corporation, the Board of Directors and Ad Hoc Committee gave careful consideration to a number of factors, including the following:

- (a) that the purchase of Notes is an effective, appropriate, prudent and desirable use of the Corporation’s available funds;
- (b) after giving effect to the Offer, the Corporation will continue to have sufficient financial resources and working capital to conduct its ongoing business and operations and for other general corporate purposes of the Corporation;
- (c) the Corporation’s interest expense associated with purchased Notes will be eliminated for the period following purchase;
- (d) the purchase of Notes de-levers the Corporation’s balance sheet;
- (e) the purchase of Notes improves the Corporation’s debt maturity profile;
- (f) the purchase of Notes eliminates the potential dilution should the Notes be converted to Shares prior to their maturity;

- (g) the deposit of Notes under the Offer is optional, the option is available to all Noteholders and all Noteholders are free to accept or reject the Offer, and, if accepted, to determine what principal amount of Notes to deposit under the Offer;
- (h) the Offer provides Noteholders with an opportunity to realize on all or a portion of their investment in the Notes, should they desire liquidity in the short term, in quantities which might not otherwise be available in the market and without incurring brokerage commissions or other transaction costs which might otherwise be payable on a sale of their Notes; and
- (i) the Offer is not conditional on any minimum principal amount of Notes being deposited.

In addition, the Valuator was retained to provide a formal valuation of the fair market value of the Notes in accordance with *Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions* (“MI 61-101”).

The foregoing summary of information and factors is not intended to be exhaustive of the information and factors considered by the Board of Directors and Ad Hoc Committee in determining to authorize and approve the Offer, but includes the material factors considered by the Board of Directors and Ad Hoc Committee in reaching their decision. The members of the Board of Directors and Ad Hoc Committee evaluated various factors, including those summarized above, in light of their own knowledge of the business, assets, financial condition, operations and prospects of Air Canada and based upon the advice of the Corporation’s management and advisors. The Board of Directors and Ad Hoc Committee did not quantify or otherwise attempt to assign relative weight to specific factors in reaching their decision. In addition, individual directors may have given different weight to different factors. The determination of the Board of Directors and Ad Hoc Committee to make the Offer was made after careful consideration, evaluation and deliberation of all of the factors involved and various other information.

Noteholders whose Notes are purchased pursuant to the Offer will receive cash in consideration for the purchase of their Notes for cancellation and, following and including the payment date, will forgo interest, conversion and other rights associated with these Notes.

Notes not deposited and purchased pursuant to the Offer will remain outstanding. The terms and conditions, including the covenants and other protective provisions contained in the Indenture, will remain unchanged. No amendments to the Indenture are being sought and there is no consent solicitation being made as a part of the Offer.

Subject to certain exceptions, Canadian securities laws prohibit the Corporation and its affiliates from acquiring any Notes, other than pursuant to the Offer, until at least 20 business days after the Expiration Date or date of termination of the Offer. Subject to applicable law, Air Canada may in the future purchase additional Notes in private transactions, through issuer bids or otherwise. Any such purchases may be on the same terms or on terms that are more or less favorable to Noteholders than the terms of the Offer. Any possible future purchases by the Corporation will depend on a number of factors, including the market price of the Notes, the Corporation’s business and financial position, the results of the Offer and general economic and market conditions.

None of Air Canada, its directors, the Dealer Manager, the Tender Agent, the Valuator or any of their respective affiliates, makes any recommendation to any Noteholder as to whether to deposit or refrain from depositing all or any portion of their Notes under the Offer. Noteholders are strongly urged to review and evaluate carefully all information in the Offer to Purchase and this Circular, to consult their own financial, tax and legal advisors, and to make their own decisions as to whether to deposit or refrain from depositing their Notes to the Offer and, if deposited, what principal amount of Notes to deposit. Noteholders should carefully consider the income tax consequences of accepting the Offer and depositing Notes to the Offer. See “Issuer Bid Circular — Income Tax Considerations”.

The purchase of Notes by Air Canada pursuant to the Offer will reduce the amount of Notes that might otherwise be traded, and may reduce the number of Noteholders, and, depending on the number of Noteholders depositing and the amount of Notes purchased under the Offer, could adversely affect the liquidity and market value of the Notes that remain outstanding following the completion of the Offer. Assuming the Corporation takes up and purchases the Maximum Purchase Amount in the Offer, there will be an aggregate US\$240,206,000 principal amount of Notes issued and outstanding immediately following the completion of the Offer. The Notes are not listed on any securities exchange, but trade on the Notes OTC Market (as defined

below). To the extent that Notes are tendered and accepted for payment pursuant to the Offer, the trading market for Notes that remain outstanding is likely to be more limited. In addition, a debt security with a smaller outstanding principal amount available for trading (a small “float”) may command a lower price than would a comparable debt security with a larger float. Thus, the market price for Notes that are not tendered and accepted for payment pursuant to the Offer may be adversely affected to the extent that the Offer reduces the float for such Notes. There is no assurance that an active market in the Notes will exist or as to the prices at which the Notes may trade after consummation of the Offer.

No person has been authorized to make any recommendation on behalf of Air Canada as to whether Noteholders should deposit or refrain from depositing Notes pursuant to the Offer. No person has been authorized to give any information or to make any representations in connection with the Offer other than as set forth in the Offer to Purchase, this Circular and the related Letter of Transmittal. If given or made, any such recommendation or any such information or representation must not be relied upon as having been authorized by Air Canada or its Board of Directors. As of the date of this Circular and except as disclosed in this Circular, the Corporation does not currently have any plans or proposals that relate to or would result in:

- any extraordinary transaction, such as a merger, reorganization or liquidation, involving the Corporation;
- any purchase, sale or transfer of an amount of the Corporation’s or its subsidiaries’ assets which is material to the Corporation and its subsidiaries, taken as a whole (although the Corporation from time to time may consider various acquisition or divestiture opportunities);
- any material change in the Corporation’s present dividend policy, its capitalization or its indebtedness;
- any material change in the Corporation’s present board of directors or management (although the Corporation may fill vacancies arising on the Board of Directors);
- any material change in the corporate structure or business of the Corporation;
- the Shares ceasing to be listed on the TSX; or
- any material change in the organizational documents of the Corporation.

VALUATION

The Valuation Report

On November 14, 2022, the Valuator delivered to the Board of Directors its valuation report entitled “Report to the Board of Directors of Air Canada - Valuation as at November 11, 2022 of 4.000% Convertible Senior Notes due 2025”. The valuation report has been prepared in compliance with the provisions of MI 61-101. A copy of the valuation report is attached to this Circular as Appendix 1. In addition, a copy of the valuation report is available for inspection at the head office of the Corporation at 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec, H4S 1Z3. A copy of the valuation report may also be obtained without charge from the Vice-President and Corporate Secretary of Air Canada at Air Canada Centre, Zip 1273, P.O. Box 14000, Station Airport, Dorval, Québec, H4Y 1H4. The telephone number of the Corporate Secretary’s office of Air Canada is 514-422-6644.

Noteholders should carefully review and consider the valuation report in its entirety. The valuation report is subject to the assumptions, limitations and qualifications set out therein and the conclusions in the valuation report are premised on various assumptions including the value of the Shares. Changes in the trading price of the Shares or changes in the other underlying assumptions could cause the value conclusions to change.

The Valuator is one of the largest global professional service firms, providing strategy and transactions, assurance, consulting, and tax services. The Valuator’s global strategy and transaction services include valuations and fairness opinions, corporate finance and merger & acquisition advisory, transaction diligence and integration, transaction tax advisory, and corporate restructuring.

The Valuator was retained by the Board of Directors to provide a “formal valuation” (as such term is defined in MI 61-101) with respect to the fair market value of the issued and outstanding Notes as at a specified date. For the purposes of the valuation report, the valuation date was November 11, 2022.

The Board of Directors has determined that the Valuator is qualified and independent for the purposes of MI 61-101. The Valuator (i) is not an insider, associate or affiliate of the Corporation, (ii) has not acted as an advisor to

the Corporation in connection with the Offer, (iii) will be paid a fee for the valuation report, based on hourly rates for professional time, plus administrative charges, disbursements and applicable taxes, and such fee is not contingent in any way on the conclusions in the valuation report or the outcome of the Offer, (iv) has no financial interest in the outcome of the Offer, (v) is not a manager, co-manager or member of a soliciting dealer group for the Offer, (vi) is not the external auditor of the Corporation, (vii) has provided and currently provides professional services to the Corporation and/or its affiliates in the ordinary course of its business, and the fees paid to the Valuator and its affiliates are not material to the Valuator and its affiliates, and (viii) may, in the future, provide professional services to the Corporation and/or its affiliates in the ordinary course of its business.

The valuation report, dated November 14, 2022 and effective as at November 11, 2022, contains the Valuator's opinion that, based on the scope of their review and subject to the assumptions, restrictions and limitations provided therein, the fair market value of the Notes, per US\$1,000 principal amount of Notes, at November 11, 2022, ranges from approximately US\$1,165 to US\$1,235, or a mid-point of US\$1,200. The valuation was based upon securities market, economic and general business conditions prevailing at November 11, 2022, and the condition and prospects, financial and otherwise, of the Corporation as reflected in the information and documents reviewed by the Valuator and as they were represented to the Valuator in its discussions with the Corporation's management. For the purpose of the valuation report, the Valuator stated that fair market value is defined as the monetary consideration that, in an open and unrestricted market, a prudent and informed buyer would pay to a prudent and informed seller, each acting at arm's length with the other and under no compulsion to act.

The valuation report is not, and should not be construed to be, a recommendation to Noteholders or any other person to take any course of action.

Prior Valuations

Pursuant to the provisions of MI 61-101, an issuer making an offer for its securities must, with certain limited exceptions, disclose every prior valuation or appraisal of its securities or any material asset made in the 24 months before the date of such offer whether or not prepared by an independent valuator which would reasonably be expected to affect the decision of a securityholder to retain or dispose of the securities affected by the offer. To the knowledge of the directors and officers of Air Canada, other than the valuation report of the Valuator prepared in connection with the Offer, a copy of which is attached to this Circular as Appendix 1, no "prior valuations" (as defined in MI 61-101) regarding Air Canada, its securities or its material assets have been prepared within the 24 months preceding the date hereof.

WITHDRAWAL RIGHTS

The withdrawal rights of Noteholders are described in the Offer to Purchase under "Offer to Purchase – Withdrawal Rights", and are incorporated into and form part of this Circular.

FINANCIAL STATEMENTS

The audited annual consolidated financial statements of Air Canada for the year ended December 31, 2021 and the unaudited interim consolidated financial statements of Air Canada for the three- and nine-month period ended September 30, 2022 are available on the SEDAR website at www.sedar.com. Noteholders may obtain copies, without charge, upon request to the Vice-President and Corporate Secretary of Air Canada, at Air Canada Centre, Zip 1273, P.O. Box 14000, Station Airport, Dorval, Québec, H4Y 1H4. The telephone number of the Corporate Secretary's office of Air Canada is 514-422-6644.

MARKET INFORMATION

The Notes are not listed on any securities exchange, but trade on an over the counter market (the "Notes OTC Market"). The last reported price for the Notes on November 9, 2022, being the last day on which the Notes traded on such market before the date hereof was US\$1,152.50 per US\$1,000 principal amount. The following table sets forth the last trading price per month and the volumes of the Notes on the Notes OTC Market (per US\$1,000 principal amount), as compiled by Bloomberg for the periods indicated:

Notes

	Last Trading Price per Month (US\$)	Total Monthly Trading Volumes (US\$ thousands)
May 2022	\$1,337.50	8,734
June 2022	\$1,105.50	11,663
July 2022	\$1,124.32	24,494
August 2022	\$1,122.50	20,546
September 2022	\$1,060.00	16,368
October 2022	\$1,165.50	10,620
November 2022 ¹	\$1,152.50	14

¹ Up to close of business on November 11, 2022.

The Notes are convertible at the option of the Noteholders into Voting Shares (if the Notes are owned and controlled by a Canadian) or into Variable Voting Shares (if the Notes are owned and controlled by a non-Canadian), at a current conversion ratio of approximately 65.1337 Shares per US\$1,000 principal amount of the Notes (equivalent to a conversion price of approximately US\$15.35 per Share), subject to adjustment in certain events in accordance with the Indenture. This Offer will not trigger a conversion rate adjustment under the Notes.

Because the Notes are convertible into Shares, the market price of the Notes is directly affected by factors affecting the trading price of the Shares, the general level of interest rates and the Corporation's credit quality. It is impossible to predict whether the price of the Shares or interest rates will rise or fall or whether the Corporation's credit ratings will improve or decline in the future. The market prices of the Shares and the Notes are influenced by several factors, many of which are out of the Corporation's control.

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

The following table sets forth the high and low closing prices per Share and the volumes of the Shares traded on the TSX as compiled from published financial sources for each month from May to November 11, 2022.

	Shares		
	High (Cdn\$)	Low (Cdn\$)	Volume
May 2022	\$22.99	\$20.02	63,193,262
June 2022	\$21.77	\$16.04	73,790,187
July 2022	\$17.68	\$15.95	50,162,842
August 2022	\$19.72	\$17.53	49,213,470
September 2022	\$19.14	\$16.60	58,350,408
October 2022	\$19.91	\$16.84	47,950,276
November 2022 ¹	\$20.15	\$18.12	25,085,774

¹ Up to close of business on November 11, 2022.

On November 11, 2022, the last full trading day preceding the announcement by Air Canada of the approval by its Board of Directors of the Offer, the closing price per Share on the TSX was Cdn\$18.50, or approximately US\$13.94 per Share (based on the exchange rate published by Bloomberg on November 11, 2022 of US\$1.00 : Cdn\$1.3275).

Noteholders are urged to obtain current market quotations for the Notes and Shares.

DIVIDEND POLICY

The Corporation has not declared or paid dividends on its Voting Shares or Variable Voting Shares during the two years preceding the date of the Offer. 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" in the AIF, which section is incorporated by reference herein, impose or imposed conditions or restrictions 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. Refer to the discussion under the heading of the AIF entitled "Repurchase of Shares", which section is incorporated by reference herein, for additional information. The AIF is available on SEDAR at www.sedar.com and a copy may also be obtained without charge from the Vice-President and Corporate Secretary of Air Canada.

PREVIOUS PURCHASES AND SALES

During the 12 months preceding the date of the Offer, the Corporation purchased Notes for cancellation through privately negotiated purchases (collectively, the "Private Repurchases"), the details of which are set out in the following table:

Date of Transaction	Principal amount of Notes purchased	Purchase price per US\$1,000 principal amount of Notes (excluding accrued interest)	Aggregate Purchase Price (excluding accrued interest)
September 19, 2022	US\$33,000,000.00	US\$1,225.00	US\$40,425,000.00
September 13, 2022	US\$174,294,000.00	US\$1,188.87	US\$207,212,907.78

On April 12, 2021, as part of equity and debt financing agreements, Air Canada issued 14,576,564 warrants initially exercisable during a 10-year term for the purchase of an equal number of Air Canada shares, to the Government of Canada, at an exercise price of \$27.2698 per share. Half of the warrants vested upon the implementation of the financing arrangements, while the remaining half would have vested on a proportional basis to the amounts that Air Canada may have drawn under now terminated operating credit facilities. The warrants were subject to a one-time call right in favour of Air Canada, pursuant to which Air Canada on certain conditions could repurchase for cancellation all outstanding warrants at a price per warrant equal to their fair market value. The vested warrants were exercisable by the holder either by paying the exercise price or by using a cashless exercise option. With the termination of the operating credit facilities, the unvested warrants were cancelled. In addition, Air Canada exercised its call right on the vested warrants by repurchasing and cancelling the warrants in January 2022 at a price of \$82 million which is equivalent to the carrying value of the vested warrants as at December 31, 2021.

No other securities of the Corporation have been purchased or sold by the Corporation during the 12-month period preceding the date of the Offer.

PREVIOUS DISTRIBUTIONS

In June 2020, Air Canada concluded a private placement of US\$748 million (Cdn\$1,011 million) aggregate principal amount of the Notes at a price of US\$1,000 per US\$1,000 principal amount of Notes for aggregate gross proceeds of US\$748 million (Cdn\$1,011 million).

Except for the distribution of Notes described above, no other Notes have been distributed by Air Canada during the five years preceding the date of the Offer.

OWNERSHIP OF AIR CANADA'S SECURITIES; ARRANGEMENTS CONCERNING NOTES

Ownership of the Securities of the Corporation

The following table indicates, as at November 11, 2022, the number of outstanding securities of the Corporation beneficially owned, or over which control or direction was exercised, by each director and officer of the Corporation and, to the knowledge of the Corporation after reasonable enquiry, by each director and officer or its affiliates and each associate of a director or officer of the Corporation or its affiliates.

Name	Relationship with the Corporation	Number of Shares (% of Outstanding)	Number of Deferred Share Units	Number of Restricted Share Units	Number of Share Appreciation Units	Number of Performance Share Units	Number of Options
Ameé Chande	Director	14,506 (<1%)	8,064	-	-	-	-
Christie J.B. Clark	Director	73,010 ⁽¹⁾ (<1%)	35,843	-	-	-	-
Gary A. Doer, O.M.	Director	-	26,538	-	-	-	-
Rob Fyfe	Director	-	41,739	-	-	-	-
Michael M. Green	Director	91,848 ⁽²⁾ (<1%)	50,911	-	-	-	-
Jean Marc Huot	Director	31,097 (<1%)	228,336	-	-	-	-
Madeleine Paquin	Director	6,500 ⁽³⁾ (<1%)	56,589	-	-	-	-
Michael Rousseau	President and Chief Executive Officer	125,405 ⁽⁴⁾ (<1%)	-	92,158	-	155,683	957,240
Vagn Sørensen	Director	19,300 (<1%)	170,717	-	-	-	-
Kathleen Taylor, C.M.	Director	10,000 (<1%)	53,195	-	-	-	-
Annette Verschuren, O.C.	Director	62,168 (<1%)	63,872	-	-	-	-

Name	Relationship with the Corporation	Number of Shares (% of Outstanding)	Number of Deferred Share Units	Number of Restricted Share Units	Number of Share Appreciation Units	Number of Performance Share Units	Number of Options
Michael M. Wilson	Director	7,468 (<1%)	98,781	-	-	-	-
Amos S. Kazzaz	Executive Vice President and Chief Financial Officer	17,043 (<1%)	-	32,152	-	33,173	169,972
Marc Barbeau	Executive Vice President and Chief Legal Officer	-	57,563	-	-	-	53,263
Lucie Guillemette	Executive Vice President and Chief Commercial Officer	39,122 (<1%)	19,380	32,990	-	40,789	310,406
Craig Landry	Executive Vice President and Chief Operations Officer	18,364 (<1%)	27,223	32,809 ⁽⁵⁾	352 ⁽⁵⁾	41,117 ⁽⁵⁾	237,686
Arielle Meloul-Wechsler	Executive Vice President, Chief Human Resources Officer and Public Affairs	9,283 (<1%)	13,037	24,894	-	17,667	167,688
Mark Galardo	Senior Vice President Network Planning and Revenue Management	46 (<1%)	-	8,915	1,474	16,264	80,687

Name	Relationship with the Corporation	Number of Shares (% of Outstanding)	Number of Deferred Share Units	Number of Restricted Share Units	Number of Share Appreciation Units	Number of Performance Share Units	Number of Options
Mark Nasr	Senior Vice President, Products, Marketing and eCommerce	8,516 (<1%)	-	8,915	1,474	16,264	85,290
Richard Steer	Senior Vice President, Operations and Express Carriers	20,103 (<1%)	56,252	3,017	1,846	4,023	130,814
Murray Strom	Senior Vice President, Flight Operations	6,530 (<1%)	-	8,749	1,645	16,380	71,390
Carolyn M. Hadrovic	Vice President and Corporate Secretary	3,000 (<1%)	-	4,732	1,168	8,570	48,170
Pierre Houle	Vice President & Treasurer	4,225 (<1%)	-	3,857	485	7,111	35,693
Chris Isford	Vice President & Controller	25,595 (<1%)	-	5,584	1,415	10,186	67,347
Michael Abbott	Vice President — Labour relations	-	-	4,383	570	8,047	44,566
Jason Berry	Vice President — Cargo	-	-	3,936	-	7,873	49,063
Samuel Elfassy	Vice President — Safety	20,506 (<1%)	-	5,043	1,252	9,148	54,104

Name	Relationship with the Corporation	Number of Shares (% of Outstanding)	Number of Deferred Share Units	Number of Restricted Share Units	Number of Share Appreciation Units	Number of Performance Share Units	Number of Options
Anthony Lowery	Vice President Maintenance	-	13,487	3,438	432	6,965	45,541
Jon Turner	Vice President — Maintenance	4,911 (<1%)	-	5,356	1,376	9,820	49,745
Kevin Patrick Cornelius O'Connor	Vice President — System Operations Control	3,745 (<1%)	-	5,472	1,278	9,825	57,477
Robert Alan Read	Vice President Airports — North America	7,057 (<1%)	20,374	1,817	1,278	3,633	55,999
Gilda Romanelli	Vice President, International Operations	5,569 ⁽⁸⁾ (<1%)	-	3,731	478	6,859	30,166
Andrew Ka Hoi Yiu	Vice President, Product	2,400 (<1%)	-	5,140	1,265	9,340	56,468
Melvin Crocker	Chief Information Officer	1,067 ⁽⁹⁾ (<1%)	-	8,441	526	8,323	37,234

- (1) Mr. Clark holds 69,310 Shares indirectly through his spouse as permitted under Air Canada's share ownership requirements.
- (2) Mr. Green holds 3,077 Shares indirectly through the JP Morgan Charitable Giving Fund as permitted under Air Canada's share ownership requirements.
- (3) Ms. Paquin holds 6,500 Shares indirectly through 3127401 Canada Inc. as permitted under Air Canada's share ownership requirements.
- (4) Mr. Rousseau holds 8,500 Shares indirectly through his spouse as permitted under Air Canada's share ownership requirements.
- (5) Includes 3,445 restricted share units, 2,340 performance share units and 352 share appreciation units held by Mr. Landry's associate.
- (6) Includes 3,000 Shares held by Ms. Romanelli's associate.
- (7) Includes 530 Shares held by Mr. Crocker's associate.

To the knowledge of the Corporation after reasonable enquiry, none of the persons listed above beneficially owns, or exercises control or direction over, any Notes.

As of November 11, 2022, to the knowledge of the directors and officers of the Corporation, no entity beneficially owns or exercises control or direction over, directly or indirectly, shares carrying 10% or more of the votes attached to any class of shares entitled to vote in connection with any matters being proposed for consideration at meetings of the shareholders of Air Canada.

CONTRACTS, ARRANGEMENTS OR UNDERTAKINGS WITH NOTEHOLDERS

There are no contracts, arrangements, commitments, or understandings, formal or informal, made or proposed to be made between Air Canada and any Noteholder in relation to the Offer.

ACCEPTANCE OF OFFER

To the knowledge of the Corporation, after reasonable inquiry, no person referred to in this Circular under “Ownership of Air Canada’s Securities; Arrangements Concerning Notes” beneficially owns or exercises control or direction over any Notes and therefore no such person intends to accept the Offer.

COMMITMENTS TO ACQUIRE SECURITIES

Air Canada has no commitments to purchase Variable Voting Shares, Voting Shares or Notes, or other securities of Air Canada, other than as described in this Circular or pursuant to the Offer. To the knowledge of the Corporation, after reasonable inquiry, no person or company referred to in this Circular under “Ownership of Air Canada’s Securities; Arrangements Concerning Notes” has any commitment to acquire Variable Voting Shares, Voting Shares or Notes, or other securities of Air Canada other than in connection with Air Canada’s equity compensation plans for employees and directors.

BENEFITS FROM THE OFFER

No person or company referred to in this Circular under “Ownership of Air Canada’s Securities; Arrangements Concerning Notes” will receive any direct or indirect benefit from accepting or refusing to accept the Offer, other than the consideration available to any Noteholder who does or does not participate in the Offer.

MATERIAL CHANGES IN THE AFFAIRS OF THE CORPORATION

Except as described or referred to in the Offer, the directors and officers of the Corporation are not aware of information which indicates that any material change has occurred in the affairs of Air Canada since September 30, 2022, the date of the most recent interim consolidated financial statements of the Corporation, other than such material changes which have been publicly disclosed which would reasonably be expected to affect the decision of the Noteholders to accept or reject the Offer. From time to time, Air Canada explores potential strategic opportunities and transactions. These opportunities and transactions may include the acquisition or disposition of material assets and other similar opportunities or transactions. Such opportunities or transactions may have a significant effect on the price or value of Air Canada’s securities.

As of the date of the Offer, except as described or referred to herein, Air Canada has no plans to make any material change in its business, corporate structure, management or personnel.

GOING PRIVATE TRANSACTION OR BUSINESS COMBINATION

The Offer does not constitute, and is not intended to be followed by, a going private transaction or business combination.

INCOME TAX CONSIDERATIONS

Certain Canadian Federal Income Tax Considerations

The following summary accurately describes, as at the date hereof, the principal Canadian federal income tax considerations generally applicable to a Noteholder that is a beneficial owner of Notes and sells its Notes pursuant to the Offer and who, for purposes of the *Income Tax Act* (Canada) (the “Tax Act”), at all relevant times, (i) is not exempt from tax under the Tax Act, (ii) holds its Notes as capital property, and (iii) deals at arm’s length and is not “affiliated” (as defined in the Tax Act) with the Corporation (for purposes of this section, “Income Tax Considerations”, a “holder”). Generally, the Notes will be considered to be capital property to a holder provided that the holder does not use or hold, and is not deemed to use or hold, the Notes in the course

of carrying on a business and has not acquired the Notes in one or more transactions considered to be an adventure or concern in the nature of trade. As more fully described below, holders who are residents of Canada may be able to elect to have the Notes treated as capital property.

This summary is not applicable to a holder (i) an interest in which is a “tax shelter investment”, as defined in the Tax Act, (ii) that is, for purposes of certain rules (referred to as the “mark-to-market” rules) applicable to securities held by financial institutions, a “financial institution”, as defined in the Tax Act, (iii) that has entered into a “derivative forward agreement” in respect of its Notes, or (iv) to whom the “functional currency” reporting rules under the Tax Act apply. Such holders should consult their own tax advisors.

This summary is based upon the provisions of the Tax Act, the regulations thereunder (the “Regulations”), and an understanding of the published administrative policies and assessing practices of the Canada Revenue Agency (the “CRA”), all in effect as of the date hereof. This summary takes into account all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “Tax Proposals”) and assumes that all Tax Proposals will be enacted in the form proposed. However, there can be no assurance that the Tax Proposals will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or in administrative policies and assessing practices, whether by legislative, regulatory, administrative or judicial action, nor does it take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, holders should consult their own tax advisors for advice with respect to the tax consequences to them of selling their Notes pursuant to the Offer, having regard to their own particular circumstances.

Currency Conversion

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Notes, including interest, adjusted cost base and proceeds of disposition, must be expressed in Canadian dollars. For purposes of the Tax Act, amounts denominated in U.S. dollars generally must be converted into Canadian dollars using the exchange rate quoted by the Bank of Canada on the date such amounts first arose, or such other rate of exchange as is acceptable to the CRA.

Residents of Canada

The following discussion applies to a holder who, for the purposes of the Tax Act and any applicable income tax treaty or convention and at all relevant times, is resident or is deemed to be resident in Canada (a “Canadian holder”). Certain Canadian holders whose Notes might not otherwise qualify as capital property may, in certain circumstances, treat such Notes, and any other “Canadian securities” as defined in the Tax Act owned in the taxation year in which the election is made, and in all subsequent taxation years, as capital property by making the irrevocable election provided by subsection 39(4) of the Tax Act.

In general, a Canadian holder who sells Notes pursuant to the Offer will be considered to have disposed of such Notes for proceeds of disposition equal to the Purchase Price. The Canadian holder will realize a capital gain (capital loss) on the disposition of the Notes sold equal to the amount by which the Canadian holder’s proceeds of disposition (other than the portion that relates to any accrued interest, as described below), net of any reasonable costs of disposition, are greater than (or less than) the adjusted cost base of such Notes to the holder immediately before the disposition.

Generally, one-half of any capital gain realized by a Canadian holder pursuant to the Offer will be included in the Canadian holder’s income as a taxable capital gain. One-half of any capital loss realized by a Canadian holder on the disposition of Notes pursuant to the Offer may generally be deducted only from taxable capital gains of the Canadian holder in accordance with the provisions of the Tax Act. Allowable capital losses not deductible in the taxation year in which they are realized may generally be deducted by the Canadian holder against taxable capital gains realized in any of the three preceding taxation years or any subsequent taxation year, to the extent and under the circumstances described in the Tax Act.

Capital gains realized by an individual, including certain trusts, may give rise to alternative minimum tax under the Tax Act.

The portion of the Purchase Price that relates to any accrued interest, if any, is required to be included in computing the income of the Canadian holder for the taxation year in which the Notes are disposed of, except to the extent such interest was otherwise included in the income of the Canadian holder for that year or a previous year. Any premium paid by the Corporation to a Canadian holder on the redemption or repurchase of a Note before its maturity will generally be deemed to be interest received by the Canadian holder at the time of the payment to the extent that it can reasonably be considered to relate to, and does not exceed the value at that time of, the interest that would have been paid or payable by the Corporation on the Note for a taxation year of the Corporation ending after that time. Such interest will be required to be included in computing the Canadian holder's income.

A Canadian holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) throughout the year may be liable to pay an additional tax (refundable in certain circumstances) on its "aggregate investment income" for the year, which is defined to include amounts in respect of interest and taxable capital gains. Tax Proposals released on August 9, 2022, are intended to extend this additional tax and refund mechanism in respect of "aggregate investment income" to "substantive CCPCs" (as defined in such Tax Proposals). Canadian holders are advised to consult their own tax advisors regarding the possible implications of these Tax Proposals in their particular circumstances.

Non-Residents of Canada

The following discussion applies to a holder who, at all relevant times, for purposes of the Tax Act and any applicable tax treaty or convention, (i) is neither resident nor deemed to be resident in Canada, (ii) does not (and will not) and is not deemed to use or hold its Notes in carrying on business in Canada, (iii) is entitled to receive all payments (including any interest and principal) made on the Notes, and (iv) is not, and is not a holder that does not deal at arm's length (for the purposes of the Tax Act) with, a "specified shareholder" (as defined in subsection 18(5) of the Tax Act) of the Corporation (a "Non-resident holder"). Generally, a "specified shareholder" is a person that owns, has a right to acquire or is otherwise deemed to own, either alone or together with persons with whom such person does not deal at arm's length for purposes of the Tax Act, shares of the Corporation that either: (a) give the holders of such shares 25% or more of the votes that could be cast at an annual meeting of the shareholders, or (b) have a fair market value of 25% or more of the fair market value of all of the issued and outstanding shares of the Corporation. Special rules not discussed below may apply to a holder that is a non-resident insurer which carries on business in Canada and elsewhere.

A Non-resident holder will not be subject to tax under the Tax Act in respect of any capital gain (and will not be entitled to deduct any amount in respect of a capital loss) realized on the disposition of Notes to the Corporation pursuant to the Offer unless the Notes constitute "taxable Canadian property" (as defined in the Tax Act) of the Non-resident holder and the Non-resident holder is not entitled to relief under an applicable tax treaty or convention. Generally, as long as the shares into which the Notes are convertible are, at the time of disposition, listed on a designated stock exchange (which currently includes the TSX), the Notes will not constitute taxable Canadian property of a Non-resident holder unless at any time during the 60 month period immediately preceding the disposition both of the following conditions are met concurrently: (a) (i) the Non-resident holder, (ii) persons with whom the Non-resident holder does not deal with at arm's length, (iii) partnerships in which the Non-resident holder or a person referred to in (ii) above holds a membership interest directly or indirectly through one or more partnerships, or (iv) any combination of the persons and partnerships described in (i) through (iii), owned 25% or more of the issued shares of any class or series of our capital stock; and (b) more than 50% of the fair market value of the underlying shares was derived directly or indirectly from one or any combination of: (i) real or immovable property situated in Canada; (ii) "Canadian resource properties" (as defined in the Tax Act); (iii) "timber resource properties" (as defined in the Tax Act); and (iv) options in respect of, or interests in or for civil law rights in, property described in (b)(i) to (iii), whether or not such property exists. Notwithstanding the foregoing, in certain circumstances set out in the Tax Act, the underlying shares could be deemed to be taxable Canadian property of a Non-resident holder. A Non-resident holder who would meet or exceed the 25% threshold based solely on the number of Shares that would be owned by such Non-resident holder (either alone or together with such persons or partnerships) upon conversion of the Notes should contact its own tax advisor for advice as to whether such Notes constitute taxable Canadian property and the resulting tax consequences thereof.

No Canadian withholding tax should apply on the Purchase Price, including any interest, accrued interest and premium, payable to a Non-resident holder.

Certain United States Federal Income Tax Considerations

The following is a summary of certain material U.S. federal income tax considerations to a U.S. Noteholder (as defined below) and, to the extent set forth below, a Non-U.S. Noteholder (as defined below) of the purchase of the Notes pursuant to the Offer. This summary is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury regulations, administrative rulings and judicial decisions in effect as of the date of this Offer, any of which may subsequently be changed, possibly retroactively, or interpreted differently by the Internal Revenue Service (the "IRS") so as to result in U.S. federal income tax consequences different from those discussed below. This summary is limited to Noteholders who hold the Notes as capital assets (within the meaning of Section 1221 of the Code). This summary does not address all aspects of U.S. federal income taxes and does not deal with all tax consequences that may be relevant to Noteholders in light of their personal circumstances or particular situations, such as:

- tax consequences to brokers or dealers in securities or currencies, financial institutions, regulated investment companies, real estate investment trusts, tax exempt entities, insurance companies, qualified foreign pension funds and traders in securities that elect to use a mark to market method of accounting for their securities;
- tax consequences to persons holding Notes as a part of a hedging, integrated, conversion or constructive sale transaction or a straddle;
- tax consequences to U.S. Noteholders whose "functional currency" is not the U.S. dollar;
- tax consequences to Noteholders that are "United States shareholders" (within the meaning of Section 951(b) of the Code) with respect to us;
- tax consequences to certain former citizens or residents of the United States;
- tax consequences attributable to persons being required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement;
- any alternative minimum tax consequences or any consequences of the Medicare contribution tax on net investment income;
- any state, local or foreign tax consequences; and
- estate or gift taxes.

If an entity or arrangement that is treated as a partnership for U.S. federal income purposes tax holds our Notes, the tax treatment of a partner or member generally will depend upon the status of the partner or member and the activities of the entity or arrangement. If you are a partner or member in such an entity or arrangement holding the Notes, you should consult your tax advisors.

You should consult your tax advisors concerning the U.S. federal income tax consequences to you in light of your own specific situation, as well as consequences arising under other U.S. federal tax laws or the laws of Canada or any other taxing jurisdiction.

U.S. Noteholders

In this discussion, we use the term "U.S. Noteholder" to refer to a beneficial owner of Notes that is, for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if it (1) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Sale of Notes

The receipt of the Purchase Price by a U.S. Noteholder in exchange for the Notes pursuant to the Offer will be a taxable transaction for U.S. federal income tax purposes. A U.S. Noteholder generally will recognize gain or loss in an amount equal to the difference between (i) the gross amount of the Purchase Price to such U.S. Noteholder in respect of such U.S. Noteholder's tendered Notes (other than the portion of the Purchase Price, if any, attributable to accrued interest) and (ii) such U.S. Noteholder's adjusted tax basis in such U.S. Noteholder's tendered Notes. A U.S. Noteholder's adjusted tax basis in a Note generally will equal the U.S. Noteholder's initial cost of such Note, increased by the amount, if any, included in income on account of a constructive distribution related to the conversion rate of the Notes and by any market discount (as described below) previously included in income by such U.S. Noteholder (assuming such U.S. Noteholder has elected to include market discount in gross income currently as it accrues) and decreased by the amount of any bond premium previously amortized by such U.S. Noteholder. Except to the extent a U.S. Noteholder is subject to the market discount rules or the PFIC rules, in each case as discussed below, any such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if such Noteholder has held such Notes for more than one year at the time of disposition. For non-corporate U.S. Noteholders, certain preferential tax rates may apply to any long-term capital gain that is recognized. The deductibility of capital losses is subject to limitations.

An exception to the capital gain treatment described in the preceding paragraph applies to a U.S. Noteholder who holds a Note with "market discount". Market discount generally is the amount by which the principal amount of the Note exceeded the U.S. Noteholder's tax basis in the Note immediately after its acquisition. A Note will not be considered to have market discount if such excess is de minimis (i.e., less than 1/4 of 1% of the principal amount of the Note multiplied by the number of complete years from the U.S. Noteholder's acquisition date of the Note to its maturity date). Any gain realized by the U.S. Noteholder of a Note with market discount in excess of a de minimis amount will be treated as ordinary income to the extent that market discount has accrued (on a straight line basis or, at the election of the U.S. Noteholder, on a constant yield basis) from the U.S. Noteholder's acquisition date to the date of sale, unless the U.S. Noteholder has previously elected to include market discount in income currently as it accrues. Gain in excess of such accrued market discount will be subject to the capital gains rules described above. U.S. Noteholders should consult their tax advisors regarding the proper method for calculating market discount.

The gross amount of the Purchase Price, if any, attributable to accrued interest generally will be treated as ordinary interest income to the extent not previously included in income. For purposes of computing allowable foreign tax credits for U.S. federal income tax purposes, payments of accrued interest generally is expected to be treated as foreign source income.

Consequences of Possible PFIC Classification

The above discussion assumes that we were not treated as a PFIC. If we were to be treated as a PFIC for any taxable year during which the U.S. Noteholder held a Note, then as discussed below, the U.S. federal income tax consequences to such U.S. Noteholder could materially differ.

In general, a foreign corporation is a PFIC with respect to a U.S. Noteholder if, for any taxable year in which the U.S. holder is treated as holding stock in the foreign corporation, at least 75% of its gross income is passive income or at least 50% of the value of its assets (determined on the basis of a quarterly average) produce passive income or are held for the production of passive income.

Based upon the nature of our income, assets and activities, we do not believe we were classified as a PFIC during our taxable year in which the Notes were issued or for any year thereafter through our current taxable year (although the determination cannot be made until the end of such taxable year). If the Corporation were to have been treated as a PFIC for any tax year, and if a U.S. Noteholder tenders Notes that were held by such U.S. Noteholder directly or indirectly during any time that the Corporation was a PFIC, regardless of whether the Corporation was a PFIC in the year in which the settlement date occurs, such U.S. Noteholder could be subject to certain adverse U.S. federal income tax consequences with respect to gain realized on the disposition of such Notes pursuant to the tender of Notes. Each U.S. Noteholder should consult its own tax advisor regarding the potential application of the PFIC rules to its tender of Notes.

Alternative Treatment

As discussed in the Offering Memorandum dated May 27, 2020 for the Notes, it is possible that the IRS could assert that, contrary to our position, the Notes should be treated as “contingent payment debt instruments” for U.S. Federal income tax purposes in light of the potential for certain payments of additional interest on the Notes. If the Notes were to be treated as contingent payment debt instruments, then the treatment to a U.S. Noteholder of the sale of the Notes pursuant to the Offer would be the same as described above, except that (i) a U.S. Noteholder’s tax basis in the Notes would be calculated under special rules applicable to contingent payment debt obligations, (ii) any gain recognized upon such sale would be treated as ordinary income without regard to whether the Notes have market discount and (iii) special rules would apply if the Notes have market discount or bond premium. U.S. Noteholders should consult their tax advisors regarding the possible treatment of the Notes as contingent payment debt instruments.

U.S. Noteholders That Do Not Tender Their Notes Pursuant to the Offer or Whose Notes Are Not Accepted for Purchase

A U.S. Noteholder that does not tender such U.S. Noteholder’s Notes pursuant to the Offer or does not have such U.S. Noteholder’s tender of Notes accepted for purchase pursuant to the Offer will not recognize any gain or loss as a result of the Offer.

Information Reporting and Backup Withholding

In general, payments of the Purchase Price to a U.S. Noteholder will be subject to information reporting requirements unless the U.S. Noteholder is an exempt recipient (such as a corporation). Such payments also may be subject to backup withholding if the U.S. Noteholder fails to timely provide an accurate taxpayer identification number, is notified by the IRS that it has failed to report all interest or distributions required to be shown on its U.S. federal income tax returns, or in certain circumstances, fails to comply with applicable certification requirements.

Backup withholding is not an additional tax. Rather, a U.S. Noteholder generally may obtain a credit for any amount withheld against its liability for U.S. federal income tax (and obtain a refund of any amounts withheld in excess of such liability) by accurately completing and timely filing a U.S. federal income tax return with the IRS.

Non-U.S. Noteholders

For purposes of this summary, a Non-U.S. Noteholder means a beneficial owner of a note that is for U.S. federal income tax purposes a nonresident alien (other than certain former U.S. citizens or residents), foreign corporation, foreign trust or foreign estate.

We intend to take the position that we have operated in a manner such that the portion of the Purchase Price, if any, attributable to interest on the Notes constitutes income from sources outside the United States. Accordingly, subject to the discussion of the United States Foreign Account Tax Compliance Act (“FATCA”) and backup withholding below, the receipt of the Purchase Price by a Non-U.S. Noteholder in exchange for the Notes pursuant to the Offer will not be subject to U.S. federal income or withholding taxes if (i) such income or gain is not effectively connected with a U.S. trade or business of the non-U.S. Holder and (ii) in the case of gain realized by an individual, such holder is not present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition or receipt.

FATCA generally imposes a withholding tax of 30% on U.S. source interest paid to (i) a foreign financial institution, unless such institution enters into an agreement with the U.S. government to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which would include certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners) or complies with an applicable intergovernmental agreement and related implementing rules and (ii) a foreign entity that is not a financial institution, unless such entity provides the withholding agent with a certification identifying the substantial U.S. owners of the entity, or an exception applies.

In addition, the Government of the United States and the Government of Canada have entered into an Intergovernmental Agreement (“IGA”) with respect to FATCA, pursuant to which the parties will develop a practical and effective alternative approach to the policy objectives of foreign passthru payments and gross proceeds withholding and which may modify the rules described above in certain respects. The Government of

Canada has also enacted implementing legislation with respect to the IGA, pursuant to which the rules described above have been modified in certain respects.

Based on our position that we have operated in a manner such that interest on the Notes will constitute income from sources outside the United States, such interest should not be subject to FATCA withholding.

Payments made on the Notes will not be subject to a U.S. backup withholding tax (currently at the rate of 24%) unless, in general, the payment is made within the United States or through certain U.S.-related financial intermediaries and the Non-U.S. Noteholder fails to comply with applicable certification procedures to establish that it is not a U.S. Holder in order to avoid the application of backup withholding. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against that holder's U.S. federal income tax liability, if any, provided the required information is timely furnished to the IRS.

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A HOLDER'S PARTICULAR SITUATION. HOLDERS SHOULD CONSULT THEIR TAX ADVISERS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE SALE OF NOTES PURSUANT TO THE OFFER, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.

LEGAL MATTERS AND REGULATORY APPROVALS

Air Canada is not aware of any license or regulatory permit that is material to the Corporation's business that might be adversely affected by the Corporation's acquisition of Notes pursuant to the Offer or of any approval or other action by any government or governmental, administrative or regulatory authority or agency in any jurisdiction, that would be required for the acquisition or ownership of Notes by the Corporation pursuant to the Offer and that has not been obtained on or before the date hereof. Should any such approval or other action be required, the Corporation currently contemplates that such approval will be sought or other action will be taken. Air Canada cannot predict whether it may determine that it must delay the acceptance for payment of Notes deposited pursuant to the Offer pending the outcome of any such matter.

There can be no assurance that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that the failure to obtain any such approval or other action might not result in adverse consequences to the Corporation's business.

The Offer is an "issuer bid" within the meaning of MI 61-101. MI 61-101 provides that, unless exempted, an issuer proposing to carry out an issuer bid is required to engage an independent valuator to prepare a valuation of the affected securities and provide to the holders of the affected securities a summary of such valuation. In connection with the Offer, the Corporation has obtained a formal valuation of the Notes from an independent valuator. See "Issuer Bid Circular — Valuation".

The Corporation's obligations under the Offer to take up and pay for Notes validly deposited in the Offer, subject to pro-rata, are subject to certain conditions. See "Offer to Purchase — Conditions of the Offer".

SOURCE OF FUNDS

The Corporation will fund any purchases of Notes pursuant to the Offer and the payment of related fees and expenses from cash on hand.

DEALER MANAGER

The Corporation has retained Morgan Stanley & Co. LLC as dealer manager (the "Dealer Manager"). The Dealer Manager and/or its affiliates, in the ordinary course of its business, may make markets in securities of the Corporation and its affiliates, including the Notes. As a result, from time to time, the Dealer Manager and/or its affiliates own or may own certain of the securities of the Corporation and its affiliates, including the Notes. In addition, the Dealer Manager may tender Notes pursuant to the Offer for its own accounts, but is not obligated to do so. Air Canada has agreed to indemnify the Dealer Manager against certain liabilities or to contribute to payments that the Dealer Manager may be required to make because of any of those liabilities. Air Canada will pay the Dealer Manager a fee and pay certain fees and expenses relating to the Offer. In the ordinary course of business, the Dealer Manager and its affiliates have in the past provided, currently provide, and may in the future from time to time provide, investment banking and general financing and commercial banking services to the Corporation and certain of its affiliates, and/or the performance of financial advisory services for the

Corporation and its affiliates, for which they received, or will receive, customary fees and expenses. The Dealer Manager is not obligated to make a market in the Notes.

TENDER AGENT

Air Canada has appointed D.F. King & Co., Inc. to act as depository and information and tender agent (the "Tender Agent") for the Offer. The Tender Agent may contact Noteholders by mail, telephone or facsimile and may request investment dealers, brokers and other nominee to forward materials relating to the Offer to beneficial owners of Notes.

FEES AND EXPENSES

The Valuator was retained to provide a formal valuation of the fair market value of the Notes in accordance with MI 61-101. See "Issuer Bid Circular — Valuation". The Valuator will be paid a fee for the valuation report, based on hourly rates for professional time, plus administrative charges, disbursements and applicable taxes, and such fee is not contingent in any way on the conclusions in the valuation report or the outcome of the Offer.

The Tender Agent will receive reasonable and customary compensation for its services. Each of the Dealer Manager and the Tender Agent will be reimbursed for certain reasonable out-of-pocket expenses and will be indemnified against certain liabilities and expenses in connection with the Offer, including certain liabilities under Canadian provincial and United States federal securities laws. As compensation for the Dealer Manager's services, the Corporation agreed to pay a fee equal to the total of 0.400% for each US\$1,000 in principal amount of Notes validly tendered and accepted for purchase pursuant to the Offer. Except as set forth herein, Air Canada will not pay any fees or commissions to any broker or dealer or any other person for soliciting deposits of Notes pursuant to the Offer. Investment dealers, brokers and other nominees will, upon request, be reimbursed by the Corporation for reasonable and necessary costs and expenses incurred by them in forwarding materials to their customers.

No fee or commission will be payable by any Noteholder who deposits such Notes directly with the Tender Agent in connection with this Offer.

Air Canada is expected to incur expenses of approximately US\$1 million in connection with the Offer, which includes filing fees, valuation fees, legal, translation, accounting, depository and printing fees (but excluding fees for the services of the Dealer Manager which are described above).

STATUTORY RIGHTS

Securities legislation in the provinces and territories of Canada provides Noteholders with, in addition to any other rights they may have at law, one or more rights of rescission, price revision or to damages, if there is a misrepresentation in a circular or notice that is required to be delivered to the Noteholders. However, these rights must be exercised within prescribed time limits. Noteholders should refer to the applicable provisions of the securities legislation of their province or territory for particulars of those rights or consult with a lawyer.

APPENDIX 1 - VALUATION REPORT

See attached.

Report to the Board of Directors of Air Canada

November 14, 2022

Valuation as at November 11, 2022 of
4.000% Convertible Senior Notes due
2025



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PRIVATE & CONFIDENTIAL

November 14, 2022

The Board of Directors of Air Canada
7373 Côte-Vertu West
Saint Laurent, QC
H4S 1Z3

Air Canada - Valuation as at November 11, 2022 of 4.000% Convertible Senior Notes due 2025

1.0 Introduction

Air Canada continues to approach capital allocation with a focus on growth and deleveraging its balance sheet. In this regard, we understand that Air Canada is considering a public offer to purchase a portion of its issued and outstanding 4.000% Convertible Senior Notes due July 1, 2025 (the "Convertible Notes"). If Air Canada proceeds with an offer, it will be by way of an issuer bid ("Issuer Bid").

2.0 Engagement of EY

Ernst & Young LLP ("EY") has been engaged, by Air Canada, to provide to the Board of Directors of Air Canada (the "Air Canada Board") an independent formal valuation (the "Formal Valuation") setting out the fair market value of the Convertible Notes as at November 11, 2022 (the "Valuation Date"). The Air Canada Board will consider the Formal Valuation in evaluating the public offer for the Convertible Notes.

This report, setting out the Formal Valuation, is required in accordance with the requirements of Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions ("MI 61-101") and will, subject to EY's consent as to form of disclosure, be appended to the Issuer Bid circular (the "Circular") which will accompany the Offer to Purchase (the "Offer"), dated November 14, 2022.

This Formal Valuation is in accordance with Companion Policy 61-101CP to MI 61-101 and is a "Comprehensive Valuation Report" as that term is defined in Standard 110 of the Canadian Institute of Chartered Business Valuators regarding Report Disclosure Standards and Recommendations.

All dollar amounts herein are in United States funds, unless otherwise noted.

3.0 Credentials of EY

EY is one of the largest global professional service firms, providing strategy and transactions, assurance, consulting, and tax services. EY's global strategy and transaction services include valuations and fairness opinions, corporate finance and merger & acquisition advisory, transaction diligence and integration, transaction tax advisory, and corporate restructuring.

4.0 Independence of EY

EY has developed this valuation on the basis of an independent review and analysis of the Convertible Notes. The professional staff assigned to this engagement prepared this report acting independently and objectively.

We understand that for the purposes of this transaction, Air Canada is the only interested party, as that term is defined in MI 61-101. In the context of MI 61-101, EY (including entities affiliated to EY):

- is not an insider, associate or affiliate of Air Canada;
- has not acted as an advisor to Air Canada in connection with the Offer;
- will be paid a fee for this Formal Valuation, based on hourly rates for professional time, plus administrative charges, disbursements and applicable taxes, and such fee is not contingent in any way on the conclusions herein or on the outcome of the Offer;
- has no financial interest in the outcome of the Offer;
- is not a manager, co-manager or member of a soliciting dealer group for the Offer;
- is not the external auditor of Air Canada;
- has provided and currently provides professional services to Air Canada and/or its affiliates in the ordinary course of its business, and the fees paid to EY and its affiliates are not material to EY and its affiliates;
- in the future, may provide professional services to Air Canada and/or its affiliates in the ordinary course of its business;
- in the ordinary course of business, employees or partners of EY could, at any time, hold securities of Air Canada; and
- did not, during the 24 months before it was first contacted for the purpose of the Formal Valuation (i) have a material involvement in an evaluation, appraisal or review of the financial condition of Air Canada, or an associated or affiliated entity of Air Canada, (ii) act as a lead or co-lead underwriter of a distribution of securities by Air Canada, (iii) have material financial interest in a transaction involving Air Canada other than by virtue of performing the services referred to in subparagraph (i) or (ii).

Having considered the above, EY is of the view that it is independent of Air Canada.

5.0 Scope of review

In developing this Formal Valuation, EY has had discussions with the management of and advisors to Air Canada, conducted the procedures noted below, and relied on information obtained from these general procedures, without independent verification, which among others included:

1. Review of information provided by Air Canada management and from available public sources;
2. Review of historical annual financial statements of Air Canada to December 31, 2021, and the interim financial results for the nine months ended September 30, 2022;
3. Review of the Convertible Notes Indenture dated June 2, 2020 (the "Indenture");
4. Review of historical market trading prices in respect of Air Canada's shares and the Convertible Notes;
5. Review of comparable debt yield data in the process of developing factors relevant to estimating the fair market value of the Convertible Notes;
6. Review of a draft of the Offer and Circular dated November 14, 2022;
7. Conducted discussions with Air Canada management; and
8. Prepared this Formal Valuation.

We received a letter of representation signed by Pierre Houle, Vice President and Treasurer of Air Canada, on behalf of Air Canada management, confirming certain representations made to us, including a general representation that:

- the information provided by Air Canada for the purposes of preparing the Formal Valuation (the "Information") was, as of the date provided, and collectively is, as of the date hereof, complete, true and correct in all material respects and did not and does not, contain any untrue statement of a material fact in respect of the Convertible Notes or the Offer, and did not and does not, omit to state a material fact in respect of the Convertible Notes or the Offer necessary to make the Information not misleading in light of the circumstances under which the Information was provided to EY; and
- since the Information was provided to EY, except as disclosed in writing to EY, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities, business or operations of Air Canada or, as applicable in the circumstances, the Convertible Notes and no material change has occurred in any of the Information which would reasonably be expected to have a material effect on the Formal Valuation.

6.0 Prior valuations

We are advised that to the knowledge of the directors and officers of Air Canada, no "prior valuations" (as defined in MI 61-101) regarding Air Canada, its securities or its material assets have been prepared within the 24 months preceding the date of this report.

7.0 Restrictions, assumptions, and limitations

This valuation has been prepared for the specific purpose identified above and is not to be used in any other context without the express written consent of EY. This valuation is developed as of a specific date and EY has not undertaken to update it to any other date. Should information relevant to the valuation conclusions become available to EY subsequent to the date of this report, EY reserves the right, but will be under no obligation (except to the extent required under MI 61-101) to revise this report.

EY has relied upon the completeness, accuracy and fair presentation of all of the financial and other information obtained from public sources and from Air Canada management, for purposes of developing the valuation and valuation conclusions set out herein. This Formal Valuation is conditional upon the completeness and accuracy of such information. Subject to the exercise of professional valuation judgement and except as expressly described herein, we have not attempted to verify, for valuation purposes, the completeness, accuracy or fair presentation of any of the information relied upon in developing this Formal Valuation. The attached Schedule of Limiting Conditions includes additional assumptions concerning the information reviewed.

This report is not, and should not be construed to be, a recommendation to a holder of a Convertible Note, or to others to take any course of action. This report has been drafted solely for the purposes stated, it may not have considered issues relevant to third parties and EY shall have no responsibility whatsoever to any third party. Any use a third party makes of this report is entirely at its own risk.

8.0 Overview of Air Canada

Air Canada is Canada's largest airline, the country's flag carrier and a founding member of Star Alliance, the world's most comprehensive air transportation network. Air Canada provides scheduled passenger service directly to 50 airports in Canada, 47 in the United States and 69 internationally. It holds a Four-Star ranking from Skytrax. Air Canada's Aeroplan program is Canada's premier travel loyalty program, where members can earn or redeem points on the world's largest airline partner network of 45 airlines, plus through an extensive range of merchandise, hotel and car rental rewards. Its freight division, Air Canada Cargo, provides air freight lift and connectivity to hundreds of destinations across six continents using Air Canada's passenger flights and cargo-only flights with its fleet of Boeing 767-300 freighters.

Air Canada's Class A variable voting shares and Class B voting shares (together, the "Air Canada Shares") are traded on the Toronto Stock Exchange under the single ticker symbol "AC" and on the OTCQX International Premier in the United States under the single ticker symbol "ACDVF".

Air Canada's corporate headquarters are located in Montréal.

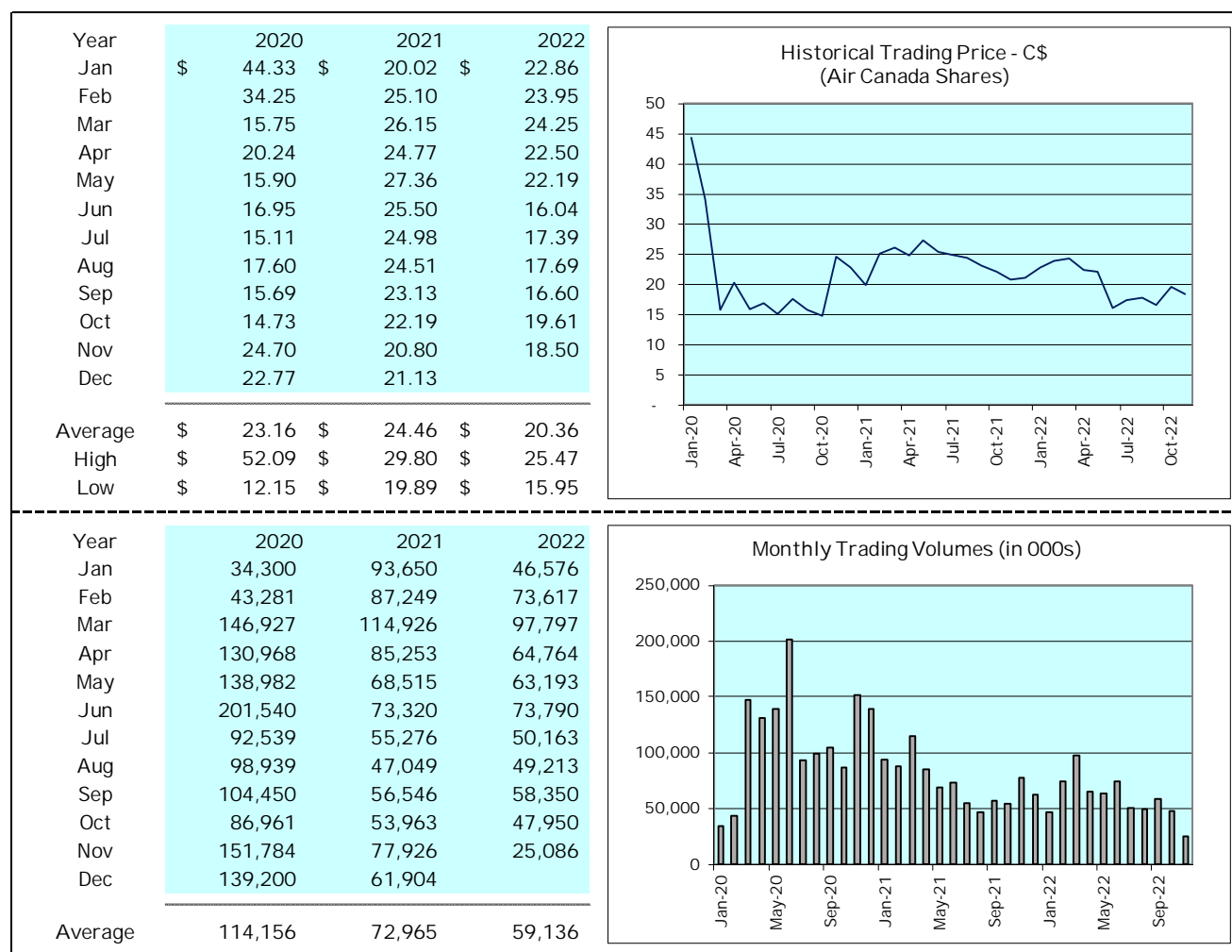
8.1 Historical Operating Results and Financial Position

Financial statements of Air Canada filed with Canadian provincial securities regulators are publicly accessible through the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

We understand that Air Canada expects to fund the purchase of the Convertible Notes under the Offer and the payment of related fees and expenses with cash on hand.

9.0 Air Canada Shares - Historical Price and Trading Volumes

Historical share prices (month-end closing prices in Canadian dollars) and trading volumes of Air Canada Shares are set out below.

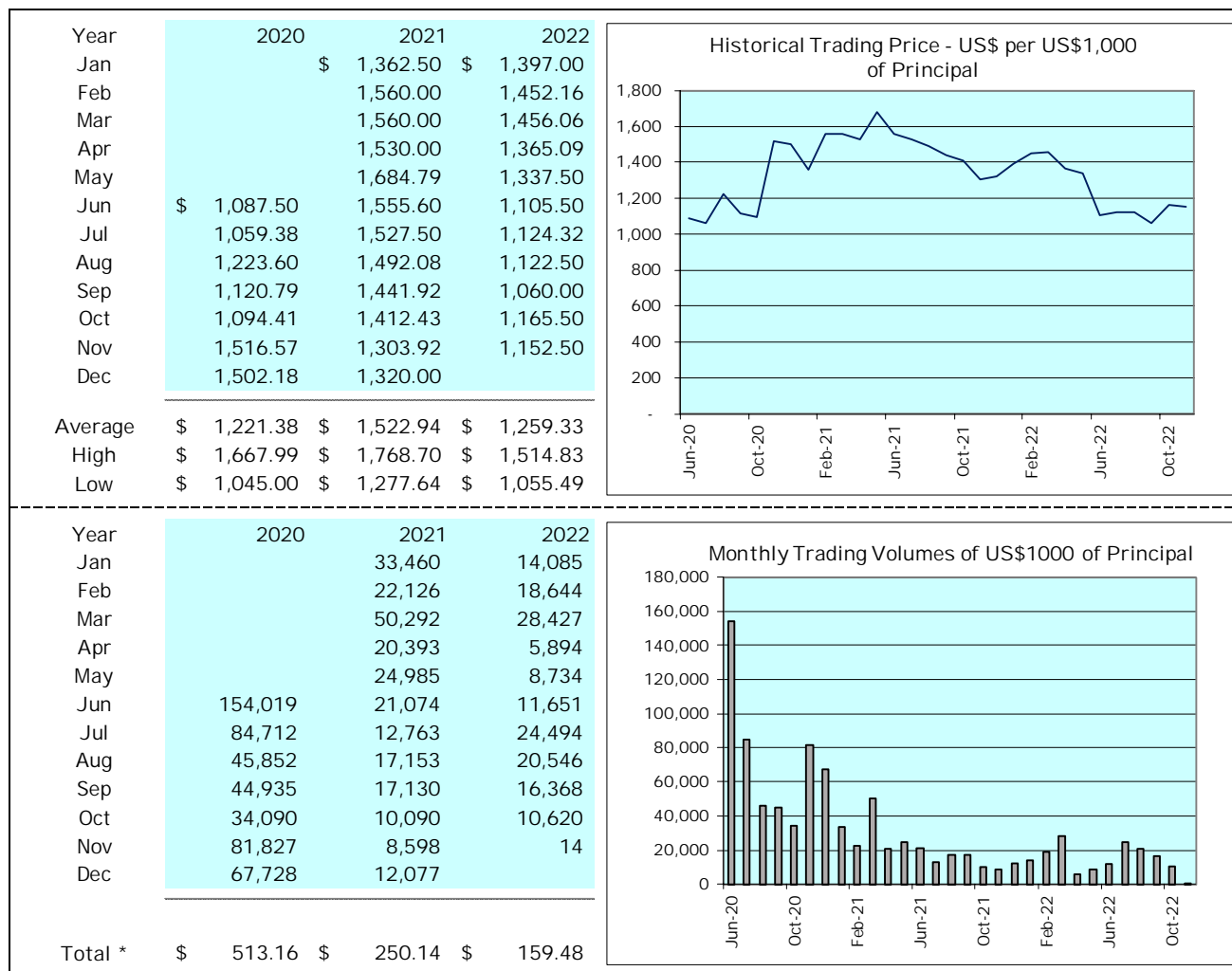


Source: Refinitiv Eikon (January 1, 2020 to November 11, 2022)

On November 11, 2022, the closing price of Air Canada Shares on the TSX was C\$18.50. As at September 30, 2022, the issued and outstanding Class A variable voting shares approximated 63.8 million shares and the Class B voting shares approximated 294.3 million shares.

10.0 Convertible Notes - Historical Price and Trading Volumes

Historical trading prices (month-end closing prices in US dollars per US\$1,000 of principal amount) and trading volumes of Air Canada's Convertible Notes are set out below.



Source: Refinitiv Eikon (June 1, 2020 to November 11, 2022), Refinitiv reported price per US\$100 principal amount converted to a price per US\$1,000 principal amount, * = total principal trading in US\$ millions

We note the Convertible Notes traded on approximately 65% of trading days between issuance and November 11, 2022, with the annual trading volumes set out above.

The table below summarizes the high, low, and weighted average traded prices of the Convertible Notes during the approximately eleven-month period immediately prior to the Valuation Date. The trading price of the Convertible Notes was US\$1,152.50 when they last traded prior to the Valuation Date on November 9, 2022.

Historical Trading Price - US\$ per US\$1,000 of Principal				
2022 Month	High	Low	Weighted Average	Trading Days
Jan	\$ 1,434.77	\$ 1,347.50	\$ 1,382.46	12
Feb	1,514.83	1,420.84	1,492.61	8
Mar	1,465.00	1,243.70	1,371.75	16
Apr	1,467.51	1,352.02	1,375.34	11
May	1,355.10	1,227.15	1,279.50	10
Jun	1,330.00	1,092.50	1,129.56	12
Jul	1,141.29	1,055.49	1,110.94	14
Aug	1,219.38	1,106.25	1,155.61	13
Sep	1,186.72	1,060.00	1,157.86	8
Oct	1,172.50	1,066.00	1,123.03	11
Nov	1,156.09	1,152.50	1,155.58	2

Source: Refinitiv Eikon (January 1, 2022 to November 11, 2022), Refinitiv reported price per US\$100 principal amount converted to a price per US\$1,000 principal amount

11.0 Key Terms of the Convertible Notes

The Convertible Notes were issued by Air Canada on June 2, 2020 with an initial aggregate principal amount of US\$747.5 million and have the following relevant terms which have been considered in the analysis herein:

Maturity - July 1, 2025.

Security - The Convertible Notes are senior unsecured obligations of Air Canada and rank equally with all other senior unsecured indebtedness of Air Canada but are senior in right of payment to any subordinated indebtedness of Air Canada. The Convertible Notes are effectively junior to all existing and future secured indebtedness of Air Canada, to the extent of the value of the assets securing such indebtedness.

Interest - 4.00% per annum paid semi-annually on July 1 and January 1 of each year, beginning on January 1, 2021.

Conversion Rate - Subject to satisfaction of certain conditions, and during the periods described in the Indenture, a holder of the Convertible Notes may elect to convert all or a portion of the outstanding principal at a rate of 65.1337 shares per \$1,000 of principal amount (the "Conversion Rate"), or a conversion price of approximately US\$15.35 per share (the "Conversion Price"), which is equivalent to C\$20.38 per share (exchange rate of 1.3275) as at the Valuation Date. The Conversion Rate is subject to adjustments for certain events, including, but not limited to, the issuance of certain stock dividends, the issuance of certain rights or warrants, subdivisions, combinations, distributions of capital stock, indebtedness, or assets, cash dividends and certain issuer tender or exchange offers, as noted below.

Conversion Events – A holder of the Convertible Notes may elect to convert on any date after March 1, 2025 and up to two trading days prior to maturity. Prior to March 1, 2025, the Convertible Notes may not be converted except under the following circumstances:

- a. A holder may elect to convert during the five-business day period following any ten consecutive trading days in which the closing trading price per \$1,000 principal amount of the Convertible Notes is less than 98% of the product of the closing price of the Air Canada Shares on each trading day and the Conversion Rate on each trading day.
- b. If Air Canada issues shareholders any rights, options, or warrants to purchase Air Canada Shares at a price less than the average share price on the ten trading days prior to the date the right is granted, or distributes to shareholders any assets or securities with a per share value exceeding 15% of the last traded price of the shares, the holders of the Convertible Notes may elect to convert at any time up until the earlier of the close of business on the business day immediately preceding the ex-dividend date for such issuance or distribution and Air Canada's announcement that such issuance or distribution will not take place. If any grant or distribution is to occur, the Conversion Rate will be adjusted to reflect the value of the right to be granted or assets to be distributed.
- c. Upon the occurrence of other specified corporate events described in the Indenture.
- d. A holder may elect to convert at any time during a calendar quarter (and only during that calendar quarter) if the closing price of the Air Canada Shares in any 20 of the last 30 trading days of the prior calendar quarter was greater than or equal to 130% of the Conversion Price.
- e. If a Tax Redemption occurs (described below), a holder may elect to convert on any date up to the date immediately prior to the redemption date.

Tax Redemption – Air Canada may, at its discretion, elect to redeem the entire outstanding principal of the Convertible Notes for cash if, on the next interest payment date, Air Canada would become obligated to make payments to any holder of the Convertible Notes as a result of any amendment to, or change in, the tax laws, regulations, or rulings of a relevant taxing jurisdiction. The Convertible Notes may be redeemed at a price equal to 100% of the principal amount plus accrued and unpaid interest.

Conversion Settlement – Following certain corporate events that occur prior to the maturity date, or following delivery of a notice of tax redemption, Air Canada will increase, in certain circumstances, the conversion rate for a holder who elects to convert its Convertible Notes in connection with such a corporate event or notice of tax redemption. Upon a holder's election to convert, Air Canada may, at its discretion, settle the conversion obligation in cash or in Air Canada Shares (Class A variable voting shares if the holder is not a Canadian, and Class B voting shares if the holder is a Canadian), or a combination thereof.

Offer to Repurchase – If a fundamental change (as defined in the Indenture) occurs then, subject to certain conditions, Air Canada is required to offer to repurchase, in cash, all outstanding Convertible Notes at a repurchase price equal to 100% of the principal amount plus accrued and unpaid interest.

11.1 Recent Convertible Notes Transactions

Subject to complying with applicable securities legislation, Air Canada may repurchase the Convertible Notes in open market and negotiated transactions.

On September 13, 2022, Air Canada repurchased US\$174.3 million aggregate principal amount of its outstanding Convertible Notes at a repurchase price of US\$1,188.87 per US\$1,000 of principal amount, plus

accrued interest. The repurchase price of US\$1,188.87 represented a 4.0% premium over the last traded price of the Convertible Notes at the transaction date.

On September 19, 2022, Air Canada repurchased an additional US\$33.0 million aggregate principal amount at a repurchase price of US\$1,225.00 per US\$1,000 of principal amount, plus accrued interest. The repurchase price of US\$1,225.00 represented a 3.2% premium over the last traded price of the Convertible Notes at the transaction date.

After the above transactions, at the Valuation Date, US\$540.2 million aggregate principal amount of Convertible Notes remained outstanding.

12.0 Valuation of the Convertible Notes

12.1 Definition of Value

The analysis herein considers the concept of fair market value, which is defined in Section 1.1 of MI 61-101 as:

"The monetary consideration that, in an open and unrestricted market, a prudent and informed buyer would pay to a prudent and informed seller, each acting at arm's length with the other and under no compulsion to act."

Further, as articulated in Section 6.4 (2) (d) of MI 61-101, in determining fair market value we have not included a downward adjustment to reflect the lack of liquidity of the Convertible Notes, the effect of the Offer on the Convertible Notes, or the fact that the Convertible Notes do not form part of a controlling interest.

12.2 Components of Value

The Convertible Notes have two components of value: a conventional bond (coupon of 4% per annum) and a call on the equity of Air Canada through conversion at the conversion rate of 65.1337 per US\$1,000 principal amount.

12.3 Methodology and Approach

Convertible bond valuation models exist that combine the Black-Scholes equation for valuing equity call options with a discounted bond cash flow calculation. A simple version of this approach sums the present value of bond cash flows and the Black-Scholes derived option value of the equity conversion option. This calculation may further be adapted to recognize the probability that the bond is not converted. The primary weaknesses with this approach are the inability to capture the impact on value of the possibility that the bond is converted prior to maturity and the value effects of any embedded options, such as, as applicable, callability by the issuer and putability by the holder.

As a result of these considerations, we used a model described by Tsiveriotis and Fernandes (1998) to estimate the value of the Convertible Notes. This model recognizes both the debt and equity components of a convertible bond, the possibility of early conversion, and, where applicable, the callability by the issuer and putability by the holder. The main idea behind this model is that the equity component and debt component of a convertible bond have different default risks. The equity component has no default risk since the issuer can always issue its own stock, and thus the equity component should be discounted at the risk-free rate. On the other hand, interest and principal payments, and any put provisions, if applicable, depend on the issuer's timely access to the required cash and thus expose the holder to credit risk; accordingly, the debt component should be discounted at the risk-free rate plus a credit spread.

12.4 Valuation Assumptions

In order to implement the calculations, we applied the following assumptions as at the Valuation Date:

Maturity – July 1, 2025, approximately 2.64 years from the Valuation Date.

Interest – 4.00% per annum paid semi-annually on July 1 and January 1 of each year.

Conversion Price – Given the current Conversion Rate of 65.1337 per US\$1,000 of principal amount, we calculated the Conversion Price to be approximately US\$15.35 per share. We assumed that the Conversion Rate would remain unchanged over the remaining term of the Convertible Notes.

Conversion Dates – The Convertible Notes may only be converted on or after March 1, 2025, unless certain triggering events occur before March 1, 2025. To assess the impact of these conditional conversion features, we performed two parallel analyses using different conversion assumptions. In one analysis we assumed a holder may convert on any date between the Valuation Date and maturity date whereas in the second analysis we assumed a holder may only convert after March 1, 2025. We note the difference in the value of the Convertible Notes in the two models was nominal. As a result, the value of the Convertible Notes is not sensitive to assumptions about the probability and timing of the triggering events and therefore when calculating our final range of values we implemented a model in which a holder may elect to convert on any date between the Valuation Date and maturity.

Volatility of the Air Canada Shares – 48.5% (rounded), based on reported implied volatility on traded call and put options on Air Canada Shares around the Valuation Date. We also noted historical stock price volatilities over one-, two- and three-year lookback periods from the Valuation Date were 48.3%, 45.4% and 62.5% respectively (including the impact of converting the historical Canadian dollar share prices to US dollars using the closing exchange rate for each trading day). In our analysis we selected a volatility estimate based on the reported implied volatility given it reflects forward-looking expectations of volatility at the Valuation Date. We also note that historical volatility is higher than forward-looking volatility, primarily as it reflects the impact of COVID-19 on equity prices in general and in particular on airline stocks which were heavily impacted by the resulting significant decline in regional and global travel demands.

Credit Spread – At the Valuation Date, the Convertible Notes were not rated by any credit rating agency. We estimated a credit spread of 5.1% per annum, which is equivalent to a yield of approximately 9.5% after addition of a term-adjusted risk-free rate, based on consideration of several factors, which amongst others included:

- Air Canada's corporate issuer credit ratings of BB- (Moody's) to B+ (S&P) and Air Canada's senior secured debt credit ratings of BB+ (Moody's) to BB- (S&P).
- Review of yields and credit spreads at the Valuation Date on Air Canada's senior secured debt and consideration of the unsecured nature of the Convertible Notes.
- Consideration of credit spread curves at the Valuation Date for B to BB rated debt, including observed credit spreads where available for debt issuances of publicly traded North American airline companies.
- Consideration of the credit spreads on the Convertible Notes as implied by the privately negotiated purchase prices paid in the transactions completed by Air Canada on September 13, 2022 and September 19, 2022.

Share Price – Given the Convertible Notes are denominated in US dollars; we applied the valuation model using a US dollar share price. We converted the C\$18.50 closing price of Air Canada Shares on the Valuation Date to US\$13.94 using an exchange rate of 1.3275.

Risk Free Rate – 4.4%, based on the 2.6-year US dollar swap rate on the Valuation Date.

12.5 Valuation Calculations and Sensitivity Analysis

Using the above assumptions, and in particular volatility of 48.5%, credit spread of 5.1%, and the share price of C\$18.50 on the Valuation Date, we calculated the fair market value of a US\$1,000 principal amount of Convertible Note to be approximately US\$1,199.

We evaluated the sensitivity of the assumed inputs in respect of volatility, credit spread, and current share price:

Volatility of the Air Canada Shares – at 43.5% and 53.5% volatility the calculated value was approximately US\$1,174 and US\$1,225, respectively, an approximately -/+2% change in value compared to the calculated amount above.

Credit Spread – at a 3.1% and 7.1% credit spread (which is equivalent to yields of 7.5% and 11.5%) the calculated value was approximately US\$1,227 and US\$1,173, respectively, an approximately +/-2% change in value compared to the calculated amount above.

Share Price – if the C\$18.50 share price is varied by +/-C\$1 the calculated value was approximately US\$1,165 and US\$1,235, respectively, an approximately +/-3% change compared to the calculated amount above.

We caution that the sensitivities outlined above only consider the impact of one variable at a time whereas in the capital markets multiple variables may change independently and concurrently with either compounding or offsetting impacts on the value of the Convertible Note.



12.6 Conclusion

Based on the scope of our review and subject to the assumptions, restrictions and limitations provided herein, we conclude that the fair market value of the Convertible Notes, per US\$1,000 principal amount, at the Valuation Date ranges from approximately US\$1,165 to US\$1,235, or a mid-point of US\$1,200. This value amount excludes interest accrued between the last interest payment date and the Valuation Date.

We note that the trading price of the Convertible Notes was US\$1,152.50 based on the last market trade on November 9, 2022¹. EY's value range and mid-point stated above thus reflect a premium of approximately 1.1% to 7.2%, or a mid-point of 4.1%, relative to the last market trade.

EY believes that the analyses in this report must be considered as a whole and that any attempt to select portions of the analyses or factors considered herein would create an incomplete or misleading view of the conclusions set out herein.

Sincerely,

A handwritten signature in black ink that reads 'Ernst & Young LLP' in a cursive script.

Ernst & Young LLP

¹ Source: Refinitiv Eikon. Price reported per US\$100 principal amount converted to per US\$1,000 principal amount.

Schedule of Limiting Conditions

1. Ernst & Young LLP (“EY”) has prepared this Formal Valuation solely for the purpose stated, and it should not be used for any other purpose. In carrying out our work, we have worked solely on the instructions of our client and this Formal Valuation has been prepared solely for the use of the Board of Directors of Air Canada and its Ad Hoc Committee. We bear no responsibility for the form or content of the Disclosure Documents other than for the Report and Formal Valuation itself.
2. EY, by reason of its services hereunder, is not required to furnish additional work or services, or to give testimony, or be in attendance in court with reference to the subject assets, properties, or business interest or to update any report, recommendation, analysis, conclusion or other document relating to its services for any events or circumstances except as stipulated in the engagement letter under which this report was prepared.
3. Provision of valuation conclusions and considerations of the issues described herein are areas of valuation practice for which we believe that we have knowledge and experience. The services provided are limited to such knowledge and experience and do not represent audit, advisory or tax-related services that may otherwise be provided by EY or another Ernst & Young member firm.
4. The value conclusions contained herein are not intended to represent the values of the Convertible Notes at any time other than the effective date that is specifically stated in this report. Changes in market conditions could result in recommendations of value substantially different than those presented at the stated effective date. We assume no responsibility for changes in market conditions or for the inability of the owner to locate a purchaser of the Convertible Notes at the values stated herein.
5. No responsibility is assumed for information furnished by others (including management), and such information is believed to be reliable.
6. In the course of our analysis, we were provided with written information, oral information, and/or data in electronic form, related to the structure, operation, and financial performance of Air Canada, as relevant, and the Convertible Notes. We have relied upon this information in our analyses and in the preparation of this report and have not independently verified its accuracy or completeness.
7. Certain historical financial data used in our engagement were derived from unaudited financial statements and are the responsibility of management. These financial statements may not have included disclosures required by generally accepted accounting principles. We have not independently verified the accuracy or completeness of the data provided and do not express an opinion or offer any form of assurance regarding its accuracy or completeness.
8. Our Formal Valuation assumes full compliance with all applicable federal, provincial, local, and other laws and regulations, unless otherwise stated.
9. We assume no responsibility for any financial and tax reporting decisions, which are appropriately those of management. It is our understanding that management accepts the responsibility for any financial statement and tax reporting with respect to the Convertible Notes.
10. We reserve the right (but will not be obligated, except to the extent required under MI 61-101) to revise this report in light of any relevant information (that we consider material to this Formal Valuation) that comes to our attention after the date of issuance.

CONSENT OF VALUATOR

TO: The Board of Directors of Air Canada

We refer to the formal valuation entitled "Report to the Board of Directors of Air Canada - Valuation as at November 11, 2022 of 4.000% Convertible Senior Notes due 2025" dated November 14, 2022 (the "Formal Valuation") which we prepared for Air Canada (the "Offeror") in connection with the Offer dated November 14, 2022 made by the Offeror to the holders of the Offeror's 4.000% Convertible Senior Notes due 2025 (the "Notes"). We hereby consent to the filing of the Formal Valuation with the securities regulatory authorities, the inclusion of the Formal Valuation as Appendix 1 of the Circular dated November 14, 2022 (the "Circular") accompanying the Offer made by the Offeror to the holders of Notes, the references to our Formal Valuation in the Circular and the inclusion of a summary of the Formal Valuation in the Circular.

November 14, 2022

(Signed) Ernst & Young LLP

Ernst & Young LLP

CERTIFICATE

November 14, 2022

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

(Signed) "Michael Rousseau"

Michael Rousseau
President
and
Chief Executive Officer

(Signed) "Amos S. Kazzaz"

Amos S. Kazzaz
Executive Vice President
and
Chief Financial Officer

On behalf of the Directors:

(Signed) "Jean Marc Huot"

Jean Marc Huot
Director

(Signed) "Vagn Sørensen"

Vagn Sørensen
Director

The Dealer Manager in respect of the Notes and the Offer is:

Morgan Stanley & Co. LLC
1585 Broadway, 6th Floor
New York, New York 10036
Attn: Equity Syndicate Department
Toll Free: 855-483-0952

By Mail, Overnight Courier or Hand Delivery:

Morgan Stanley & Co. LLC
1585 Broadway, 6th Floor
New York, New York 10036
Attn: Equity Syndicate Department

The information and tender agent (and its offices) for the Offer is:

D.F. King & Co., Inc.
48 Wall Street
New York, NY 10005
Toll Free: (888) 541-9895
All Others Call: (212) 269-5550
Email: ac@dfking.com