



Update on Share Trust

October 2023

Introduction and Background

The purpose of this communication is to provide an update on expanding the permitted use of the pension share trust that was originally created in 2009.

In 2009, the share trust was established, and Air Canada contributed 17,647,059 of its shares to the trust for the purpose of funding future solvency deficits in Air Canada's Canadian pension plans. At the time, the trust was created solely to fund solvency deficits in our Canadian pension plans. Since then, through Air Canada pension contributions, improved investment performance and plans amendments, the solvency deficits that existed in 2009 were reversed, and at January 1, 2023, there was an aggregate solvency surplus in Air Canada's domestic registered pension plans valued at \$4.6 billion.

The value of the shares held in the trust have also increased substantially since 2009, increasing from about \$24 million to a recent value of over \$350 million (on the basis of a \$20 per share price).

Letter of Intent

In the circumstances, the Unions, with the agreement of Air Canada, and with input from the Pionairs who confirmed their agreement to its terms and conditions, entered into a letter of intent to amend the trust agreement to permit distributions from the trust to be used not only to fund any potential future pension deficits, but also to fund payments under voluntary separation packages (VSPs) to be offered to Air Canada Canadian employees who elect to terminate their employment with Air Canada, and lump sum payments to pensioners who are members of Air Canada's Canadian pension plans.

VSPs and Lump Sum Payments to Pensioners

Allocation of Shares

The shares in trust will be allocated if all conditions are met as follows, based on the value of the shares at that time¹, for the following three main purposes:

1. Original Purpose

- A number of shares having a value of approximately \$24 million will be retained in trust to fund any potential future solvency deficits as per the original purpose of the trust created in 2009.

2. Voluntary Separation Packages

- A number of shares in trust having an initial value of \$138 million will be notionally allocated to offer VSPs to employees who want to retire or pursue another career outside Air Canada.
- VSPs will be offered to a certain number of:
 - Unionized employees (determined by seniority) who have at least 10 years of continuous service, and
 - Non-executive management and AT&S employees under conditions determined by Air Canada.
- For unionized employees:
 - VSPs will be offered in three rounds as follows: in 2024, at any time between the year 2026 until and including the year 2029 and at any time between the year 2030 until and including the year 2037.
 - Air Canada will have discretion to select the year (for the second and third rounds) and month for each round and the timing may be different for each group of employees.
 - Each round of VSPs must be at least 24 months after the previous one.

¹ The amounts available to pay VSPs and lump sum payments to pensioners will also be dependent on Air Canada's share price in the future since the shares in trust would only be sold prior to any particular distribution.



- Under the letter of intent, a number of shares valued at \$138 million will be notionally allocated to the VSPs upon receipt of all regulatory approvals, equal to three VSP offerings of \$46 million (less the portion allocated for non-executive management and AT&S employees)¹.
- For non-executive management and AT&S employees:
 - Air Canada will have the discretion to offer VSPs in any year but must do so at the latest in 2037.
- The shares allocated for VSPs will be split by group of employees based on the percentages defined in the letter of intent.
- Should shares allocated for each round of VSPs, up to a maximum of \$46 million, not be fully used for that purpose (e.g., fewer employees applying for VSPs or a significant increase in the value of the shares), the value of the unused shares will be used to pay lump sums to pensioners.
- If shares allocated for VSPs remain after the three rounds of VSPs have been completed as per the parameters above, the remaining shares will be sold and proceeds paid to Air Canada (or such trust shares may be sold or otherwise dealt with as Air Canada may determine).

3. Lump Sums to Pensioners

- After having allocated the number of shares necessary for the original purpose and the VSPs, the remaining shares in trust will be used to make lump sum payments to all Canadian pensioners.
 - Pensioners are defined as former unionized and non-unionized employees of Air Canada and its affiliates who were part of the Canadian dollar payroll, or their surviving spouses, in receipt of a pension from one of Air Canada's Canadian pension plans (unionized and non-unionized).
 - A first payment of \$100 million will be allocated to pensioners once all conditions are satisfied¹.
 - Other payments to pensioners will be made in 2025, 2028, 2031, 2034 and 2037. However, the amount of those payments cannot be known in advance. They will be based on the portion of the shares remaining in trust for the pensioners and the value of the shares at the time they are sold.
 - The methodology to allocate the amounts between the pensioners is described in the FAQ.

Additional Terms

- Implementation and operational costs related to the letter of intent will be paid from proceeds of the share trust before paying VSPs and lump sums to pensioners.
- Other terms and conditions would apply to VSPs and lump sum payments to pensioners and will be communicated in due course.

Conditions

As communicated in the past, a number of conditions have to be met, including the receipt of all required regulatory approvals, to allow the proceeds of the trust to be used for VSPs and lump sum payments to pensioners.

Among the conditions that must be met are the receipt of favourable tax rulings (including to confirm the tax treatment of the proposed transactions and to obtain assurance that there is no unfavourable tax treatment). We are waiting for the response to tax rulings requested from the Canada Revenue Agency (CRA) and Revenu Québec (RQ).

Given the very unique nature of the share trust it is taking some time to obtain the requested tax rulings, but we have been working continuously with tax and trust experts to obtain necessary approvals and comfort from regulatory bodies including CRA, RQ and the Department of Finance (both Federal and Québec) as quickly as possible.



Payments from the Share Trust

Payments to pensioners cannot be made and VSPs cannot be offered until all conditions (including favourable tax rulings) are satisfied. We do not expect VSPs or lump sum payments to pensioners to be available before at least the end of the year 2024.

We are aware that some employees and pensioners are looking forward to these payments and we can assure you that Air Canada and the Unions are making all the necessary efforts to achieve a positive resolution as soon as possible.