



AIR CANADA

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Air Canada raises \$1.02 billion

Note: Currency is in Canadian dollars unless otherwise noted.

MONTREAL, July 29 /CNW Telbec/ - Air Canada today announced that it has entered into arrangements to raise a total of CAD \$1.02 billion in additional liquidity through a series of financings and other transactions with certain lenders and key stakeholders.

"By any measure, raising \$1 billion in new liquidity is a tremendous achievement, particularly in view of current credit markets and the state of the airline industry," said Calin Rovinescu, President and Chief Executive Officer. "This positive outcome was the result of the determined efforts of our leadership team and support of our key stakeholders, including our employees, retirees, unions, major shareholder, key aircraft lessors and suppliers, loyalty partner and others. With these financings and other transactions, the pension funding moratorium and new pension deficit funding arrangements, as well as the 21-month extensions to our collective agreements on a cost neutral basis, we have strengthened our position to manage through this extremely difficult period for the airline industry.

"IATA forecasts 2009 losses in the airline industry of over \$10 billion. With ongoing global economic weakness and significantly lower airline revenues, we still have much work to do to adapt to the profound impact of this recession. The \$1 billion of new liquidity will give us breathing room towards achieving sustainable profitability. This will require a fundamental repositioning of the airline with a focus on both cost management and a new approach to revenue generation to offset the dramatic erosion in yield. I am confident in our ability to meet the challenges ahead." Financings and Capital Contributions

-----On July 29, 2009, Air Canada entered into a financing agreement with GE Canada Finance Holding Company, Export Development Canada, Aeroplan Canada Inc., and ACE Aviation Holdings Inc. as lenders. GE Finance is acting as Administrative Agent and GE Capital Markets Inc. and GE Capital Markets (Canada) Ltd. are acting as arrangers. The secured financing extends a term credit facility of up to \$700 million (the Credit Agreement) on commercial terms to Air Canada for the purpose of refinancing certain debt and to provide funding for working capital and other general corporate purposes.

An initial drawdown of \$600 million is available to Air Canada under the Credit Agreement upon satisfaction of certain conditions. On or before the first anniversary and subject to satisfaction of certain conditions, Air Canada may request the increase of the facility by up to an additional \$100 million by obtaining new commitments. Amounts drawn under the Credit Agreement bear interest at a minimum annual rate of 12.75 percent.

The initial \$600 million to be drawn under the Credit Agreement is repayable, starting August 1, 2010, in equal consecutive quarterly installments of \$30 million with a final payment of \$120 million due by the fifth anniversary of the initial drawdown. Any increase to the facility would increase, on a pro rata basis, the scheduled repayments, including the final payment.

Air Canada's obligations under the Credit Agreement are secured by a security interest and hypothec over substantially all of the present and after-acquired property of Air Canada and its subsidiaries. The Credit Agreement is subject to customary commercial terms and conditions, including certain financial covenants requiring Air Canada to maintain minimum liquidity and a fixed charge coverage test.

As part of the transactions under the Credit Agreement, Air Canada will issue to the lenders, concurrently with the first drawdown, warrants for the purchase of Air Canada's Class A variable voting shares or Class B voting shares representing an aggregate of five percent of the total issued and outstanding shares, to be allocated among the lenders based on their pro rata lending commitments under the Credit Agreement. Subject to the terms of the Credit Agreement, in the event that Air Canada does not grant additional security over certain assets within 90 days of closing, Air Canada would be required to issue to the lenders additional warrants representing up to an additional five percent of the total issued and outstanding shares (determined at the time of issuance of such additional warrants).

Air Canada has also obtained an extension of the repayment date under a previous US \$75 million (CAD \$82 million) secured loan, now due in December 2013 (previously due December 2009).

In addition, Air Canada has concluded an agreement with a supplier, conditional among other things, on completion and funding of the Credit Agreement, which will provide Air Canada with a payment of approximately \$220 million, in consideration of various contractual commitments. Amended Credit Card Processor Agreement

-----Air Canada has entered into further amendments to its agreements with one of its principal credit card processors. Subject to certain conditions, the amendments reduce the amount of cash deposits and security to be held by the credit card processor, return deposits to Air Canada when the unrestricted cash threshold increases to \$1.1 billion from \$800 million and thereafter limit Air Canada's obligation to post certain defined amounts of security in the event that unrestricted cash is below \$1.1 billion but above \$800 million. Pursuant to the terms of its agreements, Air Canada's unrestricted cash requirement increases from \$800 million to \$1.1 billion should Air Canada maintain unrestricted cash of more than \$1.2 billion for two consecutive months. Boeing 777 Sale Leaseback Agreement

-----Air Canada has entered into a memorandum of understanding with GE Capital

Aviation Services ("GECAS"), for the sale and leaseback of three Boeing 777-300ER aircraft which, after payment of the sale price and subject to the rights of the aircraft debt holders, will provide Air Canada with incremental liquidity of approximately \$122 million. The 12-year sale and leaseback transactions are expected to be concluded prior to September 30, 2009 subject to the completion of final documents and third party consents. Amended Boeing 787 Purchase Agreement

-----Air Canada and Boeing have agreed to amend the Boeing 787 Dreamliner purchase agreement to reduce the number of options for additional Boeing 787 aircraft by ten, from 23 to 13, and to provide for purchase rights for ten Boeing 787 aircraft. Air Canada continues to have 37 firm orders for Boeing 787 aircraft. Air Canada and Boeing also agreed to amend certain commercial terms, including to revise delivery dates and to provide for certain financial adjustments. Air Canada's first Boeing 787 aircraft, is now scheduled for delivery in the second half of 2013. Repayment of Existing Credit Facilities

-----Immediately prior to draw down under the Credit Agreement, Canadian Imperial Bank of Commerce will assign to the new lenders under the facility all of its right, title and interest in its secured credit facility with Air Canada. Air Canada will also terminate its revolving loan agreement with Aeroplan Canada Inc. and its secured engine facility for 22 engines. The aggregate principal amounts outstanding repaid by Air Canada as a result of the termination of these facilities is \$117 million.

Seabury Group LLC acted as principal financial advisor to Air Canada on these financings and other transactions.

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A STAR ALLIANCE MEMBER 