

December 19, 2003

Board of Directors of Air Canada
Air Canada Center 1277
7373 Côte-Vertu West
Building 2, Gate 11
Saint-Laurent, Quebec H4Y 1H4

Re: Standby Purchase Agreement

Dear Sirs:

We have reached agreement with Trinity Time Investments Inc. ("Trinity") to amend the terms of the Standby Purchase Agreement in accordance with Amendment No. 1 to the Standby Purchase Agreement, a copy of which is attached as Exhibit A hereto ("Amendment No. 1"). We stand ready to execute and deliver to you the attached document upon Board approval of Amendment No. 1 and upon the Board's reaffirmation of Trinity as the Private Equity Investor.

Yours truly,

DEUTSCHE BANK SECURITIES INC.

By: 

Name: Ray Costa

Title: Managing Director

**AMENDMENT NO. 1 TO THE STANDBY PURCHASE AGREEMENT
MADE AS OF THE ___ DAY OF DECEMBER, 2003**

WHEREAS the parties have entered into a standby purchase agreement as of the 29th day of October, 2003 and wish to make certain amendments;

NOW THEREFORE, in consideration of the mutual covenants herein contained, and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged by each of the parties below), the parties hereto have agreed as set forth below.

1. Unless otherwise defined herein, words and expressions defined in the Agreement shall have the same respective meanings herein.
2. Section 1.1 entitled "Definitions" shall be amended by deleting the definitions of "Rights" and "Rights Offering" in their entirety and inserting the following definitions:

"Agreement" means the standby purchase agreement dated as of October 29th, 2003, as amended.

"Rights" means non-transferable rights to be offered by the Corporation to the Eligible Holders to subscribe for Rights Offering Shares, with each Eligible Holder, subject to Sections 2.1 and 7.3, being entitled to purchase its pro rata portion of the Rights Offering Shares. Subject to Sections 2.1 and 7.3, each Eligible Holder's pro rata portion shall be determined by reference to the ratio of the amount of such Eligible Holder's Allowed Claims versus the total amount of Allowed Claims held by all Eligible Holders.

"Rights Offering" means the offering of Rights to the Eligible Holders for an aggregate Subscription Price of a minimum of \$350 million and a maximum of \$450 million, subject to the provisions of Section 7.3 hereof, the number of such Rights to be determined by AC.

3. Section 2.1 of the Agreement shall be deleted in its entirety and the following Section 2.1 shall be inserted in lieu thereof:

2.1 Conduct of Rights Offering. As soon as practicable after the filing of the Plan in Court by the Debtor, AC agrees to, or to cause the Corporation to, offer the Rights to the Eligible Holders pursuant to the Plan Disclosure Documents, in accordance with or pursuant to exemptions from the Securities Laws. AC hereby agrees that DB shall act as the exclusive standby purchaser for such Rights Offering and AC shall cause the Corporation to sell to DB all of the

unsubscribed Rights Offering Shares at the DB Standby Amount (as defined below). The offer of the Rights to the Eligible Holders shall include an oversubscription mechanism (the "Overallotment") in accordance with Annex 2 attached to this Amendment No. 1 to the Agreement ("Amendment No. 1"). The aggregate gross proceeds of the Rights Offering and the Private Equity Investment shall equal or exceed \$1.0 billion.

4. Section 2.3 of the Agreement shall be deleted in its entirety and the following Section 2.3 shall be inserted in lieu thereof:

2.3 Standby Commitment. As the exclusive standby purchaser, DB agrees to purchase from the Corporation all of the unsubscribed Rights Offering Shares (after giving effect to the Overallotment) at a purchase price equal to (i) the Subscription Price multiplied by the number of unsubscribed Rights Offering Shares (after giving effect to the Overallotment), plus (ii) any Premium associated with such unsubscribed Rights Offering Shares (after giving effect to the Overallotment) (collectively, the "DB Standby Amount"). DB acknowledges that any Eligible Holder that does not exercise its Rights and subscribe for the Rights Offering Shares will receive a cash payment from AC equal to such AC Creditor's pro rata portion of the Premium.

5. The last sentence of Section 3.1 of the Agreement shall be deleted in its entirety and the following sentence shall be inserted in lieu thereof:

"In addition, in consideration of payment of fees and expenses incurred by DB in connection with the preparation, execution and delivery of this Agreement, and the transactions contemplated hereby, AC shall, or AC shall cause the Corporation to, pay DB on the Closing Date an amount equal to the sum of (i) 1.5% of the DB Standby Amount (excluding any Premium) and (ii) 1.5% of the Subscription Price of Rights Offering Shares acquired by AC Creditors pursuant to the Overallotment (excluding any Premium thereon)."

6. Section 7.3 of the Agreement shall be deleted in its entirety and the following Section 7.3 shall be inserted in lieu thereof:

7.3 Resolving Disputed Claims. AC shall use reasonable efforts to settle, or obtain adjudication on, disputed or otherwise unresolved Claims by AC Creditors in the restructuring prior to the Record Date. AC Creditors who hold any disputed or otherwise unresolved claims shall be entitled to participate in the Rights Offering in accordance with Annex 3 hereof.

7. The first sentence of Section 9.1 of the Agreement shall be amended by deleting the following language, "(ii) Cerberus Capital Management L.P. (or its affiliates)" and inserting "(ii) intentionally omitted" in its place.

8. Sections 10.1(a)(iii) and 10.1(a)(iv) of the Agreement shall be deleted in their entirety and the following Sections 10.1(a)(iii) and 10.1(a)(iv) shall be inserted in lieu thereof:

10.1 Termination.

(a) (iii) AC fails to file the Plan with Court on or before March 1, 2004, provided that DB shall have ten (10) Business Days to exercise its right to terminate pursuant to this Section 10.1(a)(iii) or such right to terminate shall be deemed waived; or

(iv) the Private Equity Investor fails to perform all of its funding obligations as set forth in the Private Equity Investment Agreement on or before May 31, 2004.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be duly executed and delivered by their authorized officers as of the date first written above.

AIR CANADA

By: _____
Name:
Title:

DEUTSCHE BANK SECURITIES INC.

By: _____
Name:
Title:

Annex 2

Oversubscription Mechanism

The Rights Offering shall include an oversubscription mechanism (the "Overallotment") for a number of Rights Offering Shares which shall equal one-half of the unsubscribed Rights Offering Shares after giving effect to (i) the disputed claims protocol in Annex 3 hereto and (ii) the initial election of AC Creditors in the Rights Offering (exclusive of the Overallotment elections).

AC Creditors (i) who hold Claims as of the Record Date and (ii) who elected to participate in the Rights Offering initially shall be entitled to participate in the Overallotment on a pro rata basis, based upon the amount of such AC Creditor's Allowed Claim in relation to the aggregate amount of Allowed Claims of all AC Creditors who are permitted to and elect to participate in the Overallotment.

The election to subscribe for Rights Offering Shares in the Overallotment must be made at the time of election to participate in the Rights Offering. To properly elect to participate in the Rights Offering and the Overallotment, an AC Creditor must deliver the applicable funds in accordance with the Plan which shall provide for payment within [___] days of the approval of the Plan by the Court.

AC Creditors who elect to participate in the Overallotment shall be required to pay a purchase price for Rights Offering Shares acquired in the Overallotment equal to (i) the Subscription Price multiplied by such number of shares, plus (ii) any Premium associated with such number of shares.

Annex 3

Disputed Claims Protocol

The mechanism for resolving Disputed Claims and allowing such Disputed Claims to participate in the Rights Offering shall be consistent with the following principles:

1. The aggregate \$450 million Rights Offering shall be divided into two tranches: (i) one tranche representing a percentage to be determined of the total aggregate amount of the Rights Offering (the "Undisputed Tranche") that shall be offered on a pro rata basis to all creditors holding Allowed Claims ("Allowed Creditors"); and (ii) one tranche representing a percentage to be determined of the total aggregate amount of the Rights Offering (the "Disputed Tranche") that shall be offered on a pro rata basis to all creditors holding disputed claims ("Disputed Creditors"). The aggregate amounts of the Undisputed Tranche and the Disputed Tranche shall be determined on a pro rata basis at the time of election by the creditors. For example, if aggregate Allowed Claims equals \$10 billion at the time of election and the aggregate amount of disputed claims equals \$10 billion at the time of election, then each tranche would be entitled to a 50% pro rata share of the total rights offering.
2. Any amount of the Disputed Tranche not exercised by Disputed Creditors shall pass to and become part of the Undisputed Tranche and offered on a pro rata basis among exercising Allowed Creditors.
3. The remaining aggregate amount of the Disputed Tranche (i.e., that amount for which Disputed Creditors shall have made an election to participate in the Rights Offering) shall not be part of, and shall be reduced from, the initial Rights Offering.
4. The exercising Allowed Creditors and DB (as Standby Purchaser), shall, together, pay to the Company an amount equal to the Undisputed Tranche at Closing.
5. Each exercising Disputed Creditor shall fund an amount equal to its pro rata portion of its disputed claim to all disputed claims into an escrow account to be administered by an independent third party (the "Administrator") who will manage and adjudicate the disputed claims process pending resolution thereof as described below.
6. The shares corresponding to the Disputed Tranche shall be issued by the Company, but held in escrow by the Administrator pending resolution of the disputed claims process as described below.
7. The Administrator shall endeavor to resolve the disputed claims with the Disputed Creditors as quickly as reasonably possible. On the date that such claims

are resolved, the Administrator shall (i) distribute to the Disputed Creditor that portion of shares, if any, that corresponds to an Allowed Claim, and to the Company the amount of funds, if any, that corresponds to the shares distributed to the Disputed Creditor, and (ii) to the Disputed Creditor the amount of funds, if any, held that corresponds to the disallowed claim, and to the Company the shares relating thereto.