

AIR CANADA 

ANNUAL INFORMATION FORM



March 28, 2008

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EXPLANATORY NOTES

The information in this Annual Information Form is stated as at December 31, 2007, unless otherwise indicated.

Air Canada and the Corporation — References herein to Air Canada and references to the “Corporation” include references, as the context may require, to Air Canada and its subsidiaries collectively, Air Canada and one or more of its subsidiaries, one or more of Air Canada's subsidiaries, or Air Canada itself.

Subsidiaries — References herein to the term “subsidiary” or “subsidiaries” refer, in relation to any entity, to any other entity, including a corporation or a limited partnership, which is controlled, directly or indirectly, by that entity.

Defined Terms — For an explanation of the capitalized terms and expressions and certain defined terms, please refer to the “Glossary of Terms” at the end of this Annual Information Form.

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

Statistical Information — Market data and certain industry forecasts used throughout this Annual Information Form were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts, market research and other publicly available information, while believed to be reliable, have not been independently verified, and the Corporation does not make any representation as to the accuracy of such information.

Forward-looking statements — Air Canada’s public communications may include written or oral forward looking statements within the meaning of applicable securities laws. Such statements are included in this Annual Information Form and may be included in other filings with regulatory authorities and securities regulators. 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 strategies, expectations, planned operations or future actions. These forward-looking statements are identified by the use of terms and phrases such as “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 and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results due to a number of factors, including without limitation, energy prices, general industry, market and economic conditions, currency exchange and interest rates, competition, war, terrorist acts, epidemic diseases, insurance issues and costs, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs, employee and labour relations, pension issues, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this Annual Information Form and, in particular, those identified in the “Risk Factors” section of this Annual Information Form. The forward-looking statements contained in this Annual Information Form represent the Corporation’s expectations as of the date of this Annual Information Form and are subject to change after such date. However, the Corporation disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

PRESENTATION OF SEGMENT INFORMATION

Prior to May 24, 2007, Air Canada's consolidated financial statements included the financial position, results of operations and cash flows of Jazz Air LP ("Jazz") as Air Canada was deemed to be the primary beneficiary of Jazz under Accounting Guideline 15 "Consolidation of Variable Interest Entities" ("AcG-15"). The distribution of units of Jazz Air Income Fund (which indirectly holds all units of Jazz) by ACE Aviation Holdings Inc. ("ACE") on May 24, 2007 gave rise to a reconsideration of which entity should consolidate Jazz and, as a result, Jazz Air Income Fund was deemed to be the primary beneficiary of Jazz under AcG-15. Jazz is still considered to be a variable interest entity, however, Air Canada is no longer the primary beneficiary under AcG-15.

Prior to May 24, 2007, Air Canada had two reportable segments: Air Canada Services (which is now referred to as Air Canada), the passenger and cargo transportation services business operated by Air Canada and related ancillary services, and Jazz, Air Canada's regional capacity provider. Jazz operates under the amended and restated capacity purchase agreement effective January 1, 2006 between Air Canada and Jazz (the "Jazz CPA"). See "Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS - Relationship between Air Canada and Jazz" of this Annual Information Form for a description of the Jazz CPA and other transactions between Air Canada and Jazz. The segment information provided useful information to shareholders as it enabled them to distinguish between the results of operations, cash and other assets and liabilities between the two segments. Management of Air Canada ("Management") used the segment information for making operating decisions, allocating resources and assessing performance of the segments individually. Refer to Note 15 "Segment Information" to Air Canada's 2007 audited consolidated financial statements for additional information.

Air Canada's consolidated financial statements for the year ended December 31, 2007 are available on SEDAR at www.sedar.com.

TRADEMARKS

Air Canada® is Air Canada's trade name and trademark. Other trademarks include Air Canada Jetz®, Air Canada Jazz™, Jazz™, Air Canada Vacations®, Vacances Air Canada®, Executive First®, Executive Class®, Expedair®, AC Expedair™, AC Priority™, AC Air Freight™, AC Lynx™, Hospitality Service®, Service Hospitalité®, Rapidair®, Maple Leaf™, Feuille d'Érable™, AC WEBSAVER™, Super Elite™, Super Élite™, Flight Pass™ and Sun Pass™. Star Alliance™ is a trademark of Air Canada and of other members of the Star Alliance™ network. This Annual Information Form also includes references to trade names and trademarks of companies other than Air Canada, which trade names and trademarks are the properties of their respective owners. Aeroplan® and Aéroplan® are registered trademarks of Aeroplan Limited Partnership ("Aeroplan LP") and are licensed to Air Canada.

CORPORATE STRUCTURE

Name, Address and Incorporation

Air Canada was continued under the *Canada Business Corporations Act* (“CBCA”) on August 25, 1988. Air Canada acquired Canadian Airlines International Ltd. (“Canadian Airlines”) on July 6, 2000 and completed a corporate amalgamation with Canadian Airlines effective January 1, 2001, with the amalgamated entity being known as Air Canada. Pursuant to the consolidated plan of reorganization, compromise and arrangement of Air Canada and certain of its subsidiaries (referred to herein as the “Plan”), ACE Aviation Holdings Inc. (“ACE”) became the parent holding company of the reorganized Air Canada on September 30, 2004.

On November 24, 2006, ACE and Air Canada completed an initial public offering and secondary offering of an aggregate 25 million 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”) at \$21 per Share for gross proceeds of \$525 million (the “Initial Public Offering”). The Shares trade on the Toronto Stock Exchange (“TSX”) under the symbol AC.A for the Variable Voting Shares and the symbol AC.B for the Voting Shares.

Through the Initial Public Offering, Air Canada sold an aggregate of 9,523,810 Variable Voting Shares and Voting Shares for gross proceeds of \$200 million to be used for general corporate purposes, including the partial funding of its fleet renewal program. In the secondary offering, ACE sold an aggregate of 15,476,190 Variable Voting Shares and Voting Shares for gross proceeds of \$325 million.

Prior to the closing of the Initial Public Offering, ACE proceeded with a reorganization of its corporate structure. Pursuant to such reorganization, the partnership interests, as well as the interests in the general partners of ACGHS Limited Partnership (“Air Canada Ground Handling Services”) and AC Cargo Limited Partnership (“Air Canada Cargo”) not held by Air Canada, were transferred to Air Canada and ACE transferred a 51% partnership interest, as well as a 51% interest in the general partner of Touram Limited Partnership (“Air Canada Vacations”) to Air Canada. As part of the reorganization, Air Canada completed a corporate amalgamation with ACGHS Holdings GP Inc. effective November 24, 2006 with the amalgamated entity retaining the name Air Canada. In 2007, Air Canada purchased from ACE its remaining 49% interest in Air Canada Vacations causing Air Canada Vacations to be 100% owned by Air Canada. As at December 31, 2007 and the date of this Annual Information Form, ACE held a 75% ownership interest in Air Canada.

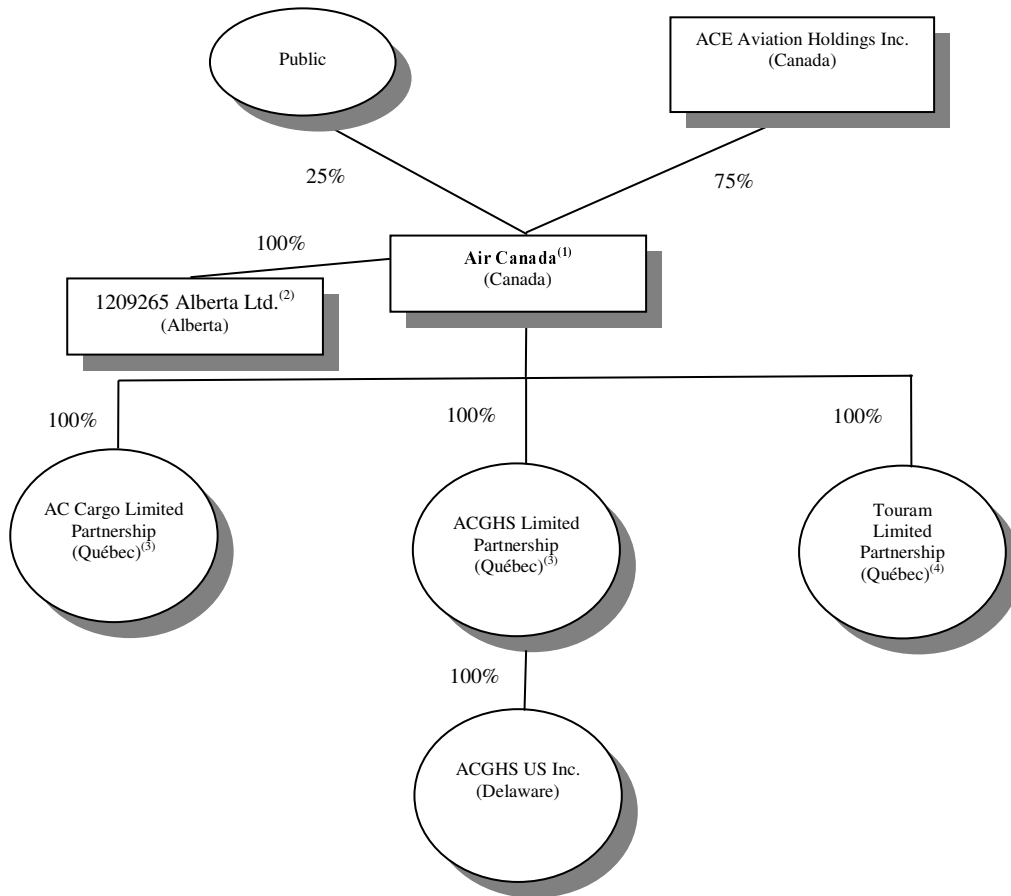
In 2007, following a request from the Canadian Transportation Agency and as approved at Air Canada’s 2007 annual and special meeting of shareholders, Air Canada amended its articles of incorporation to clarify the conformity of sections I.(e) (A) and III.(b) of Schedule A to the articles of Air Canada to the definitions of “Canadian” and “Control” used under the Canada Transportation Act (the “CTA”).

Air Canada has a \$400 million senior secured revolving credit facility pursuant to an amended and restated credit agreement entered into with a syndicate of lenders, to be used by Air Canada for working capital and general corporate purposes. As at March 28, 2008, Air Canada has not drawn on this credit facility.

The head office of Air Canada is located at 7373 Côte Vertu Boulevard West, Saint-Laurent, Québec, H4Y 1H4. Air Canada’s website address is www.aircanada.com.

Intercorporate Relationship

The following chart illustrates, on a simplified basis, the structure of Air Canada (including jurisdiction of establishment/incorporation of the various entities).



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- (1) Air Canada directly and indirectly holds all of the issued and outstanding shares of certain subsidiaries, including Air Canada Capital Ltd. and Simco Leasing Ltd., which are incorporated under the laws of the Province of Alberta.
 - (2) 1209265 Alberta Ltd. holds and manages cash and investments.
 - (3) AC Cargo General Partner Inc. and ACGHS General Partner Inc., corporations incorporated under the laws of Canada, are the general partners of AC Cargo Limited Partnership and ACGHS Limited Partnership and hold a 0.00001% interest in AC Cargo Limited Partnership and ACGHS Limited Partnership, respectively. Air Canada holds a 100% interest in each of AC Cargo General Partner Inc. and ACGHS General Partner Inc.
 - (4) Touram General Partner Inc., a corporation incorporated under the laws of Canada, is the general partner of, and holds a 0.00001% interest in Touram Limited Partnership. Air Canada holds a 100% interest in Touram General Partner Inc.

Certain subsidiaries, each of which represents not more than 10% of the consolidated assets and not more than 10% of the consolidated sales and operating revenues of the Corporation, and all of which, in the aggregate, represent not more than 20% of the total consolidated assets and the total consolidated sales and operating revenues of the Corporation at December 31, 2007, have been omitted.

REGULATORY ENVIRONMENT

In Canada, commercial air transportation, including policy, maintenance standards, operations standards, safety and ground and navigation facilities, falls wholly within the jurisdiction of the federal government and is the responsibility of the Minister of Transport. The Canadian Transportation Agency is responsible for issuing air carrier licenses for both domestic and international services and regulates international air fares as well as terms and conditions of carriage. Since 1996, NAV Canada, a private sector, non-share capital corporation financed through publicly-traded debt, is responsible for providing air navigation services in Canada. All major Canadian airports are operated by Canadian airport authorities that are not-for-profit corporations.

Domestic Services

The 1987 deregulation of the domestic airline industry allowed carriers to establish fares as well as terms and conditions of carriage without government regulation. The *Canada Transportation Act* (“CTA”) provides for free market entry to the extent that a carrier can demonstrate that (i) it is “Canadian”, defined in the CTA as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians; (ii) it can operate safely; (iii) it is suitably insured; and (iv) it meets the minimum financial requirements set out in the *Air Transportation Regulations* (Canada) adopted pursuant to the CTA.

In July 2000, the Government of Canada amended the CTA, the *Competition Act* (Canada) (the “Competition Act”) and the *Air Canada Public Participation Act* (Canada) (the “Air Canada Public Participation Act”) to address the competitive airline environment in Canada and ensure protection for consumers. This legislation included airline-specific provisions concerning “abuse of dominance” under the Competition Act, later supplemented by creating “administrative monetary penalties” for a breach of the abuse of dominance provisions by a dominant domestic air carrier.

In July 2003, the Competition Tribunal released its reasons and findings in a proceeding between the Commissioner of Canada and Air Canada which had considered the approach to be taken in determining whether Air Canada was operating below “avoidable costs” in violation of one of the new airline-specific abuse of dominance provisions. The Competition Tribunal applied a very broadly crafted cost test in its decision. In September 2004, the Commissioner of Competition published a letter describing the enforcement approach that would be taken in future cases involving the airline-specific abuse of dominance provisions, which included a statement that the Tribunal’s approach to avoidable costs remains relevant.

In addition, on November 2, 2004, the Minister of Industry tabled amendments to the Competition Act in Bill C-19 which, if enacted, would have removed the airline-specific “abuse of dominance” provisions from the Competition Act. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-19 was terminated. On October 16, 2007, private Bill C-454 containing provisions to remove the airline-specific “abuse of dominance” provisions from the Competition Act was tabled for the first reading in the House of Commons. Management cannot predict if or when such proposed legislation will come into force.

On April 27, 2004, the Government of Canada amended the *Canadian Computer Reservation Systems (CRS) Regulations* adopted under the *Aeronautics Act* (Canada) to reduce the regulatory requirements and place greater reliance on market forces in the distribution system, in part to generate greater market efficiencies and reduced costs for airlines. With the amendments, no airline is required to participate in all CRSs operating in Canada and every airline has the freedom to select the levels of participation that best serve its operations. Also, all airlines and CRS vendors are now permitted to freely negotiate fees on strictly commercial terms.

On June 15, 2006, Bill C-20, *An Act respecting airports, airport authorities and other airport operators and amending the Transportation Appeal Tribunal of Canada Act*, was tabled for first reading in the House of Commons. Bill C-20 provides for, among other things, a declaration of Canadian airport policy, a number of basic obligations of airport operators and the powers and capacity of airport authorities and the scope of their activities. Bill C-20 also introduces principles affecting airport users such as slot allocation and a framework for the fees imposed by large airport authorities. Bill C-20 was not re-introduced in the 39th Parliament – 2nd Session and Management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons or if re-introduced, if or when such proposed legislation will come into force.

On June 22, 2007, Bill C-11, *An Act to amend the Canada Transportation Act and the Railway Safety Act and to make consequential amendments to other Acts* (Canada), received royal assent and is now into force except for the provisions which seek to regulate the advertising of prices for air services. Management cannot predict if or when the provisions on the advertising of prices for air services will come into force. Bill C-11, among other things, amends the CTA with respect to the air transportation sector, in relation to complaints processes, the disclosure of terms and conditions of carriage, and specific recognition that in the event of an inconsistency or conflict between an international agreement or convention respecting air services to which Canada is a party and the Competition Act, the provisions of the agreement or convention prevail to the extent of the inconsistency or conflict.

Transborder Services

Transborder services between Canada and the United States are provided pursuant to the 1995 Canada–U.S. Air Services Agreement. This agreement gives Canadian air carriers unlimited route rights to provide “own aircraft” services between points in Canada and points in the United States. The carriage of local traffic between points within one country by carriers of the other country, commonly known as cabotage, continues to be prohibited.

Under the 1995 Canada–U.S. Air Services Agreement, carriers of both countries are free to set their own prices for transborder services according to market forces. Prices may only be disallowed under special circumstances if the authorities of both countries agree, for example in response to predatory or monopolistic pricing behaviour on specific routes. In November 1997, Canada and the United States concluded an agreement that allows Canadian and U.S. carriers to code share to, from and via each other's territory, with carriers from other countries provided the other country allows code sharing and the carriers hold the underlying rights to serve that country. Air Canada code shares with certain Star Alliance™ partners via Canada and the United States and some of these Star Alliance™ partners' codes appear on some Jazz operated transborder flights.

On November 11, 2005, Transport Canada announced that the governments of Canada and the United States had negotiated an open skies agreement (the “Open Skies Agreement”) which further liberalizes air transportation services. On March 12, 2007, the Open Skies Agreement came into force. The Open Skies Agreement allows air carriers of both countries (i) to pick up passenger and/or cargo traffic in the other country and carry that traffic to a third country as part of a service to or from the carrier's home country, (ii) to operate stand-alone all-cargo services between the other country's territory and third countries, and (iii) greater pricing flexibility for services between the other country and a third country. Cabotage, the right to operate flights between two points within the other country, remains prohibited.

International Services

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

In May 2002, the Minister of Transport introduced a liberalized multiple designation policy applicable to scheduled international air services by Canadian carriers (excluding services to the United States). Any Canadian carrier may apply to be designated to serve any foreign country regardless of the size of the air travel market. If the number of Canadian carriers permitted is restricted under existing bilateral agreements, the Canadian government will pursue negotiations with the appropriate countries to seek the necessary rights for Canadian carriers. In addition, an incumbent carrier's designation in a particular market will be subject to reallocation only in circumstances where the bilateral agreement limits designation and the carrier is not operating its own aircraft or code share services.

On November 27, 2006, the Minister of Transport released a new international air transportation policy called Blue Sky that includes a more liberalized approach to Canada's bilateral air transportation negotiations. The Government of Canada indicated that, under the new policy, it would proactively pursue opportunities to negotiate more liberalized agreements for international scheduled air transportation that will provide maximum opportunity for passenger and all-cargo services to be added according to market conditions.

Charter Services

Charter operations are generally not covered by bilateral agreements, although charter services are covered under the 1995 Canada–U.S. Air Services Agreement. Canadian government policy permits any Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities. Charter services are operated by Air Canada to provide service to foreign points where it is not the designated airline or to generate additional revenues from aircraft that would otherwise be idle.

In April 2000, the Minister of Transport announced a new policy governing international passenger charter air services. This policy removed restrictions such as advance booking, minimum stay requirements and prohibitions on one-way travel. To preserve a distinction between charter and scheduled international services, this policy retains the requirements that the entire seating capacity of an aircraft be chartered and that charter carriers be prohibited from selling seats directly to the public.

Emissions

There is heightened focus on carbon emissions emanating from the aviation industry. In December 2006, the European Commission proposed legislation to add aviation into the existing European Emission Trading Scheme (“EU ETS”), which caps carbon dioxide (“CO₂”) emissions from covered industries while allowing trading of CO₂ permits among those entities. The European Parliament supported the proposal in November 2007, but approval from the European Council is still pending. As currently drafted, the proposed legislation calls for all flights arriving or departing from a European Union airport to be covered by the EU ETS as of 2011. The EU has indicated that it remains open to amending its proposed EU ETS legislation to recognize common emissions trading schemes that may be agreed to with third countries, so long as such schemes have the same environmental benefit as the EU ETS. Management cannot predict the final form of the proposed legislation or whether or when it will come into force and the impact it may have on the Corporation’s business.

On the domestic front, on October 19, 2006, the Government of Canada tabled the *Clean Air Act* with the intention to strengthen the legislative basis for taking action on reducing air pollution and greenhouse gases (“GHG”). On October 21, 2006, the Government of Canada published in the Canada Gazette Part I, Notice of intent to develop and implement regulations and other measures to reduce air emissions. At this time, there are no specific targets for aviation emissions.

In 2005, Canada reached a voluntary agreement on the reduction of GHG emissions with its aviation industry (the “Voluntary Agreement”). This Voluntary Agreement between the Government of Canada and the members of the Air Transport Association of Canada (“ATAC”) sets out a GHG emission reduction goal on a per unit basis. ATAC members are committed to a fuel efficiency improvement target of 24% from 1990 levels by 2012 (measured in litres of jet fuel/revenue tonne kilometre). Air Canada is signatory to this Voluntary Agreement and has already surpassed the fuel efficiency improvement target set out therein. In 2006, Air Canada set its own new target to further limit the environmental impact of its fleet by improving the fuel efficiency of its fleet operations by a further 25% from 2006 to 2020.

Official Languages Act

Air Canada is subject to the *Official Languages Act* (Canada) (the “OLA”). The OLA compels Air Canada to, among other things, ensure that any member of the traveling public can communicate with and obtain services in either official language, French and English, where there is significant demand for those services in that language (Part IV of the OLA) and to allow employees to work in either official language (Part V of the OLA). In 2000, Parliament passed amendments to the Air Canada Public Participation Act to impose on Air Canada the obligation to ensure any of its subsidiaries’ customers can communicate with the subsidiary in respect of air services and incidental services, and obtain those services, in either official language, where the number of customers warrants such services.

In September 2004, as a result of the emergence of Air Canada from protection under the *Companies’ Creditors Arrangement Act* (“CCAA”), several internal divisions and former subsidiaries of Air Canada were spun off into limited partnerships under the direct or indirect control of ACE. While the linguistic obligations stated above continue to apply to Air Canada itself, ACE and the successor entities it owns are not currently subject to official language obligations, except that pursuant to the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language.

On May 2, 2005, Bill C-47, *An Act to amend the Air Canada Public Participation Act* (Canada), was tabled in the House of Commons. On November 3, 2005, Bill C-47 passed second reading and was referred to the Standing Committee on Transport. Bill C-47 sought to amend existing legislation to ensure that Air Canada's successor entities are subject to official language requirements. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-47 was terminated. On December 10, 2007, Bill C-36, *An Act to amend the Air Canada Public Participation Act* (Canada) was tabled in the House of Commons. Bill C-36 proposes provisions on official languages similar to those contained in Bill C-47. Management cannot predict if or when such proposed legislation will enter into force.

Security Initiatives

Following the September 11, 2001 terrorist attacks, the Minister of Transport issued new air security measures, including increased passenger and baggage screening and enhanced security procedures at check-in gates and on board the aircraft. Other countries such as the United States and the United Kingdom have similarly imposed additional security requirements. The safety and security of all passengers and crew members on all flights is Air Canada's priority. In response to these new measures, Air Canada reinforced the cockpit doors on all of its mainline operating aircraft and requires passengers to produce valid identification prior to boarding all flights. In December 2001, the Minister of Transport announced several security initiatives including a new Canadian Air Transport Security Authority responsible for the provision of key air security services, an expanded program of armed police on aircraft to cover selected domestic and international flights, and an air traveler's security charge. The air traveler's security charge was introduced on April 1, 2002. The charges have been revised in subsequent federal budgets. Since April 1, 2005, the maximum charge is \$10 for domestic travel and \$17 for transborder and international travel.

In October 2002, the Canadian government implemented its Advance Passenger Information initiative to identify potentially high risk individuals and address other border security issues. In March 2003, it also established a Passenger Name Record program. Canadian and foreign carriers are now required by regulation to provide the Canada Border Services Agency with specific personal information on all passengers and crew members on board international flights destined to Canada at the time of departure, as well as to provide access to passenger name records in the carriers' internal reservation systems. Foreign countries such as the United States, the United Kingdom, Australia, Mexico, South Korea, China and countries that are members of the Caribbean Community and Common Market (CARICOM) have enacted similar information requirements with respect to flights operating into and/or from their territory.

On May 6, 2004, Bill C-7, *An Act to amend certain Acts of Canada in order to enhance public safety* (known as the *Public Safety Act*, 2002) received royal assent. The legislation amends certain provisions of the *Aeronautics Act* (Canada) so as to further develop the scope and objectives of the existing national aviation security regime. The amendments include requirements for Canadian carriers and foreign carriers operating into Canada to provide, upon request, information concerning specified flights or persons to the Minister of Transport, the Royal Canadian Mounted Police and the Canadian Security Intelligence Service for transportation security or national security purposes. These amendments came into force on May 11, 2004.

Safety Initiatives

On June 15, 2005, the Minister of Transport announced regulatory amendments to further improve the safety performance of Canadian air operators and increase accountability in the aviation sector through the implementation of safety management systems. The goals of safety management systems are to increase industry accountability, to instill a consistent and positive safety culture, and to help improve the safety performance of air operators. Amendments to the Canadian Aviation Regulations require air operators to implement safety management systems in their organizations and appoint executives who are accountable for safety. These amendments came into force on May 31, 2005 and Air Canada has put in place its safety management systems in accordance with such regulations. On April 27, 2006, Bill C-6, *An Act to amend the Aeronautics Act and to make consequential amendments to other Acts* (Canada), was tabled for first reading in the House of Commons. Bill C-6 seeks, among other things, to address integrated management systems and to authorize the establishment of voluntary reporting programs under which information relating to aviation safety and security may be reported. On October 29, 2007, Bill C-7, which represents the same version of Bill C-6 as adopted by the House of Commons at Report Stage, was tabled for first reading in the House of Commons. Management cannot predict if or when such proposed legislation will enter into force.

Privacy

Air Canada is subject to applicable Canadian and foreign privacy laws regarding the collection, use, disclosure and protection of passenger and employee data. Among other things, Canada's federal private sector privacy legislation, the *Personal Information Protection and Electronic Documents Act* (Canada) (the "PIPEDA"), governs the collection, use and disclosure of personal information in the course of commercial activities by a federally regulated business. In addition, the PIPEDA regulates the handling of employee personal information by federally regulated employers. With certain exceptions, the PIPEDA also applies to the collection or disclosure of personal information across provincial or Canadian international borders and within provinces without substantially similar private sector privacy legislation. The PIPEDA requires informed consent by the individuals whose personal information is collected and used. The personal information may then only be used for the purposes for which it was originally collected or for other purposes specified in, or allowed by, the PIPEDA. Air Canada has a privacy policy which is designed to meet or exceed the requirements of such privacy legislation. Management believes that its privacy policy and practices comply with applicable laws in Canada and elsewhere.

INDUSTRY OVERVIEW AND COMPETITIVE ENVIRONMENT

General

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

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

In order to become more competitive with the low-cost carriers and as a result of the succession of challenging factors impacting the airline industry such as the events of September 11, 2001, the SARS crisis and continued high fuel prices, many North American network carriers have had to restructure either through court-supervised or consensual processes. The degree of restructuring and the changes being implemented vary from carrier to carrier. Network carriers have reduced costs and capacity by negotiating labour concessions, renegotiating aircraft financing and other contracts, rationalizing domestic capacity, and redeploying their fleet with a focus on long-haul premium business routes. In order to more efficiently operate their networks, certain network carriers have also developed extensive relationships with regional airlines, which generally operate with smaller aircraft in specific geographic areas at a lower cost than the network carriers. These measures have enabled the network carriers to increase their competitive advantages in the global marketplace. Air Canada was engaged in many changes during and after its restructuring under the CCAA in September 2004. Also, largely as a result of the strength of the Canadian economy, Air Canada has increased its domestic capacity more than the U.S. network carriers.

Domestic Market

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

According to Transport Canada, domestic revenue passengers grew at a compound annual rate of 3.5% from 1993 through 2006 and are expected to grow at a compound annual rate of 4.1% from 2006 through 2010.

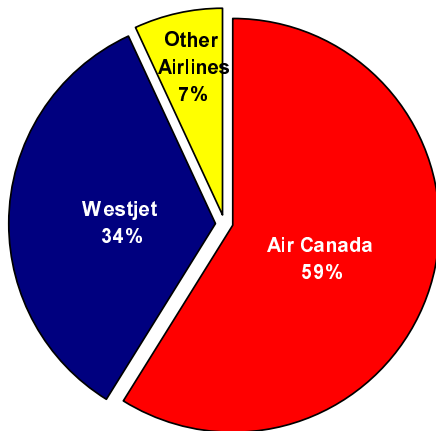
Air Canada is the largest provider of scheduled passenger services in the Canadian market. Based on Official Airline Guide (“OAG”) data, during the period from January 1, 2007 to December 31, 2007, Air Canada led the Canadian airline industry's domestic scheduled capacity with an estimated market share of approximately 59% based on Available Seat Miles (“ASMs”).

Air Canada is Canada's largest domestic airline. Jazz, which is the largest regional airline in Canada and Canada's second largest airline based on fleet size and number of routes operated, operates regional service for Air Canada under the Jazz CPA. Air Canada, together with Jazz, carries more passengers, serves more non-stop destinations and provides more flights in the domestic market than any other airline. Competition in the domestic market is primarily from WestJet. As at December 31, 2007, Air Canada, together with Jazz, serviced 57 domestic destinations within Canada, while WestJet serviced 26 domestic destinations.

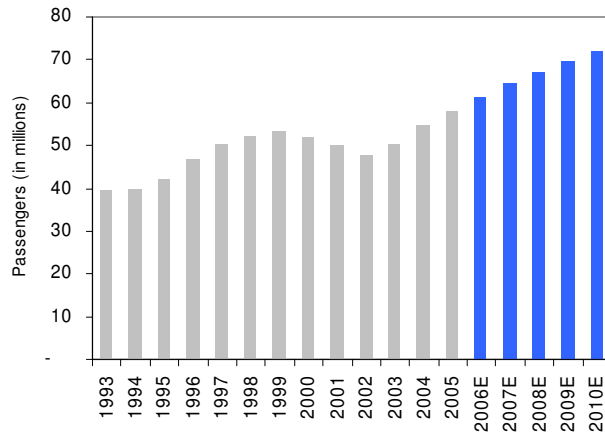
WestJet is Canada's third largest airline based on fleet size and number of routes operated. WestJet has indicated that, by the end of 2008, it is expecting to have 77 aircraft in its fleet and to increase its capacity by 16%. Canada's fourth and fifth largest airlines are Canadian North and First Air, respectively, based in Yellowknife and Iqaluit, and they operate services primarily connecting northern Canada to the rest of the country.

The following charts illustrate (i) the estimated share of the overall domestic scheduled capacity provided by Air Canada, together with Jazz, and other airlines, as measured by ASMs, and (ii) the historical and projected number of domestic revenue passengers per year.

Estimated Domestic Scheduled Capacity Market Share⁽¹⁾



Historical and Projected Domestic Revenue Passengers⁽²⁾



(1) Source: OAG data, based on ASMs during the period from January 1, 2007 to December 31, 2007. The estimated share of the overall domestic scheduled capacity of Air Canada includes the domestic scheduled capacity of Jazz.

(2) Source: Transport Canada, Aviation Forecast, July 2007. Represents enplaned and deplaned domestic revenue passengers.

Transborder Market

As at December 31, 2007, there were 1,087 daily scheduled transborder flights operated between Canada and the United States across the industry. Toronto Lester B. Pearson International Airport (“Toronto Pearson Airport”), Air Canada’s largest hub, is the world’s largest originator of flights into the United States.

According to Transport Canada, transborder revenue passengers grew at a compound annual rate of 3.2% from 1993 to 2006 and are expected to grow at a compound annual rate of 4.8% from 2006 to 2010.

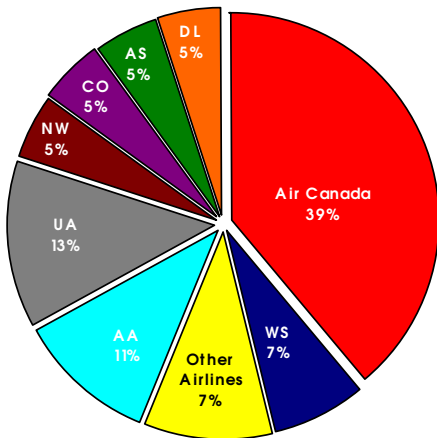
Air Canada is the largest provider of scheduled passenger services in the transborder market. Based on OAG data, during the period from January 1, 2007 to December 31, 2007, Air Canada provided more transborder scheduled capacity than any other airline with an estimated market share of approximately 39% based on ASMs.

Air Canada, together with Jazz, carries more passengers, serves more non-stop destinations and provides more flights in the transborder market than any other airline. Competition in the transborder market is primarily from U.S. network carriers and their regional affiliates, which tend to operate flights between the United States and Canada via their hubs for connecting flights. U.S. network carriers with transborder operations include Alaska Airlines, American Airlines, Continental Airlines, Delta Airlines, Northwest Airlines, United Airlines and U.S. Airways. As at December 31, 2007, Air Canada, together with Jazz, serviced 46 U.S. destinations (including five seasonal destinations) from Canada, while U.S. carriers serviced 29 U.S. destinations from Canada. In addition, one U.S. low-cost carrier, Frontier Airlines, operates service from Denver to Vancouver.

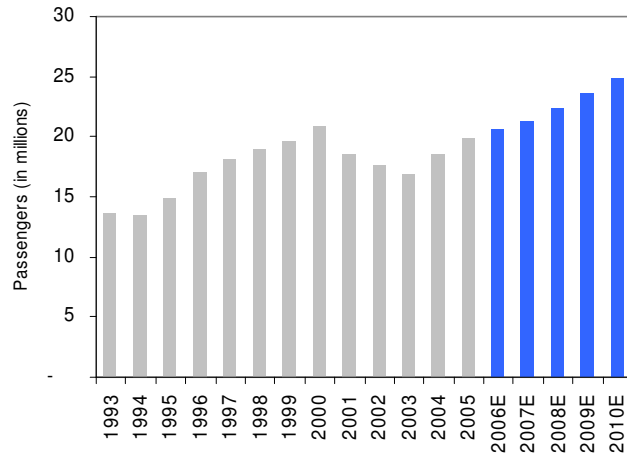
Canadian low-cost carriers also operate transborder services and have expressed an intention to expand these operations in the future. As at December 31, 2007, WestJet provided transborder services to 12 destinations in the United States.

The following charts illustrate (i) the estimated share of the overall transborder scheduled capacity of Air Canada, together with Jazz, and other airlines, as measured by ASMs, and (ii) the historical and projected number of transborder revenue passengers per year.

Estimated Transborder Scheduled Capacity Market Share⁽¹⁾



Historical and Projected Transborder Revenue Passengers⁽²⁾



(1) Source: OAG data, based on ASMs during the period from January 1, 2007 to December 31, 2007. The estimated share of the overall transborder scheduled capacity of Air Canada includes the transborder scheduled capacity of Jazz. The estimated share of the overall transborder scheduled capacity of the other carriers presented also includes the transborder scheduled capacity of their respective affiliated or contracted regional carrier(s), when applicable. AA: American Airlines; UA: UAL Corporation; NW: Northwest Airlines; CO: Continental Airlines; AS: Alaska Air Group; DL: Delta Air Lines; WS: WestJet Airlines.

(2) Source: Transport Canada, Aviation Forecast, July 2007. Represents enplaned and deplaned transborder revenue passengers.

International Market

Canadian airlines principally service the international market from three strategically-positioned airports. Toronto Pearson Airport, Canada's largest, is located in Canada's largest city and offers regular non-stop flights to numerous destinations in Europe, Central America/Caribbean/South America and, more recently, to Asian destinations. Toronto Pearson Airport offers over 510 daily departures, of which 10% are to international destinations. Montreal's Pierre Elliott Trudeau International Airport ("Montreal Trudeau Airport") is located in Canada's second largest city, and offers regular non-stop service to several European destinations and certain Central American/Caribbean and South American destinations. Montreal Trudeau Airport offers 227 daily departures, of which 10% are to international destinations. Vancouver International Airport, located in Canada's third largest city, is strategically positioned on Canada's west coast and acts as a gateway to many Asian destinations. Vancouver International Airport offers 321 daily departures, of which 7% are to international destinations.

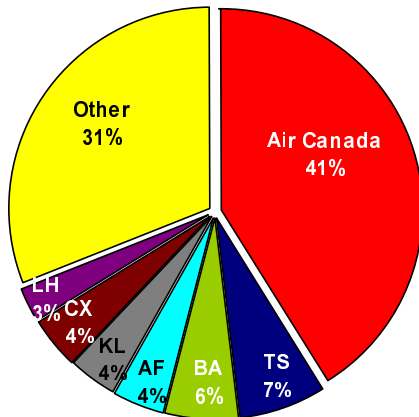
According to Transport Canada, international revenue passengers in the international market to and from Canada grew at a compound annual rate of 5.7% from 1993 to 2006 and are expected to grow at a compound annual rate of 6.3% from 2006 to 2010. According to The Conference Board of Canada, a strong Canadian dollar, growth in the Canadian economy, an interest by Canadians to visit more distant destinations, an aging Canadian population and an increase in international air capacity are key factors that will contribute to stronger growth in outbound travel spending.

Air Canada is Canada's largest provider of scheduled passenger services in the international market to and from Canada and has a broad portfolio of international route rights. Based on OAG data, during the period from January 1, 2007 to December 31, 2007, Air Canada provided more international scheduled capacity in the international market to and from Canada than any other airline with an estimated market share of approximately 41% based on ASMs. Air Canada is currently the only Canadian scheduled carrier with routes from Canada to Asia, although a number of Asian carriers service Canadian destinations. Air Canada is also the sole Canadian scheduled carrier offering flights to South America and no South American scheduled network carrier currently provides service to Canada.

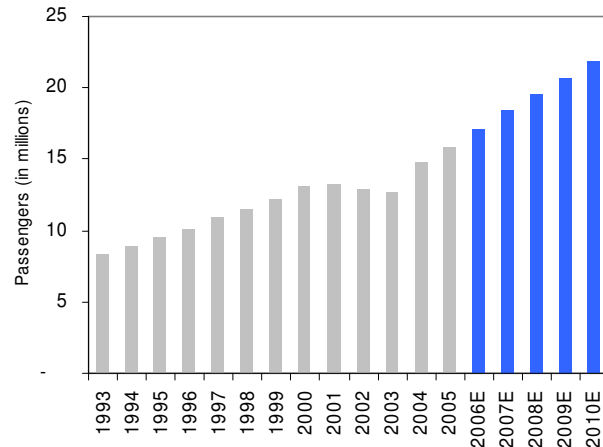
The expansion of major airline alliances, such as Star Alliance™, oneworld® and SkyTeam® has led to more efficient operations in the trans-Atlantic and trans-Pacific markets. In such markets, Air Canada competes primarily with foreign network carriers and, to a lesser extent, with charter carriers on higher density routes during peak travel seasons. In addition, U.S. network carriers compete by flying Canadian passengers through their hubs to the international market.

The following charts illustrate (i) the estimated share of the overall international scheduled capacity provided by Air Canada and other airlines as measured by ASMs, and (ii) the historical and projected number of international revenue passengers per year.

Estimated International Scheduled Capacity Market Share⁽¹⁾



Historical and Projected Revenue Passengers in the International Market to and from Canada⁽²⁾



(1) Source: OAG data, based on ASMs during the period from January 1, 2007 to December 31, 2007. BA: British Airways; TS: Air Transat; AF: Air France; KL: KLM Royal Dutch Airlines; CX: Cathay Pacific Airways; LH: Deutsche Lufthansa.

(2) Source: Transport Canada, Aviation Forecast, July 2007. Represents enplaned and deplaned international revenue passengers (excluding Canada-U.S. transborder revenue passengers).

THREE-YEAR SUMMARY: EVOLUTION OF BUSINESS

The Plan

On September 30, 2004, Air Canada and the following of its then wholly-owned subsidiaries, Jazz Air Inc., ZIP Air Inc., 3838722 Canada Inc., Air Canada Capital Ltd., Manoir International Finance Inc., Simco Leasing Ltd., and Wingco Leasing Inc. (collectively, the “Applicants”) emerged from creditor protection under the CCAA and implemented the Plan. The purpose of the Plan, together with Air Canada's new business strategy, was to restructure the capitalization, operations and cost structure of Air Canada. The Plan and the new business strategy were designed to:

- (i) reduce Air Canada's operating costs to a competitive level through the renegotiation of collective bargaining agreements, aircraft leases, property leases and various other commercial agreements;
- (ii) implement a fleet renewal program to achieve the appropriate number, size and mix of aircraft for Air Canada's route network;
- (iii) complete a restructuring of Air Canada's debt and lease obligations;
- (iv) redefine Air Canada's core product offerings to enable it to compete effectively in the current and future airline industry environment; and
- (v) reorganize Air Canada's corporate structure to enable certain key businesses to better compete for third party business and generate value for their stakeholders.

The implementation of the Plan reduced Air Canada's debt (net of cash and cash equivalents) and lease obligations (on a present value basis) to approximately \$4 billion as at December 31, 2004 compared to \$12 billion as at December 31, 2002, prior to Air Canada's filing for protection under the CCAA.

On September 30, 2004, as part of the implementation of the Plan, Air Canada reorganized its corporate structure. Pursuant to such corporate reorganization, APLN Limited Partnership (a predecessor to Aeroplan), Jazz Air Inc. (the predecessor to Jazz) and Touram Inc. (the predecessor to Touram Limited Partnership), which were already established as stand-alone entities under Air Canada, became stand-alone entities under ACE, while ACTS Limited Partnership (a predecessor to ACTS Aero Technical Support & Services Inc. ("ACTS")), Air Canada Cargo and Air Canada Ground Handling Services were established as stand-alone limited partnerships under ACE.

Pension Plan Arrangements

The solvency position of Air Canada's defined benefit registered pension plans deteriorated significantly in 2002 as a result of various macroeconomic developments, triggering a series of valuation and funding directions to Air Canada by the Office of the Superintendent of Financial Institutions ("OSFI"), the federal pension regulator, in March 2003. On September 30, 2004, after negotiations with OSFI and representatives of the pension plan stakeholders, the Air Canada Pension Plan Solvency Deficiency Funding Regulations came into effect. The regulations extended the usual five-year amortization period for solvency deficits to ten years, and provided for the making of variable annual amortization payments according to an agreed schedule rather than the usual equal annual payments. Air Canada also issued a series of subordinated secured promissory notes in the aggregate initial amount of approximately \$347 million in favour of the pension plan trustees, of which approximately \$61 million is outstanding as at January 31, 2008. The promissory notes are secured by a second priority charge over assets of Air Canada and certain of its affiliates and will be reduced by the capital portion of the solvency deficit amortization payments made by Air Canada to the pension plans in accordance with the agreed schedule. See "Risk Factors — Risks Relating to the Corporation — Pension Plans" of this Annual Information Form for additional information.

Arrangements with Unions

Following its filing for protection under the CCAA, Air Canada concluded in 2003 and amended in 2004 long-term collective agreements with the International Association of Machinists and Aerospace Workers ("IAMAW"), the Air Canada Pilots Association ("ACPA"), the Canadian Union of Public Employees ("CUPE"), the Canadian Air Line Dispatchers Association ("CALDA"), the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") and the International Brotherhood of Teamsters ("IBT"), which expire in 2009. Air Canada also concluded agreements with the Transport and General Workers Union ("TGWU") and Amicus, both in the United Kingdom, which also expire in 2009. All these labour agreements were ratified by the members of their respective bargaining units. The agreements provided for a combination of productivity improvements and wage reductions. All unconditional employment security provisions in the collective agreements were also eliminated. All scheduled bonus payments and wage increases were cancelled and all overtime is now paid at one and a half times the applicable pay rate. Air Canada also entered into "clean slate" agreements with all of its North American unions where the parties agreed to resolve, waive or compromise outstanding grievances.

These collective agreements also provided for negotiations limited to the subject of wages (and for pilots, some pension issues) in 2006, subject to mediation and binding arbitration with no strikes or lock-outs during those negotiations. In 2006, Air Canada concluded wage re-opener agreements, mediations or arbitrations under the collective agreements with all its union groups. The average of the wage adjustment agreements and awards represents an increase of approximately 5% over the three-year period from mid-2006 to mid-2009.

Embraer Purchase Agreement

In 2004, Air Canada signed a definitive purchase agreement with EMBRAER — Empresa Brasileira de Aeronautica S.A. ("Embraer") covering firm orders for 45 Embraer ERJ-190 aircraft as well as 15 Embraer ERJ-175 aircraft. The 15 Embraer ERJ-175 aircraft have all been delivered.

In 2007, Air Canada took delivery of 24 Embraer ERJ-190 aircraft for a total of 42 Embraer ERJ-190 aircraft delivered as at December 31, 2007. Since December 31, 2007, Air Canada has taken delivery of the remaining three Embraer ERJ-190 aircraft.

Boeing Purchase Agreement

In November 2005, Air Canada concluded agreements with The Boeing Company (“Boeing”) for the acquisition of up to 36 Boeing 777 aircraft and up to 60 Boeing 787 Dreamliners. The initial order for the 36 Boeing 777 aircraft was comprised of firm orders for 18 aircraft plus purchase rights for 18 more. The initial order for the Boeing 787 aircraft was comprised of firm orders for 14 aircraft plus purchase rights, options and rolling options for 46 aircraft.

During 2007, the Corporation amended agreements with Boeing to cancel orders for two Boeing 777 aircraft scheduled for delivery in 2009. In addition, the Corporation increased its order for Boeing 787 aircraft by 23, bringing its total firm orders to 37 Boeing 787 aircraft. The first delivery of the Boeing 787 firm aircraft is scheduled for 2010 and deliveries of all 37 firm aircraft are scheduled to be completed by 2014.

In 2007, Air Canada introduced five Boeing 777-300ER aircraft and three 777-200LR aircraft into its fleet. Since December 31, 2007, an additional three Boeing 777-200LR aircraft and one Boeing 777-300ER aircraft were added to the fleet for a total of 12 Boeing 777 aircraft delivered to date.

OVERVIEW OF THE BUSINESS

Air Canada is Canada's largest domestic and international airline and 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.

Air Canada enhances its network through the Jazz CPA pursuant to which it purchases substantially all of Jazz's fleet capacity based on predetermined rates and Air Canada determines the routes and schedule operated by Jazz. Jazz operates small jet and turboprop aircraft that have lower trip costs than conventional large jet aircraft, allowing Jazz to provide service to Air Canada's customers in lower density markets and also in higher density markets at off-peak times throughout markets in Canada and the United States.

In 2007, Air Canada, together with Jazz, operated, on average, approximately 1,370 scheduled flights each day and carried over 33 million passengers in the domestic, transborder and international markets. Air Canada, together with Jazz, provided direct passenger service to 158 destinations and, through commercial agreements with other regional airlines, to an additional 14 destinations, for a total of 172 direct destinations on five continents.

Air Canada is a founding member of the Star Alliance™ network. The Star Alliance™ network includes 19 member airlines and three regional member airlines. Through its membership in the Star Alliance™ network, Air Canada is able to offer its customers access to approximately 897 destinations in 160 countries, as well as reciprocal participation in frequent flyer programs and use of airport lounges.

Through its long-term relationship with Aeroplan, Air Canada's frequent flyer program provider, Air Canada is able to build customer loyalty by offering those customers who are Aeroplan® members the opportunity to earn Aeroplan® miles when they fly with Air Canada. Aeroplan is also Air Canada's single largest customer. The relationship with Aeroplan provides a long-term stable and recurring source of revenue from the purchase by Aeroplan of Air Canada seats to be provided to Aeroplan® members who choose to redeem their Aeroplan® miles for air travel rewards.

The Corporation also generates revenues from cargo services provided by Air Canada and Air Canada Cargo, from tour operator services provided by Air Canada Vacations and from ground handling services provided by Air Canada Ground Handling Services.

Air Canada's Business Strategy

Air Canada's business model allows it to compete more effectively on multiple levels against the low-pricing structures offered by low-cost carriers and the extensive services and networks of leading international full service carriers. Air Canada's strategy is based on the following components, each of which is further described below:

- Leverage its Innovative Customer Driven Revenue Model;
- New Developments in its Innovative Revenue Strategy;
- Continue to Improve its Cost Structure;
- High Degree of Web Penetration;
- Potential for International Route Expansion;
- Multi-hub Strategy and Seamless Transfers at Toronto;
- Enhance its Product Offering through a Redesigned Network and a Renewed Fleet;
- Leverage its Technology for Enhanced Customer Service and Cost Containment; and
- Maintain Positive Employee and Labour Relations.

Leverage its Innovative Customer Driven Revenue Model

The cornerstone of Air Canada's strategy is to leverage its innovative revenue model. Since its introduction, the revenue model has contributed to higher passenger load factors, improved RASM and increased cost efficiency for Air Canada.

Air Canada is an industry leader in offering transparent pricing and simplified branded fares in an industry which has been characterized by multi-tiered fare structures with complex rules and restrictions. Air Canada believes this strategy has contributed to its achieving both record passenger load factors and RASM improvements. Air Canada's transparent and simplified branded fare structure has given its customers the ability to pay for higher branded fares and enjoy the attributes which come with that fare or purchase a lower branded fare and then purchase selected attributes which typically are attached only to higher branded fares. This has allowed Air Canada to match the lowest fare in the markets in which it operates and maintain revenue premiums from customers who are willingly purchasing higher fares. For 2007, 45% of Air Canada's domestic customers chose a branded fare higher than Tango, Air Canada's lowest fare.

New Developments in its Innovative Revenue Strategy

In the drive to provide new and unique products that customers can only find at Air Canada, work continues to expand the offering of Flight Pass™ products, "subscriptions" and "à la carte" pricing options tailored to different segments of the marketplace. Flight Pass™ products provide Air Canada customers with the ability to lock-in their cost of travel through advance purchase of multiple segments within a defined geographic area. This product is gaining popularity with large corporations as well as with small businesses and families who value the set price and more importantly the flexibility and ease of use. "Subscriptions" to travel are another Air Canada innovation, which allow unlimited travel within a geographic area, subject to certain conditions, for a set flat fee. "Subscriptions" provide flexibility and ease of use. Both the Flight Pass™ and "subscription" products have also provided cost savings to Air Canada through reduced sales and servicing costs.

In 2007, Air Canada continued to further expand the offering of Flight Pass™ products and "subscriptions" payment options for fixed credit Flight Pass™ products and unlimited travel, respectively. The launch of the Hong Kong/China Pass™ and the expanded Sun Pass™ products significantly enlarged the geographical reach of the Flight Pass™ product. New Flight Pass™ concepts and increased penetration in the small and medium enterprise and corporate market has allowed the Corporation to generate additional revenues from higher customer satisfaction, brand preference and share of travel spend. Starting with a new Flight Pass™ shopping environment on www.aircanada.com launched in January 2008, Air Canada is planning to continue to roll out new Flight Pass™ products in order to provide customers with more travel options, geographical reach and purchase flexibility.

“À la carte” options provide customers with the ability to customize their purchase by selecting the items for which they would like to pay, or not. Examples of “à la carte” options include, checked baggage, advance seat assignment, Aeroplan® miles and Maple Leaf lounge access, among others. In 2008, Air Canada is planning to roll out new value added services and “à la carte” options. The “à la carte” options generate higher incidental revenues and higher customer satisfaction resulting in brand preference.

Continue to Improve its Cost Structure

Air Canada's business strategy is focused on continuously evaluating and improving its cost structure to remain highly competitive. Air Canada's fleet renewal program is providing cost efficiencies through fuel and maintenance savings driven by more efficient aircraft being brought into the fleet. For example, the Boeing 777-300 aircraft has generated a 15% cost saving per seat as compared to the Airbus 340-300 aircraft. In addition, at the same time as new aircraft are being added to its fleet, Air Canada is removing older less efficient aircraft.

Air Canada continues to seek means to offset increased fuel prices by negotiating competitive fuel rates from its suppliers and implementing fuel saving initiatives throughout its operations. The continued implementation of its fuel efficiency program which includes weight reduction initiatives and optimum flight speed and altitude guidelines to maximize fuel savings without affecting on-time performance or passenger connections is providing cost savings to the Corporation.

In addition, in order to manage its exposure to jet fuel prices and minimize volatility in operating cash flows, the Corporation continues to focus on its structured fuel hedging program.

High Degree of Web Penetration

Air Canada's transparent pricing strategy and its user friendly web platform have contributed to a high level of web penetration which in turn has allowed Air Canada to reduce its distribution costs. Air Canada maintains two websites, one for consumers and the other for travel agencies. Both websites offer the same unique products. Web penetration for domestic Canada sales in 2007 was 63%, a 10 percentage point increase from 2006. Web penetration for combined domestic Canada and U.S. transborder passenger sales was 52%, an 11 percentage point increase over 2006. In 2007, 73% of domestic Canada bookings or 61% when combined with U.S. transborder sales were made directly with Air Canada, either online or through call centres.

Customers continue to benefit from the ability to check into Air Canada flights departing from any Canadian city and from select U.S. and select international cities up to 24 hours prior to departure by using the web check-in facility provided on the Air Canada website. This has allowed Air Canada to generate cost savings while increasing customer satisfaction.

Air Canada's application programming interface, referred to as ac2u, allows third party booking platforms to access Air Canada's full range of products and attributes, including Flight Pass™ and “à la carte” pricing, in a simple, industry standard format, while maintaining the branded integrity of the product. This extends the reach of Air Canada's new revenue model further than what could be obtained by www.aircanada.com alone. The implementation of the multi-year agreement announced on August 17, 2007 between Galileo International LLC (“Galileo”) and Air Canada to provide Galileo-connected Canadian travel agents access to Air Canada's full range of products and attributes via ac2u is expected to continue the growth of Air Canada's direct distribution to both consumers and travel agents.

Air Canada continues to distribute a subset of its products through the traditional GDS/CRS channels.

Potential for International Route Expansion

Air Canada believes that Canada's multi-ethnic demography provides Air Canada with growing demand for international travel. Coupled with the large number of unused route authorities, Air Canada believes it is well poised for growth in the Canada-international market. Air Canada expects to serve new international destinations and to expand its existing services to international destinations, including by leveraging capacity growth using the Star Alliance™ network.

Multi-hub Strategy and Seamless Transfers at Toronto

Air Canada uses four main hubs (Toronto, Montreal, Vancouver and Calgary) across Canada for its domestic, transborder and international routes. Being geographically well positioned, Air Canada believes that all four hubs provide natural advantages to serve customers traveling to or from the United States to Asia and Europe. Since the opening on January 30, 2007 of the latest development at Toronto Pearson Airport, Air Canada operates all of its domestic, transborder and international flights from Terminal 1. All Air Canada flights are gated at Terminal 1, with the exception of some Air Canada Jazz commuter flights to the United States, which are gated at Pearson Airport's East Satellite Terminal. This is a major improvement from the prior challenges of checking out of Terminal 2 and checking into Terminal 1 or vice-versa. The consolidation of Air Canada's Toronto operations into one terminal, in one of North America's newest and most convenient facilities from which to travel internationally, provides Air Canada with the ability to more seamlessly transfer passengers to and from the United States to Europe and Asia, thus increasing customer satisfaction while generating cost savings.

Enhance its Product Offering through a Redesigned Network and a Renewed Fleet

Within North America, Air Canada adopted a demand-based network strategy. This resulted in offering improved frequencies on key routes, maintaining competitive frequencies on other routes and introducing new non-stop routes thus serving its customers to destinations where such demand was expected. Air Canada is implementing its network redesign in the North American market through the use of large regional jet aircraft which have lower trip costs than conventional narrowbody aircraft.

In order to support the expansion of its international operations and deliver a superior aircraft product in the international market to and from Canada, Air Canada is progressively introducing Boeing 777 aircraft into its fleet. In 2007, Air Canada introduced eight Boeing 777 aircraft into its fleet. In 2008, Air Canada plans to take delivery of an additional nine Boeing 777 aircraft, four of which have already been delivered. The new Boeing 777 aircraft is allowing the Corporation to modernize and re-size its fleet and reduce operating costs through fuel and maintenance savings in addition to gaining greater manpower efficiency and economies of scale. The Boeing 777-300 aircraft has generated a 15% cost saving per seat as compared to the Airbus 340-300 aircraft. This new aircraft is also providing Air Canada with the ability to serve new markets that could not be previously served in an efficient manner.

To remain competitive, in addition to acquiring new aircraft, Air Canada commenced a refurbishment of the interior of its existing aircraft in 2006 in order to offer its customers a world class product. The new Embraer and Boeing 777 aircraft are being delivered with the new seats and entertainment systems. Air Canada continues to refurbish aircraft that fly international routes so that all seats in the Executive First cabin will convert into lie-flat beds. Its Boeing 767-300 aircraft and its Airbus A319/320/321 aircraft are scheduled to have refurbished interiors by June 2008. The Airbus A330 aircraft are expected to be completed by early 2009. Refurbished aircraft will have new seats and personal in-flight entertainment systems and in-seat power outlets at every seat in Economy Class, Executive Class and Executive First. As at March 28, 2008, Air Canada has completed the refurbishment of 31 Airbus A319 aircraft, 33 Airbus A320 aircraft, 10 Airbus A321 aircraft and 15 Boeing 767-300 aircraft to date, for a total of 89 aircraft.

As at March 28, 2008, Air Canada has completed its fleet transition to the planned 60 Embraer aircraft which have been deployed to open new markets and to add frequencies in previously single daily markets. Air Canada is planning on adding eight new routes in North America in the summer of 2008.

In 2007, in comparison with 2006, Air Canada added 3% more flights on international routes, mainly composed of new non-stop and expanded services on the Atlantic market from western Canada, Maritimes to London and seasonal Montreal-Rome, and by a 10% increase in flights to sun markets such as the Dominican Republic and Mexico. The Corporation's strategy for the Pacific market is to operate new and larger Boeing 777 aircraft on the key routes from Toronto to such destinations as Japan and China. By the end of 2008, Air Canada is scheduled to have received 17 of its planned 18 Boeing 777 aircraft, with which it expects to continue to expand its international presence. Air Canada's plans for the China and broader Asia market are to deploy Boeing 777 aircraft on all Toronto services and gradually increase frequencies. Current route authorities between Canada and China would allow Air Canada to add additional non-stop routes and, with the planned delivery of Boeing 787 aircraft starting in 2010, the Corporation may consider opportunities to add new markets in the broader Asia-Pacific region. With its Star Alliance™ partner Lufthansa, Air Canada is planning to increase by 19% its capacity to the German market in

the summer peak of 2008. Air Canada is also planning to add new destinations such as Ottawa–Frankfurt and Toronto–Madrid to enhance its year-round presence in business markets in Europe.

Leverage its Technology for Enhanced Customer Service and Cost Containment

New Reservation System

A new web-enabled reservation system is being developed to replace Air Canada's legacy systems for passenger reservation and airport customer service. The new system, named POLARIS, is designed to be innovative, flexible and cost effective and to allow Air Canada to facilitate and streamline the reservation and travel processes for both its customers and employees. It is also designed to provide Air Canada with the capability to bring new, innovative products to market faster, and to enhance customer experience.

One new feature being designed into the system is a customer profile database which will act as a central repository of customer information. This will provide new opportunities in improving customer service delivery. Another new feature under development is a customer account database where flight credits can be stored and compensation delivered. This will produce a solution for unused credits and enhance customer loyalty.

These and other features are designed to enhance the reservation system experience for both customers and employees. Customers' experience will include simplified steps, self-service options, expanded choice and personalization, clear value and transparency, and consistency across touch points, airports and countries. Employees' experience will include simplified steps, an intuitive easy-to-learn and operate interface and consistency across touch points. These features will reduce the time and effort required to complete transactions and increase the ability to engage in more direct customer contact and service.

The POLARIS system is being implemented in phases. The first phase of implementation which involves the roll out of a web-based document management system for all policies and procedures is currently underway and the initial pilot for this first phase launched at one of Air Canada's call centres was successful. The roll out of this tool is expected to take place during the first and second quarters of 2008. The next two phases involve rolling out the reservation system and an airport control system and the Corporation is currently evaluating the timeline for their completion.

Self-service Check-in

In 2007, Air Canada continued to take steps to provide passengers self-service products such as mobile check-in, web check-in and self-tagging via airport kiosks. This has allowed the Corporation to simplify the business processes and enhance the travel experience for its customers while generating cost savings. Mobile check-in and web check-in are available at all Canadian airports, as well as in 26 international stations and 32 U.S. stations. Self-tagging of baggage at airport kiosks is also available in three Canadian airports. In the latter part of 2007, Air Canada became one of the first airlines in the world to introduce paperless mobile boarding passes and Air Canada continues to focus on the elimination of paper tickets.

In 2008, Air Canada plans to expand the self-tagging service at all major Canadian airports and also at select international stations. Enhancements to its self-service applications, such as fee collection for excess baggage and new languages at airport kiosks, are also planned. Other Canadian and international stations will see the introduction of airport kiosks and new baggage drop-off positions. Air Canada plans to continue the expansion of its mobile and web check-in product and, in the first half of the year, Air Canada plans to introduce a mobile boarding pass pilot in the United States. Finally, with the expected enhancements to its flight notification product, Air Canada will be able to provide customers with more information with respect to changes to their travel plans.

NetLine

The legacy technology of Air Canada's current flight operations systems is being replaced by the NetLine system, an integrated software suite. The new system is designed to enable Air Canada to enhance operational efficiencies by providing better real time operational information. Furthermore, NetLine will allow for an easier and

more cost effective adaptation to changes in Air Canada's operational needs by leveraging new generation technology.

Maintenance and Engineering System

Online Aircraft Support Integrated Solution, or OASIS, is a corporate initiative to upgrade the current legacy maintenance and engineering system. The maintenance and engineering system provides the Corporation with fleet status and maintenance planning; the technical records of the fleet; configuration control and airworthiness compliance; and materials management and planning.

With the increasing complexity of today's operations, the decision was made to replace the existing applications with a cost-competitive and integrated platform. The platform is designed to provide the functionality required by Air Canada's maintenance division as well as a product foundation which can be leveraged to implement future enhancements. It is also designed to provide Air Canada with improved aircraft availability, resource and asset efficiencies and management information while reducing information technology expenses.

In 2008, Air Canada begins the design phase of the project with anticipated roll-out of the new system beginning in early 2009 and subsequent releases through the remainder of 2009.

Maintain Positive Employee and Labour Relations

In 2005, Air Canada introduced incentive programs and a profit sharing plan in order to engage employees in their valuable role to ensure Air Canada's success. The "Sharing Our Success" Plan emphasizes the relationship between performance and personal rewards by providing employees with financial rewards on a monthly basis when operational performance levels are achieved. The plans also permit employees to share in the fiscal year-end pre-tax profits when corporate, financial and operational performance levels are achieved. In each case, employees receive the greater of the amounts payable under the "Sharing Our Success" Plan and the annual profit sharing plan. In 2007, a total of \$29.2 million was paid under the "Sharing Our Success" Plan.

As part of Air Canada's ongoing objective to improve overall employee relations throughout the organization, Air Canada completed a two-day training program for substantially all management employees, including executive and senior management. Called "Relationship Matters", this program focused on skills training around the principles of leadership, effective communication and taking ownership and accountability for one's own area of responsibility. A survey of participants has shown that a majority of participating managers felt that the training has enhanced their leadership and communication skills and behaviour and has improved the communication at all levels within the organization. Air Canada is offering this program to its frontline unionized employees in lead functions in the first quarter of 2008.

In the latter part of 2007, Air Canada commenced a second training program that focuses on the institutional relationships between Air Canada and its unions. Called "Labour Relationships Matter", this program provides participants with knowledge, skills and tools to build and maintain authentic and constructive relationships with union representatives and unionized employees in accordance with Air Canada's labour relations philosophy. Executive management has completed the training and, over the course of the first two quarters of 2008, all management employees including senior management will participate in the program.

In addition, Air Canada conducted an extensive survey of its employee population, with focus groups and telephone interviews conducted by an independent market research firm called "The Strategic Counsel". The survey was designed to identify the most significant and prevalent employee concerns to enable Air Canada to proactively address these concerns wherever possible in order to benefit its employees, employee relations and its operations.

As part of Air Canada's continued focus on employee communication, Air Canada has initiated a new employee communication medium. Supplementing the "Employee Annual Report" launched in 2006, the "Employee Mid-Year Report" provides all employees with a timely update on the progress of all aspects of Air Canada's business strategy.

Air Canada's Main Environmental Objectives

Air Canada is mindful of the impact that its use of energy and natural resources has on the environment. To minimize the generation of waste as well as the emission of carbon dioxide and other greenhouse gases, Air Canada has developed an environmental management system based on principles of the International Organization for Standardization standard ISO 14000. Providing a continual cycle of planning, implementation and review, Air Canada's environmental management system ensures continuous improvement in its efforts towards meeting its main environmental objectives.

Air Canada's main environmental objectives are as follows:

- optimize energy consumption and minimize emissions resulting from air and ground operations including aircraft maintenance;
- minimize noise from aircraft operations;
- ensure efficient use of resources, minimal waste generation and appropriate waste disposal;
- respond effectively to accidental release of potentially harmful or hazardous substances and eliminate the future occurrence of similar events; and
- promote sound environmental management policies and practices throughout the Corporation.

BUSINESS OF AIR CANADA

Prior to May 24, 2007, Air Canada had two reportable operating segments: Air Canada Services (now referred to as Air Canada) and Jazz. Segment information was used to allow for the separate presentation of Air Canada's results. The table below sets forth the relative financial result of each business activity for the year ended December 31, 2007:

<i>(in millions)</i>	AIR CANADA			
	YEAR ENDED DECEMBER 31, 2007			
	Air Canada	Jazz⁽¹⁾	Inter-Segment Elimination	Consolidated Total
Operating Revenue				
Passenger Revenue	\$9,329	\$ -	\$ -	\$9,329
Cargo Revenue	550	-	-	550
Other Revenue ⁽²⁾	717	3	-	720
External Revenue	10,596	3	-	10,599
Inter-segment Revenue	50	610	(660)	-
	10,646	613	(660)	10,599
Total Revenue.....	10,646	613	(660)	10,599
Operating Expenses	10,213	551	(660)	10,104
Operating Income	\$ 433	\$ 62	\$ -	\$ 495

(1) Jazz is consolidated within Air Canada's financial statements under Accounting Guideline 15 — Consolidation of Variable Interest Entities only up to May 24, 2007. Effective May 24, 2007, the results and financial position of Jazz are no longer consolidated within Air Canada. See the section "Presentation of Segment Information" of this Annual Information Form for additional information.

(2) Other revenue includes revenues from the sale of the ground portion of vacation packages, ground handling services and other airline-related services.

The table below sets forth the proportions of passenger revenues derived from domestic, transborder and international services of Air Canada for the years ended December 31, 2007 and December 31, 2006.

	Air Canada	
	Passenger Revenues (%)	
	for the years ended December 31	
	2007	2006
Domestic	43	41
Transborder	20	21
International	37	38
Total	100%	100%

Routes and Schedules

Air Canada

Air Canada (excluding Jazz) operates, on average, approximately 600 average daily departures to 14 destinations in Canada, 29 destinations in the United States and 55 destinations in the Canada–Europe, Canada–Pacific, Canada–Caribbean/Central America and Canada–South America markets. Domestic, transborder and international departures account for 51%, 31% and 18%, respectively, of the approximately 600 average daily departures. Air Canada's current route network extends to 40 countries and territories.

In 2007, Air Canada, together with Jazz, operated on average approximately 1,370 scheduled flights each day and carried over 33 million passengers annually in the domestic, transborder and international markets. Air Canada, together with Jazz, provided direct passenger service to 158 destinations and, through commercial agreements with other regional airlines, to an additional 14 destinations, for a total of 172 direct destinations on five continents.

Air Canada's hubs are located in Toronto, Vancouver, Montreal and Calgary, each of which has extensive access to domestic, transborder and the international markets.

Toronto Pearson Airport is the largest hub in Canada and a significant airline origin and destination market in North America. For the year ended December 31, 2007, Air Canada operated on average 183 daily departures from Toronto. Vancouver International Airport is the second largest hub in Canada and is Air Canada's gateway to the Pacific Rim. For the year ended December 31, 2007, Air Canada operated on average 65 daily departures from Vancouver. Montreal Trudeau Airport is the third most important hub in Air Canada's network. For the year ended December 31, 2007, Air Canada operated on average 61 daily departures from Montreal. Calgary International Airport is Air Canada's fourth largest hub. For the year ended December 31, 2007, Air Canada operated on average 41 daily departures from Calgary.

Domestic Services

As at December 31, 2007, Air Canada, together with Jazz, provided the largest network and most extensive product offering in Canada, with scheduled direct passenger service to 57 Canadian destinations. The most important Canadian routes, in terms of operating revenues, are the transcontinental routes linking Toronto, Montreal and Ottawa with major Western Canadian cities, including Vancouver, Calgary, Edmonton and Winnipeg. Air Canada, together with Jazz, operates a large number of short-haul routes, including Rapidair® routes, linking Toronto, Montreal and Ottawa. Air Canada also offers frequent service linking major centres within Western Canada, and operates numerous flights between Calgary and Vancouver and between Calgary and Edmonton. In addition to transcontinental and commuter routes, Air Canada, together with Jazz, provides service between and within Central Canada, the Prairies and the Atlantic provinces.

Regional carriers, having commercial agreements with Air Canada, replace Jazz in markets not sufficiently large enough to be served directly. These airlines operate flights under Air Canada's designator code and, as at December 31, 2007, provided service to an additional eight domestic destinations. Air Canada does not own equity interests in any of these carriers.

Transborder Services

With the most non-stop destinations and flights from Canada to the United States, Air Canada, together with Jazz, carries more passengers between Canada and the United States than any other airline. Air Canada, together with Jazz, directly served 46 U.S. destinations (including five seasonal destinations) as at December 31, 2007. Air Canada's network reach is also increased by its extensive connections to, and code sharing flights with, United Airlines, one of its Star Alliance™ partners, and its United Express carriers.

During the fourth quarter of 2007, Air Canada increased the number of its flights from Eastern Canada to California, Florida and along the U.S. west coast. Air Canada added 7% more non-stop California long-haul flights and flew 4% more non-stop flights to Florida. Air Canada also added 22% more flights from Vancouver, Calgary and Edmonton to U.S. west coast cities such as Seattle, San Francisco and Los Angeles.

In summer 2008, Air Canada is planning to offer new non-stop flights from Toronto to Austin, Toronto to Richmond, Ottawa to Washington DCA, and resume service from Calgary to Chicago. As at December 31, 2007, regional carriers, operating flights under Air Canada's designator code, provided service to an additional seven U.S. transborder destinations.

International Services

Air Canada is well positioned as Canada's largest scheduled international airline. As at December 31, 2007, Air Canada provided scheduled service directly to 55 destinations in Europe, the Middle East, Asia, Australia, the Caribbean and Central America and South America.

Air Canada offers year-round trans-Atlantic services to the United Kingdom, Germany, France, Italy, Switzerland and Israel, and seasonal services to Ireland. In the summer of 2007, Air Canada operated 15 daily flights to London Heathrow, five daily flights to Frankfurt, one daily flight to Munich, three daily flights to Paris and two daily flights to Rome. In summer 2008, Air Canada is planning to operate new non-stop flights from Toronto to Madrid and Ottawa to Frankfurt, and to increase Toronto to Tel Aviv service to daily operations.

Air Canada also offers services to the Asia-Pacific market via its Vancouver and Toronto hubs. Air Canada operates non-stop flights to Japan (Vancouver and Toronto to Tokyo and Vancouver to Osaka), China (Vancouver and Toronto to Beijing, Shanghai and Hong Kong) and Korea (Vancouver and Toronto to Seoul). In 2008, a key area of capacity growth for the Corporation is expected to be China. China has overtaken the traditionally strong Japan market in terms of capacity deployment in the Pacific region for Air Canada. Air Canada is planning to increase capacity to China by 13% in 2008, based on ASMs. Air Canada has maintained its non-stop flights from Toronto to Shanghai for winter 2008 and plans to continue these flights for winter 2009.

In addition to targeting business travelers, these services also capitalize on the high volume of passengers who visit friends and relatives in Asia and Canada. Air Canada believes that the Asia-Pacific market continues to represent an area of growth for air travel.

Air Canada has also expanded its services to South America, Australia and Central America/Caribbean. Air Canada currently provides service directly to six destinations in South America, one in Australia, seven in Central America and 23 in the Caribbean. In December 2007, Air Canada started to operate Vancouver to Sydney non-stop flights with Boeing 777 aircraft. In the fourth quarter of 2007, Air Canada added 6% more flights year-over-year to the Mexico/Caribbean markets and 8% year-over-year to South America. For summer 2008, Air Canada is planning to operate daily flights to Buenos Aires/Santiago.

Jazz

Jazz is an integral part of Air Canada's North American strategy. Jazz operates both domestic and transborder services for Air Canada under the Jazz CPA. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 720 average daily departures to 59 destinations in Canada and 31 destinations in the United States. Domestic and transborder departures account for 79% and 21%, respectively, of the 720 average daily departures. Approximately 34% of Jazz's traffic connects to Air Canada's mainline network.

The route network operated by Jazz extends coast to coast in Canada from British Columbia to Newfoundland and Labrador, into the United States as far south as Houston, Texas, and as far north as Whitehorse, Yukon and Yellowknife, Northwest Territories. The route network operated by Jazz represents one of the largest geographical territories of any regional carrier in the world today.

For a description of the Jazz CPA, see “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS – Relationship between Air Canada and Jazz – Capacity Purchase Agreement with Jazz” of this Annual Information Form.

Aircraft Fleet

See the section “Overview of the Business – Air Canada's Business Strategy – Enhance its Product Offering through a Redesigned Network and a Renewed Fleet” of this Annual Information Form for a description of the Corporation's fleet renewal program.

Widebody Aircraft Fleet

Current Fleet of Widebody Aircraft

As at December 31, 2007, Air Canada's operating widebody fleet was comprised of 62 aircraft, each configured in two classes of service: Executive First or Executive Class, and Economy Class. The Airbus A330-300 aircraft is a 274-seat aircraft twin-engine aircraft that Air Canada operates mainly on trans-Atlantic routes. The Airbus A340-300 aircraft is a 286-seat four-engine aircraft that Air Canada operates on Pacific routes. The Boeing 777-300ER aircraft is a 349-seat twin-engine aircraft used mainly on international routes. The Boeing 777-200LR aircraft is a long-range 270-seat twin-engine aircraft used mainly on international routes. The Boeing 767-300ER aircraft is a long-range 191-212-seat aircraft used mainly on international routes. The Boeing 767-200 aircraft is a 207-seat aircraft used primarily on North American and Caribbean routes. The Airbus A340-500 aircraft is a four-engine aircraft that Air Canada operated mainly on international routes. Since late October 2007, Air Canada has no Airbus A340-500 aircraft in its operating fleet.

Boeing Orders and Financing Terms

In November 2005, Air Canada concluded agreements with Boeing for the acquisition of up to 36 Boeing 777 aircraft and up to 60 Boeing 787 Dreamliners. The initial order for the 36 Boeing 777 aircraft was comprised of firm orders for 18 aircraft plus purchase rights for 18 more. The initial order for the Boeing 787 aircraft was comprised of firm orders for 14 aircraft plus purchase rights, options and rolling options for 46 aircraft. In conjunction with the initial agreements, Air Canada received financing commitments from Boeing and the engine manufacturer for all firm aircraft orders covering up to 90% of the capital expenditure.

During 2007, the Corporation amended agreements with Boeing to cancel orders for two Boeing 777 aircraft scheduled for delivery in 2009. In addition, the Corporation increased its order for Boeing 787 aircraft by 23, bringing its total firm orders to 37 Boeing 787 aircraft. The first delivery of the Boeing 787 firm aircraft is scheduled for 2010 and deliveries of all 37 firm aircraft are scheduled to be completed by 2014. As at March 28, 2008, 18 purchase rights for Boeing 777 aircraft and 23 options for Boeing 787 aircraft remain exercisable. In January 2008, Boeing announced a delay in the production of its first Boeing 787 aircraft from the end of the first quarter of 2008 to the end of the second quarter of 2008 due to production delays. The Corporation has not been notified that its Boeing 787 deliveries have been affected, however, Air Canada continues to consult with Boeing to monitor the situation.

In conjunction with the amended agreements, the Corporation received additional financing commitments from Boeing for seven of the additional Boeing 787 aircraft (21 Boeing 787 aircraft in total) on the same terms and conditions as those provided by Boeing and the engine manufacturer. Should the Corporation not utilize any of the financing commitments on the Boeing 777 aircraft, the financing commitments for the Boeing 787 aircraft will be increased to 31 aircraft of which the terms for 28 aircraft would be revised to cover 80% of the aircraft delivery price and the term to maturity would be reduced to 12 years with straight-line principal repayments over the term to maturity.

As at December 31, 2007, seven of the Boeing 777 firm aircraft under the purchase agreement with Boeing had been delivered with the remaining nine firm deliveries expected to be delivered by November 2008. The first seven aircraft were financed under a loan guarantee facility with the Export-Import Bank of the United States (“EXIM”). All of the nine Boeing 777 firm aircraft deliveries expected in 2008 have commitments for loan guarantee support to be provided by EXIM which was signed in January 2008. The loan guarantee, subject to certain conditions, covers a 12-year loan term for 85% of the capital expenditure at an interest rate based on a floating rate. This loan guarantee from EXIM is expected to be used instead of the financing commitments provided by Boeing and the engine

manufacturer described above. As a result, it is not expected that any of Boeing's and the engine manufacturer's financing commitments for the Boeing 777 aircraft will be utilized. The Corporation intends to use the EXIM loan guarantee facility for only five aircraft in 2008 given that four aircraft will be financed using sale and leaseback transactions. As at March 28, 2008, four Boeing 777 were delivered in 2008, one of which has been financed under the EXIM facility with the other three subject to sale and leaseback transactions.

On October 30, 2007, the Corporation entered into an agreement with a syndicate of banks for the financing of pre-delivery payments ("PDP") for 10 Boeing 777 aircraft contemplated in the Corporation's purchase agreement with Boeing. The PDP financing is a series of loans that are aircraft specific with a maximum aggregate commitment of up to \$568 million (U.S.\$575 million). The PDP loans have a term of five years, but may be prepaid upon the delivery of the aircraft without penalty. Air Canada has already prepaid the PDP loans on the first five aircraft delivered between November 2007 and March 2008. In addition, Air Canada has served notice to the PDP syndicate that it will be prepaying the PDP loans on delivery of the next three aircraft scheduled for delivery between April 2008 and June 2008. Air Canada's intent is to prepay all PDP loans upon delivery of the relevant aircraft, using the committed long-term aircraft financing and leases for the aircraft to be delivered. Air Canada expects to have fully repaid the PDP loans in November 2008. As at December 31, 2007, the amount drawn on the PDP loans was \$521 million (U.S.\$528 million). Air Canada is using the PDP financing to settle most of the outstanding pre-delivery payments.

This PDP financing replaces a significant portion of the pre-delivery financing arrangements that Air Canada had in place with Boeing. This PDP financing was entered into as it offered more attractive terms than the arrangements with Boeing.

As at March 28, 2008, Air Canada has completed the sale and leaseback of three Boeing 777 aircraft and has agreements for the sale and leaseback of one other aircraft out of the nine Boeing 777 scheduled for delivery in 2008. The lease term for two of the completed sale and leaseback transactions is for 10.5 years, and Air Canada has an option to extend each for an additional 18 months. The lease term for the third completed sale and leaseback transaction and for the fourth aircraft referred to above is 12 years. All leases are at market rates. These sale and leaseback transactions replace an equivalent number of aircraft loan guarantee commitments provided by EXIM.

Narrowbody and Regional Jet Aircraft Fleet

Current Fleet of Narrowbody and Regional Jet Aircraft

As at December 31, 2007, Air Canada operated 145 narrowbody aircraft, including 88 Airbus narrowbody aircraft. These aircraft are configured in two classes of service: Executive Class and Economy Class. The Airbus A320 aircraft is a 140-seat, twin-engine aircraft. The twin-engine Airbus A319 aircraft offers 120 seats and is essentially a shortened version of the Airbus A320 aircraft, with the same engines, operating systems and flight deck. The twin-engine Airbus A321 aircraft is the largest narrowbody aircraft in the Airbus family, with 174 seats. The Embraer ERJ-190 and ERJ-175 aircraft are 93-seat and 73-seat twin-engine aircraft, respectively. These large regional jets have lower trip operating costs than conventional narrowbody aircraft. All of these narrowbody aircraft types primarily serve Air Canada's domestic and transborder routes.

Embraer Orders and Financing Terms

In 2004, Air Canada signed a definitive purchase agreement with Embraer covering firm orders for 45 Embraer ERJ-190 aircraft as well as 15 Embraer ERJ-175 aircraft. By the end of 2006, Air Canada had taken delivery of all 15 Embraer ERJ-175 aircraft and, by the end of February 2008 all 45 Embraer ERJ-190 aircraft had been delivered.

The Embraer aircraft have been used in Air Canada's fleet both for growth and replacement of a portion of Air Canada's older Airbus A319 and A320 aircraft. The purchase agreement also contains rights to exercise options for up to 60 additional Embraer ERJ-190 series aircraft as well as providing for conversion rights to other Embraer models. As at March 28, 2008, 25 options remained exercisable.

Jazz's Regional Jet and Turboprop Aircraft Fleet

Pursuant to the Jazz CPA, Air Canada purchases capacity from Jazz on Jazz's aircraft which are subject to the Jazz CPA (the "Covered Aircraft") in consideration for the payment of certain fees by Air Canada to Jazz. With the exception of one Bombardier CRJ-705, which is leased by Jazz from a third party, all the remaining Bombardier regional jet aircraft in Jazz's fleet are owned or leased by Air Canada or Air Canada Capital Ltd., a wholly-owned subsidiary of Air Canada, and leased or subleased to Jazz who operates them.

As at December 31, 2007, as part of the Jazz CPA, Jazz operated, on behalf of Air Canada, 73 Bombardier regional jet aircraft. In 2004, Air Canada entered into an agreement with Bombardier Inc. ("Bombardier") covering firm orders for 15 Bombardier CRJ-705 and 15 Bombardier CRJ-200 aircraft, all of which were delivered between 2004 and the end of 2005.

The 50-seat Bombardier CRJ-100/200 aircraft is a twin-engine regional jet aircraft designed to provide superior performance and operating efficiencies for the regional airline industry. The Bombardier CRJ-100/200 aircraft is used primarily to serve lower density markets on routes of less than 1,000 miles, and to serve larger markets at "off peak" times. The 75-seat Bombardier CRJ-705 aircraft is configured into 10 Executive Class seats and 65 Economy Class seats and is considered to be an economical aircraft due to its operational efficiencies and lower trip costs. These aircraft are used in selected "point-to-point" markets, transborder markets, and to develop selected domestic markets.

In addition, as at December 31, 2007, Jazz operated 60 Bombardier Dash-8 aircraft as Covered Aircraft under the Jazz CPA. The Dash 8-100 aircraft is a twin-engine turboprop medium range aircraft with seating capacity of 37 passengers. The 50-seat Dash 8-300 aircraft has advanced turboprop characteristics that approach those of a jet aircraft. Turboprop aircraft continue to serve certain segments of the Canadian domestic market more efficiently than regional or larger jet aircraft. On short-haul routes with lower traffic volumes, turboprops often present the most economical and efficient way to serve these markets. Compared to larger jet aircraft, the turboprop is more profitable to operate on shorter routes with low levels of passenger demand due to its generally lower break-even load requirements.

Current and Planned Operating Fleet

Air Canada's operating fleet as at December 31, 2007 and the planned operating fleets for 2008 to 2009 are shown below:

Fleet Plan	Actual						Planned								
	Year End 2006	New Deliveries	Sublease to Third Party	Lease returns	Sales	Parked	Year End 2007	New Deliveries	Sublease/lease to Third Party / Sale by Air Canada	Lease returns	Sales	Parked	Year End 2008	Planned 2009 fleet changes	Year End 2009
B777-300	-	5	-	-	-	-	5	6	-	-	-	-	11	1	12
B777-200	-	3	-	-	-	-	3	3	-	-	-	-	6	-	6
B767-300	33	-	-	(2)	-	-	31	-	-	(1)	-	-	30	-	30
B767-200	11	-	-	-	-	(1)	10	-	-	-	(4)	(2)	4	-	4
A340-500	2	-	(2)	-	-	-	-	-	-	-	-	-	-	-	-
A340-300	10	-	(3)	(2)	-	-	5	-	(5)	-	-	-	-	-	-
A330-300	8	-	-	-	-	-	8	-	-	-	-	-	8	-	8
A321	10	-	-	-	-	-	10	-	-	-	-	-	10	-	10
A320	47	-	-	(6)	-	-	41	-	-	-	-	-	41	-	41
A319	45	-	(6)	-	(2)	-	37	-	-	(2)	-	-	35	-	35
ERJ-190	18	24	-	-	-	-	42	3	-	-	-	-	45	-	45
ERJ-175	15	-	-	-	-	-	15	-	-	-	-	-	15	-	15
Total	199	32	(11)	(10)	(2)	(1)	207	12	(5)	(3)	(4)	(2)	205	1	206
Average age (years)	9.6						9.0						9.0		10.0

The fleet of Covered Aircraft operated as at December 31, 2007 by Jazz on behalf of Air Canada pursuant to the Jazz CPA is shown below:

	Number of Covered Aircraft under the Jazz CPA as at December 31, 2007
Bombardier CRJ Aircraft	
Bombardier CRJ-100.....	24
Bombardier CRJ-200.....	33
Bombardier CRJ-705.....	16
Total Bombardier CRJ Aircraft.....	73
Bombardier Dash-8 Aircraft	
Bombardier Dash 8-300.....	26
Bombardier Dash 8-100.....	34
Total Turboprop Aircraft.....	60
Total Covered Aircraft.....	133

Fuel

Aircraft fuel is a major expense in the airline industry and the single largest expense to Air Canada, representing approximately 25% of Air Canada’s 2007 total operating expenses. During the period from January 1, 2007 to December 31, 2007, the price of Western Texas Intermediate (“WTI”) crude oil ranged from a low of U.S.\$51 per barrel to a high of U.S.\$98 per barrel, with an average price of U.S.\$70 per barrel for the year 2007. Fuel prices continue to be susceptible to factors such as political unrest in various parts of the world, Organization of Petroleum Exporting Countries (OPEC) policy, the level of demand from emerging economies such as China, the level of inventory carried by the industry, the level of fuel reserves maintained by governments, disruptions to production and refining facilities, alternative fuels and the weather. Based on 2007 volumes and U.S. exchange rates, Management estimated that a U.S.\$1 per barrel movement in the price of WTI crude oil or in the refining spread between WTI and jet fuel impacted 2007 fuel expense by approximately \$26 million (excluding any impact of fuel surcharges, foreign exchange rates and fuel hedging), assuming flying capacity remained unchanged and that refining spreads between WTI crude oil and jet fuel as well as foreign exchange rates remained constant.

To manage its exposure to the volatility of jet fuel prices and minimize volatility in operating cash flows, Air Canada enters into derivative contracts with financial intermediaries. As at December 31, 2007, Air Canada had mainly collar options and swap structures in place to hedge a portion of its anticipated jet fuel requirement over the 2008, 2009 and 2010 periods. Air Canada uses derivative contracts on jet fuel and also on other crude oil-based commodities, such as heating oil and crude oil, due to the relative limited liquidity of jet fuel derivative instruments on a medium to long term horizon since jet fuel is not traded on an organized futures exchange. Air Canada does not purchase or hold any derivative financial instruments for trading purposes.

As at December 31, 2007, Air Canada had hedged 20% of its projected fuel requirement for 2008, 3% of its projected fuel requirement for 2009 and 2% of its fuel requirement for 2010. As at March 28, 2008, Air Canada has hedged 32% of its projected fuel requirement for 2008, 10% of its projected fuel requirement for 2009 and 5% of its fuel requirement for 2010. 2008 is hedged at prices that can fluctuate between an average of U.S.\$103 to U.S.\$110 per barrel for jet-fuel based contracts, an average of U.S.\$95 to U.S.\$98 per barrel for heating oil-based contracts and an average of U.S.\$80 to U.S.\$88 per barrel for WTI crude-oil based contracts.

Star Alliance™

Air Canada is a founding member of the Star Alliance™ network, the world’s largest airline alliance group. Air Canada operates an extended global network in conjunction with its international partners.

Since its inception in 1997, the Star Alliance™ network has grown to include, as at March 28, 2008, the following 19 airlines: Air Canada, Air China, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, bmi, LOT Polish Airlines, Lufthansa, SAS, Shanghai Airlines, Singapore Airlines, South African Airways, Spanair, Swiss

International Airlines, TAP Portugal, Thai Airways, U.S. Airways and United Airlines. The Star Alliance™ network also includes three regional members: Adria Airways, Blue 1 and Croatia Airlines.

As at December 31, 2007, through Air Canada's strategic and commercial arrangements with Star Alliance™ members and several other airlines, Air Canada's customers had access to over 897 destinations in 160 countries, with reciprocal participation in frequent flyer programs and use of airport lounges. The Star Alliance™ facilitates code sharing and passenger connections and transfers by providing a higher level of service between network connection points (which may include one stop check-in). The airlines have implemented initiatives, such as common utilization of facilities, and are focusing on capturing potential synergies in additional areas. Air Canada code shares with all Star Alliance™ members, except U.S. Airways, TAP Portugal, South African Airways and the three regional members. In August 2005, the Star Alliance™ network implemented an electronic interline ticketing service which enables customers to travel across the entire Star Alliance™ network using a single electronic ticket.

Other Services

Cargo Services

The Corporation is Canada's largest provider of air cargo services as measured by cargo capacity. The Corporation offers cargo services on domestic, transborder and international routes, using the cargo capacity on aircraft operated by Air Canada and Jazz. The Corporation also provides Canada–Europe cargo services using one chartered all-freight MD-11 aircraft.

The Corporation's primary customers for cargo services are large freight forwarding companies and businesses whose products require the use of air cargo services to expedite their movement. Cargo services offered by the Corporation include services for high priority shipments (“AC Expedair” and “AC Priority”) and air freight services (“AC Air Freight”) to Air Canada destinations worldwide and most Jazz destinations in North America. The Corporation provides direct cargo services to over 150 Canadian and international destinations and has sales representation in over 50 countries. The Corporation is one of the largest suppliers of air cargo services to Canada Post Corporation. The principal international routes on which the Corporation offers cargo services are Canada–Germany, Canada–China, Canada–United Kingdom and Canada–Japan. The new Boeing 777 aircraft that have been delivered provide increased cargo capacity on international routes compared to the Airbus aircraft they are replacing. Planned deliveries of additional Boeing 777 aircraft in 2008 and 2009 will further increase air cargo capacity offered.

Air Canada's cargo terminal at Toronto Pearson Airport is equipped with modern cargo handling technology to promote an efficient operation that meets the needs of customers. Air Canada's freight management system, AC Lynx, offers a number of services including on-line tracking of cargo shipments from initial booking to delivery. Air Canada is a founding member of Cargo Portal Services (“CPS”). Introduced in 2003, CPS offers a web based booking and an air cargo management tool that facilitates the movement and tracking of air cargo and is endorsed by key freight forwarders globally. In 2007, the Corporation also joined the Global Freight Exchange (“GF-X”), a large electronic cargo distribution channel, to offer to cargo customers greater choice. These electronic channels offer an improved service capability for the movement and tracking of air cargo.

Air Canada Ground Handling Services

Air Canada Ground Handling Services provides ground handling services to Air Canada and Jazz and other airlines with a primary focus on Canadian stations. These services include passenger check-in, ramp services, cabin cleaning, deicing services, gate management and baggage and cargo handling.

Air Canada Vacations

Air Canada Vacations is one of Canada's leading tour operators. Based in Montreal and Toronto, Air Canada Vacations operates its business in the outgoing leisure travel market (Caribbean, Mexico, Europe, Central and South America and the U.S.) by developing, marketing and distributing vacation travel packages and services through its website (aircanadavacations.com) and a network of independent travel agencies across Canada.

As part of its growth plans, Air Canada Vacations recently introduced Escapades all-new short-stay flight and hotel packages to Europe and six major U.S. cities, as well as across previously offered Caribbean destinations served by a high frequency of flights.

Air Canada Vacations' future plans include inbound leisure packages from Europe and Asia to North America with the intent of eventually offering vacation packages to and from most of Air Canada's international destinations.

Facilities

Air Canada owns or leases facilities in major airports consisting of offices, hangar space, aircraft maintenance and ground handling facilities. The following describes the principal properties owned or leased by Air Canada as at December 31, 2007:

Principal Properties	Description	Approx. Square Footage	Nature of Title
Montreal – Air Canada Centre Air Canada Headquarters	Head office and training facilities	272,000	Owned facilities on leased land
Montreal Trudeau Airport – Maintenance Base	Offices, computer centre, aircraft maintenance, hangars, workshops and training facilities	1,326,664	Owned facilities on leased land
Toronto Pearson Airport – Terminal Building	Counters, offices, passenger and baggage handling facilities	191,000	Leased
Toronto Pearson Airport – Maintenance Base	Offices, hangars, shops and simulators	1,021,632	Owned facilities on leased land
Toronto Pearson Airport	Offices, shops, training and equipment storage	170,924	Leased
Toronto – Cargo Facility and Equipment Maintenance	Offices, cargo and equipment maintenance facilities	426,000	Leased
Vancouver – Technical Operations Centre	Offices, hangars, shops and simulators	1,087,985	Owned facilities on leased land
Vancouver – South Hangar	Offices, hangars, shops, stores	288,083	Owned facilities on leased land
Calgary International Airport	Hangar, commissary, ground support equipment and warehouse	267,891	Owned facilities on leased land
Winnipeg – Air Canada Building	Offices and computer centre	394,650	Leased facilities on owned land
Winnipeg Airport – Maintenance Base	Offices, aircraft maintenance hangars and workshops	278,891	Owned facilities on leased land

Air Canada operates additional office, terminal, maintenance and/or cargo facilities under long-term leases at Toronto, Montreal, Vancouver, Calgary, London (England) and Los Angeles. A large portion of the hangar space and aircraft maintenance facilities in Montreal, Vancouver, Winnipeg and Toronto are leased or subleased by Air Canada to ACTS, Jazz and other third parties at market rates. In addition, a significant portion of Air Canada's office space in the Winnipeg — Air Canada Building is subleased to third parties at market rates.

Safety and Security

Air Canada's first priority is to ensure the safety and security of its customers, employees and aircraft by maintaining the highest safety and security standards.

On August 10, 2006, Transport Canada announced the implementation of heightened security measures after a foiled attack with liquid explosives at London Heathrow. Since September 26, 2006, in accordance with new Transport Canada security measures, Air Canada is able to allow passengers to bring on board limited and prescribed quantities of liquids, gels and aerosols.

On October 27, 2006, Transport Canada announced the details of a new Passenger Protect Program and draft regulations pursuant to which the Government of Canada will create a list of specified persons who will be deemed to pose an immediate threat to aviation security should they attempt to board a flight. Air carriers will be expected to screen passengers against the specified persons list through a secure online system. The Government of Canada has also proposed new identity screening regulations which will require air passengers to present government-issued identification showing name, date of birth and gender prior to boarding an aircraft.

Air Canada continues to work with the appropriate authorities to ensure full compliance with security requirements, including new programs that will affect the airline industry:

- Air Canada is the first carrier in Canada to provide Transport Canada with a security management system. The security management system includes an oversight cycle that promotes compliance and conformity. It is also linked to a performance plan based on resilience and loss prevention;
- Air Canada is fully prepared to implement the new measures imposed by Transport Canada under the Passenger Protect Program as Air Canada already complies with similar requirements imposed by the Transport Security Agency (“TSA”), a U.S. government agency, for its “No Fly” and “Selectee” lists. Accordingly, the coming into force of the identity screening regulation is expected to have minimal, if any, impact on the operations of Air Canada as Air Canada had proactively implemented these procedures since the events of September 11, 2001; and
- Air Canada is also working with the Canadian Air Transport Security Agency (“CATSA”) and other agencies to continuously improve security measures and to ensure that any innovation adopted by Air Canada maintains the highest degree of security.

Debt Financing

On October 12, 2006, Air Canada entered into an amended and restated credit agreement (the “Amended and Restated Credit Agreement”) with a syndicate of lenders (the “Lenders”) and an administrative agent (the “Agent”). The Amended and Restated Credit Agreement was intended to amend and restate the credit agreement dated April 6, 2005, entered into by Air Canada with a syndicate of lenders and the Agent.

At the closing of the Initial Public Offering, a \$400 million senior secured revolving credit facility (the “Amended Credit Facility”) was established in favour of Air Canada pursuant to the Amended and Restated Credit Agreement for working capital and general corporate purposes, of which up to \$100 million may be used for the issuance of letters of credit provided exclusively by the Agent and of which up to \$20 million may be used as a swingline facility provided exclusively by the Agent for cash management and working capital purposes. As at March 28, 2008, Air Canada has not drawn any amount under the Amended Credit Facility. The total amount available for borrowing under the Amended Credit Facility is subject to a borrowing base restriction based on certain percentages of the values of eligible accounts receivable and eligible real estate. The accounts receivable of Air Canada Cargo are also eligible for inclusion in the borrowing base if Air Canada Cargo provides the Agent and the Lenders with a guarantee of Air Canada's obligations under the Amended Credit Facility together with a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations.

The Amended Credit Facility has a three-year term that can be extended at Air Canada's option for additional one-year periods on each anniversary of the closing of the Initial Public Offering, subject to prior approval of Lenders holding no less than two-thirds of the total commitments under the Amended Credit Facility. Any non-consenting Lender will be allowed to withdraw from the Amended Credit Facility at the maturity date and may be replaced by other lenders; provided, however that the maturity date will not be so extended if the non-consenting Lenders hold in excess of one-third of the total commitments under the Amended Credit Facility.

The Amended and Restated Credit Agreement is secured by a first priority security interest and hypothec over the present and after-acquired personal property of Air Canada, subject to certain exclusions and permitted liens, and by a first priority charge and hypothec over certain owned and leased real property of Air Canada. Air Canada's obligations under the Amended Credit Facility are also guaranteed by 1209265 Alberta Ltd., a subsidiary of Air Canada, which has provided a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations.

The Amended and Restated Credit Agreement contains customary representations and warranties and is subject to customary terms and conditions (including negative covenants, financial covenants and events of default) for borrowings of this nature, including limitations on paying distributions (including upon the occurrence and during the continuance of an event of default under the Amended and Restated Credit Agreement).

Trademarks

Air Canada believes that its trademarks are important to its competitive position. Air Canada is Air Canada's trade name and trademark. Other trademarks include Air Canada Jetz[®], Air Canada Jazz[™], Jazz[™], Air Canada Vacations[®], Vacances Air Canada[®], Executive First[®], Executive Class[®], Expedair[®], AC Expedair[™], AC Priority[™], AC Air Freight[™], AC Lynx[™], Hospitality Service[®], Service Hospitalité[®], Rapidair[®], Maple Leaf[™], Feuille d'Érable[™], AC WEBSAVER[™], Flight Pass[™], Sun Pass[™], Super Elite[™] and Super Élite[™]. Air Canada has granted Aeroplan LP a license to use Air Canada[®] and Air Canada Roundel[®] trademarks around the world solely in association with the Aeroplan[®] program. Air Canada has granted Jazz a license to use Air Canada Jazz[™], Jazz[™], Air Canada[®], Air Canada Design[®], Air Canada and Design[®] and other trademarks in Canada and the United States in association with the provision of scheduled airline services in regions of Canada and across the Canada — United States border. Air Canada has granted ACTS a license to use Air Canada[®], Air Canada Design[®], Air Canada and Design[®] and other trademarks in Canada and the United States in association with the provision of aircraft maintenance services. Air Canada protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions, confidentiality procedures and other means. Employees, service providers and other parties with whom Air Canada carries on business are, as appropriate, contractually bound to protect Air Canada's proprietary information in order to control access to and the distribution of any such information.

EMPLOYEES

As at December 31, 2007, Air Canada had 23,608⁽³⁾ full-time equivalent (“FTE”) employees. The following table provides a breakdown of the Corporation’s average FTE employees for the fourth quarter of 2007 and 2006 and for the full year 2007 and 2006 together with the unions that represent them.

Employee Group	Union ⁽¹⁾	Fourth quarter	Fourth quarter	2007	2006
		2007	2006	2007	2006
Management and Administrative Support ⁽³⁾	N/A ⁽²⁾	3,137	3,017	3,148	3,191
Pilots	ACPA	2,895	2,708	2,829	2,625
Flight Attendants	CUPE	6,094	5,985	6,236	6,062
Customer Sales and Service Agents ⁽³⁾	CAW/IBT	3,721	3,702	3,703	3,821
Technical Services, Ramp and Cargo ⁽³⁾	IAMAW	7,048	6,812	6,939	6,812
United Kingdom Unionized Employees	Amicus/TGWU	639	697	665	691
Other Unionized		396	426	408	428
Air Canada		23,930	23,347	23,928	23,630

- (1) ACPA: Air Canada Pilots Association; CUPE: Canadian Union of Public Employees; CAW: National Automobile, Aerospace, Transportation and General Workers Union of Canada; IBT: International Brotherhood of Teamsters; IAMAW: International Association of Machinists and Aerospace Workers; and TGWU: Transport and General Workers Union.
- (2) Certain administrative support employees are represented by IAMAW.
- (3) In addition to the numbers presented in the table above, pursuant to the Aeroplan GSA (as defined herein), Aeroplan has agreed to reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of call centre employees who are mainly represented by the CAW currently working for Aeroplan’s benefit. Such group represented 891 FTE employees as at December 31, 2007 and 853 FTE employees as at December 31, 2006. These employees are not included in the numbers presented above. See “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Aeroplan — Aeroplan GSA”. In addition to the numbers presented in the above table, pursuant to the ACTS GSA (as defined herein), ACTS has agreed to reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of unionized employees working for the benefit of ACTS. Previous arrangements included non-unionized employees working for the benefit of ACTS but subsequent to ACE’s monetization of ACTS, which was occurred on October 16, 2007, the group of non-unionized employees was transferred to ACTS. The remaining unionized group for which ACTS agreed to reimburse Air Canada represented 3,222 FTE employees as at December 31, 2007, while the combined groups (unionized and non-unionized) represented 3,923 FTE employees as at December 31, 2006. These employees are not included in the numbers presented above. See “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS — General Services Agreement and ACTS Pension and Benefits Agreement” of this Annual Information Form for additional information.

Air Canada has collective bargaining agreements with its pilots, flight attendants, maintenance personnel, certain clerical and finance personnel, customer service agents, ramp and cargo employees, dispatchers and crew schedulers which were concluded in 2003 and 2004 and which expire in 2009. No strikes or lock-outs may lawfully occur during the term of the collective agreements. In 2006, Air Canada concluded wage re-opener agreements, mediations or arbitrations under the collective agreements with all its union groups. The average of the wage adjustment agreements and awards represents an increase of approximately 5% over the three-year period from mid-2006 to mid-2009.

RISK FACTORS

The risks described herein may not be the only risks faced by the Corporation. Other risks of which the Corporation is not aware or which the Corporation currently deems to be immaterial may surface and have a material adverse impact on the Corporation’s business, results from operations and financial condition.

Risks Relating to the Corporation

Financial Results

In the past, the Corporation has sustained significant operating losses and may sustain significant losses in the future. On September 30, 2004, the Corporation and certain of its subsidiaries emerged from protection under the CCAA and implemented the Plan. For the three years ended December 31, 2003, Air Canada incurred operating losses before reorganization and restructuring items and non-recurring labour expenses of over \$1.6 billion. For the nine-month period ended September 30, 2004, Air Canada realized operating income before reorganization and restructuring items of \$120 million and, for the three-month period ended December 31, 2004, the Corporation incurred an operating loss of \$59 million. For the years ended December 31, 2007, 2006 and 2005, the Corporation realized operating income of \$495 million, \$259 million and \$318 million, respectively. Despite Air Canada’s emergence from creditor

protection under the CCAA, the resulting and ongoing business initiatives and efforts at cost reductions and its recent results, the Corporation may not be able to successfully achieve planned business initiatives and cost reductions, including those which seek to offset significant fuel and other expense increases or restore positive net profitability and may sustain significant losses in the future.

Leverage and Liquidity

The Corporation has, and is expected to continue to have, a significant amount of indebtedness, including substantial fixed obligations under aircraft leases and financings. The Corporation may incur additional debt, including secured debt, in the future. The amount of indebtedness that the Corporation currently has and which it may incur in the future could have a material adverse effect on the Corporation, for example, by (i) limiting the Corporation's ability to obtain additional financing, (ii) requiring the Corporation to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness and fixed cost obligations, thereby reducing the funds available for other purposes, (iii) making the Corporation more vulnerable to economic downturns, and (iv) limiting the Corporation's flexibility in planning for, or reacting to, competitive pressures or changes in its business environment.

The ability of the Corporation to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance and its ability to refinance its indebtedness, if necessary. Each of these factors is to a large extent subject to economic, financial, competitive, regulatory, operational and other factors, many of which are beyond the Corporation's control. In addition, as the Corporation incurs indebtedness which bears interest at fluctuating interest rates, to the extent these interest rates increase, its interest expense will increase. There can be no assurance that the Corporation will be able to generate sufficient cash from its operations to pay its debts and lease obligations.

Need for Additional Capital

The Corporation faces a number of challenges in its current business operations, including high fuel prices and increased competition from international, transborder and low-cost domestic carriers. In order to meet such challenges and to support the Corporation's business strategy, significant operating and capital expenditures are, and may in the future be, required. There can be no assurance that the Corporation will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to the Corporation to provide adequate liquidity and to finance the operating and capital expenditures necessary to support its business strategy if cash flows from operations and cash on hand are insufficient.

Failure to generate additional funds, whether from operations or additional debt or equity financings, may require the Corporation to delay or abandon some or all of its anticipated expenditures or to modify its business strategy, which could have a material adverse effect on the Corporation's business, results from operations and financial condition. Furthermore, the ability of competitors to raise money more easily and on less onerous terms could create a competitive disadvantage for Air Canada.

In addition, the Corporation's credit ratings influence its ability to access capital markets. There can be no assurance that the Corporation's credit ratings will not be downgraded, which would add to the Corporation's borrowing and insurance costs, hamper its ability to attract capital and limit its ability to operate its business, all of which could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Fuel Costs

Fuel costs constituted the largest percentage of the total operating costs of the Corporation in 2007. Fuel prices fluctuate widely depending on many factors including international market conditions, geopolitical events and the Canada/U.S. dollar exchange rate. Air Canada cannot accurately predict fuel prices. During 2005, 2006 and 2007, fuel prices increased and fluctuated near or at historically high levels. Should fuel prices continue at, or continue to increase above, such high levels, fuel costs could have a material adverse effect on the Corporation's business, results from operations and financial condition. Due to the competitive nature of the airline industry, the Corporation may not be able to pass on increases in fuel prices to its customers by increasing its fares. Based on 2007 volumes, Management estimates that a U.S.\$1 per barrel movement in the average price of WTI crude oil would have resulted in an approximate \$26 million change in 2007 fuel expense for the Corporation (excluding any impact of fuel surcharges, foreign exchange rates and fuel hedging), assuming flying capacity remained unchanged and that refining spreads between WTI crude oil and jet fuel as well as foreign exchange rates remained constant.

Labour Costs and Labour Relations

Labour costs constitute one of the Corporation's largest operating cost items. There can be no assurance that the Corporation will be able to maintain such costs at levels which do not negatively affect its business, results from operations and financial condition. There can be no assurance that future agreements with employees' unions or the outcome of arbitrations will be on terms consistent with the Corporation's expectations or comparable to agreements entered into by the Corporation's competitors. Any future agreements or outcome of negotiations, mediations or arbitrations including in relation to wages or other labour costs or work rules may result in increased labour costs or other charges which could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Most of the Corporation's employees are unionized. Most of these unionized employees are subject to long-term collective agreements which were concluded in 2003 and 2004 with terms expiring in 2009. No strikes or lock-outs may lawfully occur during the term of the collective agreements expiring in 2009. However, there can be no assurance that there will not be a labour conflict that could lead to an interruption or stoppage in the Corporation's service or otherwise adversely affect the ability of the Corporation to conduct its operations, all of which could have a material adverse effect on its business, results from operations and financial condition.

If there is a labour disruption or work stoppage by any of the unionized work groups of Jazz, there could also likely be a material adverse effect on the Corporation's business, results from operations and financial condition. In addition, labour conflicts at the Corporation's Star Alliance™ partners could result in lower demand for connecting traffic with the Corporation and, ultimately, could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Airport User Fees and Air Navigation Fees

With the privatization of airports and air navigation authorities over the last decade in Canada, new airport and air navigation authorities have imposed significant increases in their fees. If authorities in Canada or elsewhere continue to increase their fees at the rate at which they have increased them in the recent past, the Corporation's business, results from operations and financial condition could be materially adversely affected.

Competition

The Corporation operates within a highly competitive industry. Over the past few years, several carriers have entered or announced their intention to enter into the domestic, the U.S. transborder and international markets in which the Corporation operates.

Canadian low-cost and other carriers have entered or expanded or announced their intention to compete in many of the Corporation's key domestic markets and, along with some U.S. carriers, have also entered or expanded their operations in the U.S. transborder market. Some U.S. carriers, having recently completed substantial reorganizations, have reduced levels of indebtedness and lower operating costs and may be in a position to more effectively compete with the Corporation. The Corporation is also facing increasing competition in international markets as carriers increase their international capacity, both by expansion and by shifting existing domestic capacity to international operations to avoid low-cost domestic competition.

If Canadian low-cost and other carriers are successful in entering or expanding into the Corporation's domestic and the U.S. transborder markets, if additional U.S. carriers are successful in entering the Corporation's transborder market or if carriers are successful in their expansion in international markets of the Corporation, the Corporation's business results from operations and financial condition could be materially adversely affected.

The Corporation also encounters substantial price competition. The expansion of low-cost carriers in recent years, along with the advent of Internet travel websites and other travel products distribution channels, has resulted in a substantial increase in discounted and promotional fares initiated by the Corporation's competitors. The decision to match competitors' fares, to maintain passenger traffic, results in reduced yields which, in turn, could have a material adverse effect on the Corporation's business, results from operations and financial condition. Furthermore, the Corporation's ability to reduce its fares in order to effectively compete with other carriers is dependent on the Corporation's ability to achieve acceptable operating margins and may also be limited by government policies to encourage competition.

In addition, consolidation in the airline industry could result in increased competition as some airlines emerging from such consolidations may be able to compete more effectively against the Corporation which could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Limitations Due to Restrictive Covenants

Some of the financing and other major agreements of the Corporation contain restrictive covenants which affect and, in some cases, significantly limit or prohibit, among other things, the manner in which the Corporation may structure or operate its business, including by limiting the Corporation's ability to incur indebtedness, create liens, sell assets, make capital expenditures and engage in acquisitions, mergers or restructurings. In addition, certain financing arrangements require the Corporation to maintain financial ratios. Any future borrowings may also be subject to similar covenants which limit Air Canada's operating and financial flexibility, which could materially and adversely affect Air Canada's profitability.

A failure by the Corporation to comply with its contractual obligations (including restrictive covenants), or to pay its indebtedness and fixed costs could result in a variety of material adverse consequences, including the acceleration of its indebtedness, the withholding of credit card proceeds by the credit card service providers and the exercise of remedies by its creditors and lessors, and such defaults could trigger additional defaults under other indebtedness or agreements. In such a situation, it is unlikely that the Corporation would be able to repay the accelerated indebtedness or fulfill its obligations under certain contracts, make required aircraft lease payments or otherwise cover its fixed costs. Also, the lenders under the financing arrangements could foreclose upon all or substantially all of the assets of the Corporation which secure the Corporation's obligations.

Strategic, Business, Technology and Other Important Initiatives

In order to operate its business, achieve its goals and remain competitive, the Corporation continuously seeks to identify and devise, invest in and implement strategic, business, technology and other important initiatives, such as those relating to the aircraft fleet restructuring program, the aircraft refurbishment program, the new revenue model, the reservation and airport customer service initiative (which will also support the revenue model), the business process initiatives as well as other initiatives. These initiatives, including activities relating to their development and implementation, may be adversely impacted by a wide range of factors, many of which are beyond the Corporation's control. Such factors include the performance of third parties, including suppliers, the implementation and integration of such initiatives into the Corporation's other activities and processes as well as the adoption and acceptance of initiatives by the Corporation's customers, suppliers and personnel. A delay or failure to sufficiently and successfully identify and devise, invest in or implement these initiatives could adversely affect the Corporation's ability to operate its business, achieve its goals and remain competitive and could have a material adverse effect on the Corporation's business, results from operations and financial condition.

For instance, a key component of the Corporation's business plan is the restructuring of its aircraft fleet, including the elimination and replacement of older, less efficient aircraft, the introduction of new regional jet aircraft, and the modernization of its international widebody fleet through the acquisition of new and more efficient aircraft. A delay or failure in the completion of the Corporation's fleet restructuring, including a delay by the manufacturers in the delivery of the widebody aircraft, or an inability to remove, as planned, certain aircraft from the fleet in coordination with the planned entry into service of new aircraft, could adversely affect the implementation of the Corporation's business plan which may, in turn, have a material adverse effect on the Corporation's business, results from operations and financial condition.

Another important component of the Corporation's business plan is the replacement of its legacy systems for passenger reservation and airport customer service with a newly developed web-enabled system in order to support the rapid and efficient implementation of the Corporation's revenue model. A delay or failure in the implementation of the Corporation's new system could adversely affect the implementation of the Corporation's business plan which may, in turn, have a material adverse effect on the Corporation's business, results from operations and financial condition.

Dependence on Technology

The Corporation relies on technology, including computer and telecommunications equipment and software and Internet-based systems, to operate its business, increase its revenues and reduce its costs. These systems include those relating to the Corporation's telecommunications, websites, computerized airline reservations and airport customer services and flight operations.

These technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunications failures, power failures, computer viruses, unauthorized or fraudulent users, and other operational and security issues. While the Corporation continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any such technology systems failure could materially and adversely affect the Corporation's operations and could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Key Supplies and Suppliers

The Corporation is dependent upon its ability to source, on favourable terms and costs, sufficient quantities of goods and services in a timely manner, including those required for the Corporation's operations such as fuel, aircraft and related parts and aircraft and engine maintenance services (including maintenance services obtained from ACTS). In certain cases, such goods and services may only be available from a limited number of suppliers. Such failure, refusal or inability may arise as a result of a wide range of causes, many of which are beyond the Corporation's control. Any failure or inability of the Corporation to successfully source goods and services, including by reason of a failure, refusal or inability of a supplier, or to source goods and services on terms and pricing and within the timeframes acceptable to the Corporation, could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Aeroplan

Through its relationship with Aeroplan, the Corporation is able to offer its customers who are Aeroplan® members the opportunity to earn Aeroplan® miles. Based on customer surveys, Management believes that rewarding customers with Aeroplan® miles is a significant factor in customers' decision to travel with Air Canada and Jazz and contributes to building customer loyalty. The failure by Aeroplan to adequately fulfill its obligations towards the Corporation under the Aeroplan CPSA and in connection with the Aeroplan® program, or other unexpected interruptions of Aeroplan services which are beyond the Corporation's control could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Jazz

Under the Jazz CPA, Jazz provides the Corporation's customers service in lower density markets and higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States and also provides valuable traffic feed to the Corporation's mainline routes. The Corporation reimburses Jazz, without mark-up, for certain pass-through costs incurred directly by Jazz, such as fuel, navigation, landing and terminal fees and certain other costs. Significant increases in such pass-through costs, the failure by Jazz to adequately fulfill its obligations towards the Corporation under the Jazz CPA, or other unexpected interruptions of Jazz's services which are beyond the Corporation's control could have a material adverse effect on the Corporation's business, results from operations and financial condition. In addition, the Jazz CPA requires that Jazz maintain a minimum fleet size and contains a minimum average daily utilization guarantee which requires that the Corporation make certain minimum payments to Jazz regardless of the revenue generated by Jazz.

Pension Plans

Canadian federal pension legislation requires that the funded status of registered pension plans be determined periodically, on both a going concern basis (essentially assuming indefinite plan continuation) and a solvency basis (essentially assuming immediate plan termination).

The solvency liability is influenced primarily by long-term interest rates and by the investment return on plan assets. The interest rate used to calculate benefit obligations for solvency purposes is a prescribed rate derived from the interest rates on long-term Government of Canada bonds. In the current low interest rate environment, the calculation results in a higher present value of the pension obligations, leading to a larger unfunded solvency position.

In May 2004, Air Canada and OSFI agreed on a protocol pursuant to which the solvency funding requirements for the Corporation's registered pension plans provided for in the then existing regulations were amended retroactive to January 1, 2004. The Corporation is required to make substantial annual cash contributions, and the level of those contributions will increase in the event of poor pension fund investment performance and/or further declines in long-

term Government of Canada bond rates. Underfunded pension plans or a failure or inability by the Corporation to make required cash contributions to its registered pension plans could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Star Alliance™

The strategic and commercial arrangements with Star Alliance™ members provide the Corporation with important benefits, including code sharing, efficient connections and transfers, reciprocal participation in frequent flyer programs and use of airport lounges from the other members. Should a key member leave Star Alliance™ or otherwise fail to meet its obligations thereunder, the Corporation's business, results from operations and financial condition could be materially adversely affected.

Interruptions or Disruptions in Service

The Corporation's business is significantly dependent upon its ability to operate without interruption at a number of hub airports, including Toronto Pearson Airport. Delays or disruptions in service, including those due to security or other incidents, weather conditions, labour conflicts with airport workers, baggage handlers, air traffic controllers and other workers not employed by the Corporation or other causes beyond the control of the Corporation could have a material adverse impact on the Corporation's business, results from operations and financial condition.

Foreign Exchange

The Corporation's financial results are sensitive to the changing value of the Canadian dollar. In particular, the Corporation has a significant annual net outflow of U.S. dollars and is affected by fluctuations in the Canada/U.S. dollar exchange rate. Management estimates that during 2007, a \$0.01 increase in the Canada/U.S. dollar exchange rate (i.e., \$0.99 to \$0.98 per U.S. dollar) would have had an estimated \$25 million favourable impact on operating income and an estimated \$72 million favourable impact on pre-tax income. Conversely, an opposite change in the exchange rate would have had the opposite effect. The Corporation incurs significant expenses in U.S. dollars for such items as fuel, aircraft rental charges, interest payments, debt servicing and computerized reservations system fees, while a substantial portion of its revenues are generated in Canadian dollars. A significant deterioration of the Canadian dollar relative to the U.S. dollar would increase the costs of the Corporation relative to its U.S. competitors and could have a material adverse effect on the Corporation's business, results from operations and financial condition. In addition, the Corporation may be unable to appropriately hedge the risks associated with fluctuations in exchange rates.

Current Legal Proceedings

The European Commission, the United States Department of Justice and the Competition Bureau in Canada, among other competition authorities, are investigating alleged anti-competitive cargo pricing activities, including the levying of certain fuel surcharges, of a number of airlines and cargo operators, including the Corporation, a number of whom, including the Corporation, have received a statement of objections from the European Commission that sets out the European Commission's preliminary assessment in relation to such matter. Competition authorities have sought or requested information from the Corporation as part of their investigations. The Corporation is cooperating with these investigations, which are likely to lead to proceedings against the Corporation and a number of airlines and other cargo operators in certain jurisdictions. The Corporation is also named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada in connection with these allegations. Management has determined that it is not possible at this time to predict with any degree of certainty the outcome of these proceedings, but these proceedings may result in a material liability to the Corporation.

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against Porter Airlines Inc. ("Porter") and other defendants (collectively the "Porter Defendants") after Jazz became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport (the "TCCA"). On October 26, 2007, the Porter Defendants counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming \$850 million in damages. Following the institution of proceedings in the Ontario Superior Court of Justice, Jazz commenced judicial review proceedings against the Toronto Port Authority ("TPA") before the Federal Court of Canada relating to Jazz's access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against Jazz and Air Canada making

allegations and seeking conclusions similar to those in the Ontario Superior Court counterclaim. Management views Porter's counterclaims in both jurisdictions as being without merit.

In October 2006, ACPA commenced proceedings before the Ontario Superior Court of Justice against Air Canada, ACE and certain members of the board of directors of Air Canada alleging that certain past and future actions are oppressive to it. A variety of remedies were sought against the parties including an injunction to impose, among other things, limits on corporate distributions including those contemplated under the ACE plan of arrangement which became effective on October 10, 2006. Following a hearing in December, 2006, Mr. Justice Cumming of the Ontario Superior Court of Justice dismissed ACPA's application for an injunction and granted respondents' cross-motion to dismiss ACPA's claim. ACPA has not appealed the dismissal of the injunction application but has appealed, to the Ontario Court of Appeal, the order dismissing its claim and the appeal, while originally scheduled for March 2008, is scheduled to be heard on June 27, 2008. Management is of the view that the ACPA claim is without merit.

CUPE, which represents the Corporation's flight attendants, has a complaint before the Canadian Human Rights Commission where it alleges gender-based wage discrimination. CUPE claims the predominantly female flight attendant group should be paid the same as the predominantly male pilot and mechanics groups because their work is of equal value. The complaint dates from 1991 but has not been investigated on the merits because of a legal dispute over whether the three groups work in the same "establishment" within the meaning of the Canadian Human Rights Act. On January 26, 2006, the Supreme Court of Canada ruled that they do work in the same "establishment" and sent the case back to the Canadian Human Rights Commission, which may now proceed to assess the merits of CUPE's complaint. On March 16, 2007, the Canadian Human Rights Commission referred the complaint against the Corporation to investigation. The Corporation considers that any investigation will show that it is complying with the equal pay provisions of the Canadian Human Rights Act; however, Management has determined that it is not possible at this time to predict with any degree of certainty the final outcome of the Canadian Human Rights Commission's investigation.

On January 10, 2008, a decision was rendered by the Canadian Transportation Agency (Decision No. 6-AT-A-2008) following an application pursuant to subsection 172(1) of the CTA, against the Corporation and other air carriers and parties concerning the fares and charges to be paid by persons with disabilities who require additional seating to accommodate their disabilities to travel by air on domestic air services. On February 11, 2008, Air Canada, Jazz and WestJet applied to the Federal Court of Appeal for leave to appeal the CTA decision. Management has determined that it is not possible at this time to predict with any degree of certainty the outcome of these proceedings in appeal of the CTA decision or the final effects thereof.

Key Personnel

The Corporation is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If Air Canada were to experience a substantial turnover in its leadership or other key employees, Air Canada's business, results from operations and financial condition could be materially adversely affected. Additionally, Air Canada may be unable to attract and retain additional qualified key personnel as needed in the future.

Risks Relating to the Industry

Economic and Geopolitical Conditions

Airline operating results are sensitive to economic and geopolitical conditions which can have a significant impact on the demand for air transportation. Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. The Corporation is not able to predict with certainty market conditions and the fares that the Corporation may be able to charge. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. A downturn in economic growth in North America, as well as geopolitical instability in various areas of the world, increased concerns about the environmental impacts of air travel and tendencies towards "green" travel initiatives where consumers reduce their travel activities, could have the effect of reducing demand for air travel in Canada and abroad and, together with the other factors discussed herein, could materially adversely impact the Corporation's profitability. Especially in light of the Corporation's substantial fixed cost structure, any prolonged or significant weakness of the Canadian, U.S. or world economies could reduce the demand for air transportation which in turn could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Airline Industry Characterized by Low Gross Profit Margins and High Fixed Costs

The airline industry is characterized by low gross profit margins and high fixed costs. The costs of operating any particular flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers or in fare pricing or traffic mix could have a significant effect on the Corporation's operating and financial results. This condition has been exacerbated by aggressive pricing by low-cost carriers, which has had the effect of driving down fares in general. Accordingly, a shortfall from expected revenue levels could have a material adverse effect on the Corporation's business, results from operations and financial condition. The Corporation incurs substantial fixed costs which do not meaningfully fluctuate with overall capacity. As a result, should the Corporation be required to reduce its overall capacity or the number of flights operated, it may not be able to successfully reduce certain fixed costs in the short term and may be required to incur important termination or other restructuring costs, which could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Terrorist Attacks and Security Measures

The September 11, 2001 terrorist attacks and subsequent terrorist activity, notably in the Middle East, Southeast Asia and Europe, caused uncertainty in the minds of the traveling public. The occurrence of a major terrorist attack (whether domestic or international and whether involving the Corporation or another carrier or no carrier at all) and increasingly restrictive security measures, such as the current restrictions on the content of carry-on baggage and current or proposed passenger identification document requirements, could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on the Corporation's flights. It could also lead to a substantial increase in insurance, airport security and other costs. Any resulting reduction in passenger revenues and/or increases in insurance, security or other costs could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Epidemic Diseases (Severe Acute Respiratory Syndrome (SARS), Influenza or Other Epidemic Diseases)

As a result of the international outbreaks of Severe Acute Respiratory Syndrome (SARS) in 2003, the World Health Organization (the "WHO") issued on April 23, 2003 a travel advisory, which was subsequently lifted on April 30, 2003, against non-essential travel to Toronto, Canada. The seven day WHO travel advisory relating to Toronto, the location of the Corporation's primary hub, and the international SARS outbreak had a significant adverse effect on passenger demand for air travel in the Corporation's markets and resulted in a major negative impact on traffic on the entire network. The WHO warns that there is a substantial risk of an influenza pandemic within the next few years. An outbreak of SARS or of another epidemic disease such as influenza (whether domestic or international) or a further WHO travel advisory (whether relating to Canadian cities or regions or other cities, regions or countries) could have a material adverse effect on passenger demand for air travel. Any resulting reduction in traffic in the markets served by the Corporation could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Casualty Losses

Due to the nature of its core operating business, the Corporation may be subject to liability claims arising out of accidents or disasters involving aircraft on which the Corporation's customers are traveling or involving aircraft of other carriers maintained or repaired by the Corporation, including claims for serious personal injury or death. There can be no assurance that the Corporation's insurance coverage will be sufficient to cover one or more large claims and any shortfall may be material. Additionally, any accident or disaster involving one of the Corporation's aircraft or an aircraft of another carrier receiving line maintenance services from the Corporation may significantly harm the Corporation's reputation for safety, which would have a material adverse effect on the Corporation's business, results from operations and financial condition.

Seasonal Nature of the Business, Other Factors and Prior Performance

The Corporation has historically experienced considerably greater demand for its services in the second and third quarters of the calendar year and significantly lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the preference of a high number of leisure travelers to travel during the spring and summer months. The Corporation has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short term.

As described elsewhere, demand for air travel is also affected by factors such as economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Regulatory Matters

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, licensing, competition, noise levels and the environment and, in some measure, pricing. With the heightened focus on reducing carbon emissions, governments are enacting or considering legislation, including in relation to carbon emission trading schemes, which is aimed at reducing carbon emissions and such legislation may apply to the airline industry. Additional laws and regulations may be proposed, and decisions rendered, from time to time which could impose additional requirements or restrictions on airline operations. The implementation of additional regulations or decisions by Transport Canada, the Competition Bureau and/or the Competition Tribunal, the Canadian Transportation Agency or other domestic or foreign governmental entities may have a material adverse effect on the Corporation's business, results from operations and financial condition. The Corporation cannot give any assurances that new regulations or revisions to the existing legislation, or decisions, will not be adopted or rendered. The adoption of such new laws and regulations or revisions, or the rendering of such decisions, could have a material adverse effect on the Corporation's business, results from operations and financial condition.

The availability of international routes to Canadian air carriers is regulated by agreements between Canada and foreign governments. Changes in Canadian or foreign government aviation policy could result in the alteration or termination of these agreements and could adversely affect the Corporation's international operations.

In July 2000, the Government of Canada amended the CTA, the Competition Act and the Air Canada Public Participation Act to address the competitive airline environment in Canada and ensure protection for consumers. This legislation included airline-specific provisions concerning "abuse of dominance" under the Competition Act, later supplemented by creating "administrative monetary penalties" for a breach of the abuse of dominance provisions by a dominant domestic air carrier.

In July 2003, the Competition Tribunal released its reasons and findings in a proceeding between the Commissioner of Competition and the Corporation which had considered the approach to be taken in determining whether the Corporation was operating below "avoidable costs" in violation of one of the new airline-specific abuse of dominance provisions. The Competition Tribunal applied a very broadly crafted cost test in its decision. In September 2004, the Commissioner of Competition published a letter describing the enforcement approach that would be taken in future cases involving the airline-specific abuse of dominance provisions, which included a statement that the Tribunal's approach to avoidable costs remains relevant.

On November 2, 2004, the Minister of Industry tabled amendments to the Competition Act in Bill C-19 which, if enacted, would have removed the airline-specific "abuse of dominance" provisions from the Competition Act. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-19 was terminated. On October 16, 2007, private Bill C-454 containing provisions to remove the airline-specific "abuse of dominance" provisions from the Competition Act, was tabled for first reading in the House of Commons. Management cannot predict if or when such proposed legislation will come into force.

If the Commissioner of Competition commences inquiries or brings similar applications with respect to significant competitive domestic routes and such applications are successful, it could have a material adverse effect on the Corporation's business, results from operations and financial condition.

The Corporation is subject to domestic and foreign laws regarding privacy of passenger and employee data, including advance passenger information and access to airline reservation systems, which are not consistent in all countries in which the Corporation operates. Compliance with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Increased Insurance Costs

Since September 11, 2001 the aviation insurance industry has been continually reevaluating the terrorism risks that it covers and this activity may adversely affect some of the Corporation's existing insurance carriers or the Corporation's ability to obtain future insurance coverage. To the extent that the Corporation's existing insurance carriers

are unable or unwilling to provide it with insurance coverage, and in the absence of measures by the Government of Canada to provide the required coverage, the Corporation's insurance costs may increase further and may result in the Corporation being in breach of regulatory requirements or contractual arrangements requiring that specific insurance be maintained, which may have a material adverse effect on the Corporation's business, results from operations and financial condition.

Third Party War Risk Insurance

There is a risk that the Government of Canada may not continue to provide an indemnity for third party war risk liability coverage, which it currently provides to the Corporation and certain other carriers in Canada. In the event that the Government of Canada does not continue to provide such indemnity or amends such indemnity, the Corporation and other industry participants would have to turn to the commercial insurance market to seek such coverage. The Corporation estimates that such coverage would cost the Corporation approximately \$15 million per year. Alternative solutions, such as those envisioned by the International Civil Aviation Organization ("ICAO") and the International Air Transport Association ("IATA"), have not developed as planned, due to actions taken by other countries and the recent availability of supplemental insurance products. ICAO and IATA are continuing their efforts in this area, however, the achievement of a global solution is not likely in the immediate or near future. The U.S. federal government has set up its own facility to provide war risk coverage to U.S. carriers, thus removing itself as a key component of any global plan.

Furthermore, the London aviation insurance market has introduced a new standard war and terrorism exclusion clause which is applicable to aircraft hull and spares war risk insurance, and intends to introduce similar exclusions to airline passenger and third party liability policies. Such clause excludes claims caused by the hostile use of a dirty bomb, electromagnetic pulse device, or biochemical materials. The Government of Canada indemnity program is designed to address these types of issues as they arise, but the Government of Canada has not yet decided to extend the existing indemnity to cover this exclusion. Unless and until the Government of Canada does so, the loss of coverage exposes the Corporation to this new uninsured risk and may result in the Corporation being in breach of certain regulatory requirements or contractual arrangements, which may have a material adverse effect on the Corporation's business, results from operations and financial condition.

Risks Related to the Corporation's Relationship with ACE

Control of the Corporation and Related Party Relationship

ACE owns shares of Air Canada representing 75% of the voting interests in Air Canada. Voting control will enable ACE to determine substantially all matters requiring security holder approval as a result of its voting interest in Air Canada. ACE may exercise control over corporate transactions submitted to Air Canada's board of directors and/or Air Canada's security holders for approval. ACE effectively has sufficient voting power to prevent a change in control of Air Canada. This voting control may discourage transactions involving a change of control of Air Canada, including as a result, transactions in which the public shareholders of Air Canada might otherwise receive a premium for their shares over the then-current market price.

The interests of ACE may conflict with those of other shareholders.

Future Sales of Shares by or for ACE

Sales of substantial amounts of Air Canada's shares by ACE, or the possibility of those sales by ACE, could adversely affect the market price of the shares and impede Air Canada's ability to raise capital through the issuance of equity securities.

ACE has no contractual obligation to retain any of the Air Canada shares. The registration rights agreement that Air Canada entered into with ACE concurrently with the Initial Public Offering granted ACE the right to require Air Canada to file a prospectus and otherwise assist with a public offering of shares that ACE holds in specified circumstances. In addition, Air Canada could issue and sell shares. Any sale by ACE or Air Canada of shares in the public market, or the perception that sales could occur could adversely affect prevailing market prices of the shares.

RELATIONSHIPS AND RELATED PARTY TRANSACTIONS BETWEEN AIR CANADA AND JAZZ, AEROPLAN AND ACTS

At December 31, 2007 and the date of this Annual Information Form, ACE had a 75% ownership interest in Air Canada. Air Canada has various related party transactions with ACE and other ACE-related entities, including Aeroplan, Jazz and ACTS. ACTS conducts the business previously operated by ACTS LP prior to the monetization of ACTS LP announced and completed by ACE on October 16, 2007.

Relationship between Air Canada and Jazz

ACE reported a 20.1% ownership interest in Jazz Air Income Fund at December 31, 2007. On January 24, 2008, ACE's ownership interest in Jazz Air Income Fund was reported to have been reduced to 9.5%.

Air Canada is a party to the following four agreements with Jazz: (i) the Jazz CPA; (ii) a master services agreement dated September 24, 2004 (the "Jazz MSA"); (iii) a trademark license agreement dated September 30, 2004 (the "Jazz Trademark License Agreement"); and (iv) a special trademark agreement dated September 30, 2004 (the "Jazz Special Trademark Agreement"). A brief description of these agreements is provided below.

Capacity Purchase Agreement with Jazz

Air Canada and Jazz have entered into the Jazz CPA which is substantially similar to capacity purchase agreements entered into by a number of North American regional carriers. Jazz provided Air Canada with substantially all of its regional airline capacity based on ASMs for the period from January to December 2007. Air Canada sets its and Jazz's schedules with the purpose of linking the regional and mainline networks in order to serve connecting passengers more efficiently and to provide a valuable traffic feed to Air Canada's mainline routes. Jazz's operations also complement Air Canada's operations by allowing more frequent service in lower density markets and higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States than could be economically provided with Air Canada's narrowbody jet aircraft.

Under the Jazz CPA, Jazz operates its flights on behalf of Air Canada using 133 Covered Aircraft, and provides all crews (flight and cabin), aircraft maintenance and, in some cases, airport operations for such flights (the "Scheduled Flights"). Air Canada determines routes and controls scheduling, ticket prices, product distribution, seat inventories, marketing and advertising for these flights. Air Canada is entitled to all revenues (except bar and buy-on-board sales) resulting from the Scheduled Flights and from cargo services carried on Scheduled Flights including, without limitation, ticket sales, baggage charges, passenger charges and employee pass travel service charges.

In addition to being reimbursed for all pass-through costs (such as costs for fuel, navigation, landing and terminal fees), Jazz is paid fees by Air Canada on a variety of different metrics based on Jazz's estimated Controllable Costs (as defined in the Jazz CPA) for each calendar year in the applicable period marked-up by a specified percentage. Such mark-up equates to a specified margin on Jazz's estimated Scheduled Flights Revenue (as defined in the Jazz CPA) for each calendar year in the applicable period. The fees payable by Air Canada to Jazz on a monthly basis are broken down into a number of categories. The payment categories fall into two broad groups: those that are variable depending on the Covered Aircraft (as defined in the Jazz CPA) utilization and those that remain unchanged regardless of how often or where or with what load factors the Covered Aircraft are utilized.

The most important of the variable payments for establishing Jazz's revenue is the block hour payment paid by Air Canada for each block hour flown by Jazz's Covered Aircraft. This payment varies with the block hours flown and the aircraft type. The other variable payments such as the cycle payment and, even more so, the passenger payment, are relatively small and calibrated to cover the specific costs associated with the activity (either a cycle or flying a passenger) to which they are linked. The other group of payments, such as aircraft rent, do not change regardless of the Covered Aircraft's utilization and are designed to meet Jazz's costs for these items plus a specified mark-up.

Until the expiry of the Jazz CPA in December 2015, Air Canada has agreed to pay Jazz for certain daily minimum levels of block hours for each Covered Aircraft other than aircraft being modified, undergoing schedule maintenance or being painted.

The initial term of the Jazz CPA expires December 31, 2015. There are two automatic renewal periods of five years each, subject to either party's right not to renew by notice at least one year prior to the expiration of the then applicable term. The rates under the Jazz CPA are subject to periodic adjustment with the next adjustment scheduled for the start of 2009.

Jazz MSA

Air Canada and Jazz are parties to the Jazz MSA pursuant to which Air Canada provides certain services to Jazz in return for a fee based on the fair market value of the services provided by Air Canada to Jazz. Pursuant to the Jazz MSA, Air Canada provides Jazz with infrastructure support consisting principally of administrative services in relation with information technology, corporate real estate, environmental affairs and legal services. Jazz benefits from certain information technology services available to Air Canada from third parties and from Air Canada's internal information technology resources.

Either Air Canada or Jazz may elect to terminate any services under the Jazz MSA (without terminating the whole Jazz MSA) or the entire Jazz MSA upon one year's prior written notice. The Jazz MSA terminates upon the termination of the Jazz CPA.

Jazz Trademark Agreements

Air Canada and Jazz are parties to the Jazz Trademark License Agreement pursuant to which Air Canada has granted Jazz a royalty-free, non-exclusive, non-sublicensable, non-assignable right to use certain trademarks owned or registered by Air Canada around the world including "Jazz" and certain trademarks which incorporate the Air Canada name, and/or Air Canada's roundel design, solely in association with the Jazz business. The Jazz Trademark License Agreement can be terminated in the event that the Jazz CPA is terminated. However, Air Canada and Jazz have also entered into a Jazz Special Trademark Agreement which would grant all of Air Canada's rights to the Jazz trademark to Jazz (and preclude Air Canada from using the Jazz trademark or licensing the Jazz trademark to third parties) upon the occurrence of certain events involving (i) the expiration or termination of the Jazz CPA if, at such time, Jazz is no longer an affiliate of Air Canada; (ii) the occurrence of a change of control pursuant to which Jazz ceases to be an affiliate of Air Canada if, at or prior to such time, the Jazz CPA has expired or has been terminated; or (iii) the sale or transfer of all or substantially all of the assets or business of Jazz to a third party that is not an affiliate of Air Canada if, at or prior to such time, the Jazz CPA has expired or has been terminated.

Jazz's Fleet

Jazz's fleet of CRJ-100/200 aircraft is subleased under various agreements (the "Jazz Aircraft Lease Agreements") from Air Canada or Air Canada Capital Ltd., a subsidiary of Air Canada, with such subleases expiring between 2008 and 2024. A total of 15 of the 16 Bombardier CRJ-705 Covered Aircraft currently in Jazz's fleet are subleased from Air Canada Capital Ltd., with such subleases expiring in 2022 and 2024. Of the 26 Dash 8-300 Covered Aircraft in Jazz's fleet, 19 aircraft are owned by Jazz and seven are leased from third parties, with such leases expiring between 2015 and 2016. Of the 34 Dash 8-100 Covered Aircraft in Jazz's fleet, 29 aircraft are owned by Jazz and five aircraft are leased from Air Canada Capital Ltd., with such leases expiring between 2008 and 2012.

The Jazz CPA provides that upon the expiry or termination of the Jazz CPA, other than termination as a result of a default by Jazz or Air Canada, all leases between Jazz and Air Canada (or any affiliate of Air Canada) in respect of Covered Aircraft and spare engines shall automatically be terminated and Air Canada (or the affiliate of Air Canada) shall have the right to repossess the Covered Aircraft and the spare engines. In the event that the Jazz CPA is terminated as a result of Jazz's default, all such leases will not be terminated and Jazz will remain liable for its obligations under the aircraft leases. If the Jazz CPA is terminated as a result of a default by Air Canada, Jazz shall have the right to terminate any of such leases, which right must be exercised concurrently with the termination of the Jazz CPA.

Scope Clauses

Scope clauses are an industry norm for network carriers operating in conjunction with regional carriers and are usually found in collective agreements of pilot union groups of network carriers. Jazz, like many regional airlines, is restricted by scope provisions in the collective agreement between Air Canada and the ACPA.

During the CCAA process, an agreement was reached between Air Canada, Jazz, ACPA and Air Line Pilots Association (“ALPA”), the Jazz pilots association. The agreement, known as the Small Jets Settlement Agreement, modifies the existing scope clauses, provides a process to allocate the future deliveries of regional jets between Air Canada and Jazz, determines the types and number of jets that can be flown by Jazz and provides mechanisms for resolving disputes over future regional jet additions to either fleet. There are no limits to the number of turboprop aircraft that Jazz may operate.

Pursuant to the Small Jets Settlement Agreement and related arbitration decisions:

- Jazz may maintain a fleet of 57 CRJ-100/200 aircraft;
- Jazz may also maintain a fleet of 16 CRJ-705 aircraft;
- If either Air Canada or Jazz seeks to increase the fleets beyond what is outlined above, they must notify ACPA and ALPA in writing of the proposed increase and then meet with ACPA and ALPA to discuss and, if possible, agree on the increase and any terms in connection therewith. Where no agreement is reached, the matter is referred to mediation, and, should the mediation fail, to arbitration where the matter will be decided on the basis of the business case put forward by the respective parties and the impact of the matter at hand on the respective pilot groups;
- Jazz may not operate the CRJ-705 aircraft if configured in excess of 75 seats, inclusive of all classes; and
- As was previously the case, Air Canada must ensure that a minimum of ASMs is flown by Air Canada compared to the ASMs flown by Jazz, as provided in the ACPA collective agreement.

Relationship between Air Canada and Aeroplan

ACE has reported holding a 20.1% ownership interest in Aeroplan Income Fund at December 31, 2007.

Air Canada has a long-term strategic relationship with Aeroplan, Canada's premier loyalty marketing program. Aeroplan® is Air Canada's frequent flyer program and offers its over four million active members the ability to accumulate Aeroplan® miles toward reward travel to destinations served by Air Canada, Jazz and worldwide partner airlines or toward other rewards.

Air Canada has entered into a long-term agreement with Aeroplan to sell seat capacity to Aeroplan. In 2007, approximately 80% of rewards claimed by Aeroplan® members were air travel rewards from Air Canada, Jazz and Star Alliance™ members.

Air Canada is a party to the following four agreements with Aeroplan: (i) the Aeroplan CPSA dated June 9, 2004 and last amended on October 13, 2006; (ii) an Amended and Restated Master Services Agreement dated May 13, 2005, effective January 1, 2005 (the “Aeroplan MSA”); (iii) a General Services Agreement dated May 13, 2005, effective January 1, 2005 (the “Aeroplan GSA”); and (iv) Trademark License Agreements dated May 13, 2005 and November 23, 2006 (the “Aeroplan Trademark License Agreements”). A brief description of these agreements is provided below.

Aeroplan CPSA

Pursuant to the Aeroplan CPSA, dated June 9, 2004 and last amended on October 13, 2006, Air Canada allocates 8% of the seat capacity to Aeroplan on the flights operated by Air Canada and Jazz and certain other air carriers under the "AC" code (collectively, the "AC Flights") at a fixed redemption cost.

In addition, Aeroplan can purchase an unlimited number of available seats based on published fares with a variable discount depending on the fare product. Any adjustment to this variable discount is based on an identified set of parameters. In 2007, the rates charged for such seat capacity were renegotiated in accordance with the Aeroplan CPSA for the period January 1, 2008 through to December 31, 2010. The Aeroplan CPSA also provides that Aeroplan will be charged the lowest fares charged to any other loyalty program taking into account Aeroplan's volume purchase of Air Canada's seat inventory.

Air Canada is one of Aeroplan's leading partners and it pays a fee to participate in the Aeroplan® program, which fee is based on the Aeroplan® miles awarded to Air Canada customers who travel on AC Flights. Aeroplan is required to purchase a minimum number of reward travel seats on AC Flights annually, which number is a function of Aeroplan's consumption of seats in the three preceding calendar years. Moreover, Air Canada is required to purchase a minimum number of Aeroplan® miles annually.

The Aeroplan CPSA also provides that Aeroplan shall, in return for a service fee, manage Air Canada's frequent flyer tier membership program for Air Canada Super Elite^(TM), Elite^(TM) and Prestige^(TM) customers, as well as perform certain marketing and promotion services for Air Canada, including call centre services for the frequent flyer tier membership program.

The Aeroplan CPSA prevents any other transportation business that competes with Air Canada (other than Star AllianceTM member airlines) from participating in the Aeroplan® program, provided that Aeroplan can have, as commercial partners, certain transportation companies such as car rental companies and cruise ship lines, with Air Canada's prior approval (not to be unreasonably withheld). This exclusivity provision shall cease to apply if, in four consecutive quarters based on a quarterly, year-over-year comparison, a very significant decrease occurs in the total seat capacity of Air Canada and Jazz (an "Air Canada Material Change"). Alternatively, Aeroplan may terminate the Aeroplan CPSA upon the occurrence of an Air Canada Material Change.

Air Canada is not permitted during the term of the Aeroplan CPSA to create or participate in any other frequent flyer program or customer loyalty recognition program other than programs with certain alliance partners who have agreed to give Aeroplan reciprocal access and internal programs that are not denominated in a reward currency, as well as certain other programs operated by third parties if particular conditions are met. This exclusivity provision shall cease to apply if, in four consecutive quarters based on a quarterly, year-over-year comparison, a very significant decrease occurs in the total number of Aeroplan® miles accumulated in the Aeroplan® program, provided that such decrease is unrelated to material reductions in the seat capacity of Air Canada and Jazz (an "Aeroplan Material Change"). Alternatively, Air Canada may terminate the Aeroplan CPSA upon the occurrence of an Aeroplan Material Change.

Under the Aeroplan CPSA, Air Canada retained responsibility for the miles to be redeemed from accumulations up to December 31, 2001. Aeroplan assumed responsibility for all miles issued beginning January 1, 2002. With the assistance of independent experts, Management re-estimated the number of miles expected to be redeemed. Effective October 13, 2006, by amendment, Air Canada has assumed responsibility for the redemption of up to 112 billion miles and, as a result, recorded a special charge of \$102 million for the incremental 9 billion miles. For further details, refer to Note 22 of Air Canada's consolidated financial statements for the year ended December 31, 2007, which Note 22 is incorporated herein by reference. Air Canada's combined consolidated financial statements for the year ended December 31, 2007 are available on SEDAR at www.sedar.com.

Subject to the foregoing, the Aeroplan CPSA expires on June 29, 2020 with four automatic renewals of five years each, unless either party provides written notice to the other of its intention not to renew at least 12 months prior to the expiry of the initial term or the then current renewal term. Either party is entitled to terminate the Aeroplan CPSA upon the occurrence of an event of default (as determined in accordance with the terms of the Aeroplan CPSA).

Aeroplan MSA

Air Canada and Aeroplan are parties to the Aeroplan MSA effective January 1, 2005, pursuant to which Air Canada provides certain services to Aeroplan in return for a fee based on Air Canada's fully-allocated cost of providing such services to Aeroplan plus a mark-up to reflect overhead and administrative costs. Pursuant to the Aeroplan MSA, Air Canada provides Aeroplan with infrastructure support which is mostly administrative in nature, including information technology, human resources, finance and accounting, and legal services. Aeroplan may elect to terminate any services under the Aeroplan MSA (without terminating the whole Aeroplan MSA) or the entire Aeroplan MSA upon six months' prior written notice. Air Canada may elect to terminate any services under the Aeroplan MSA (without terminating the whole Aeroplan MSA) or the entire Aeroplan MSA upon 18 months' prior written notice. These termination rights do not exist with regard to the information technology services provided pursuant to the Aeroplan MSA as those services shall only be terminated contemporaneously with the termination of the agreements between Air Canada and its third party service providers.

Aeroplan GSA

Air Canada and Aeroplan are parties to the Aeroplan GSA effective January 1, 2005, pursuant to which Air Canada provides Aeroplan with the services of a group of call centre employees of Air Canada. Aeroplan must reimburse Air Canada for all costs, including salary and benefits, related to the call centre employees on a fully-allocated basis. With regard to the shortfall in the pension plan maintained by Air Canada which covers, among others, these call centre employees, Aeroplan has agreed to pay an amount not to exceed \$11 million over a six-year period to compensate Air Canada for call centre employees' share of the unfunded Air Canada pension liability. The Aeroplan GSA has an indefinite term but either party may, subject to the collective agreement of the employees assigned to Aeroplan, terminate the GSA upon six months' notice.

Aeroplan Trademark License Agreements

Pursuant to the Aeroplan Trademark License Agreements, Air Canada and Aeroplan have each granted the other party a royalty-free, non-exclusive, non-sublicensable, non-assignable right to use certain trademarks registered by the other party. The Aeroplan Trademark License Agreements can be terminated in the event the Aeroplan CPSA is terminated.

Relationship between Air Canada and ACTS

On October 16, 2007, ACE announced the completion of the monetization of ACTS LP pursuant to which ACTS LP sold substantially all of its assets, liabilities and business to ACTS. ACTS conducts the business previously operated by ACTS LP. ACE has reported holding a 23% interest in ACTS as at October 16, 2007. The ACTS Maintenance Agreements, the ACTS Master Services Agreement, the ACTS Trademark License Agreement, the ACTS Repair Schemes and Non-Compete Agreement and the ACTS General Services Agreements, all between Air Canada and ACTS LP and described below were assigned from ACTS LP to ACTS upon completion of the monetization of ACTS announced and completed by ACE on October 16, 2007.

ACTS and Air Canada are parties to the following agreements: (i) a general terms and related services agreements effective October 1, 2006 (the "ACTS Maintenance Agreements") (ii) an amended and restated master services agreement effective as of January 1, 2007 (the "ACTS MSA"); (iii) a trademark license agreement dated September 24, 2004, last amended as of October 16, 2007 (the "ACTS Trademark License Agreement"), (iv) a general services agreement dated September 24, 2004, last amended and restated June 22, 2007, with respect to certain unionized employees employed by Air Canada (the "ACTS GSA"); (v) a pension and benefits agreement effective as of October 16, 2007, relating to pension and benefits arrangements pertaining to certain non-unionized and unionized employees of Air Canada ("ACTS Pension and Benefits Agreement"); (vi) a non-compete and repair schemes transfer agreement, effective as of October 16, 2007 relating to certain non-compete undertakings and the transfer of repair schemes (the "ACTS Repair Schemes and Non-Compete Agreement"); and (vii) various other real estate agreements. A brief description of these agreements is provided below.

ACTS Maintenance Agreements

Pursuant to the ACTS Maintenance Agreements, ACTS provides technical services to Air Canada including engine and auxiliary power unit maintenance services, aircraft heavy maintenance services (excluding line and cabin maintenance services which are provided by Air Canada), component maintenance services, paint services, training services and ancillary services. ACTS serves as Air Canada's exclusive repair agency in respect of aircraft heavy maintenance, engine maintenance, auxiliary power unit maintenance services as well as for maintenance services relating to certain components. ACTS serves as Air Canada's non-exclusive repair agency in respect of other services provided. Except for the services agreement relating to aircraft heavy maintenance services which expires in October 2011 and the services agreement relating to paint services which expires in October 2009, each of the agreements referred to above expires in October 2013.

ACTS MSA

ACTS and Air Canada are parties to an amended and restated master services agreement (the "ACTS MSA"), effective January 1, 2007, pursuant to which Air Canada provides ACTS with services including infrastructure support and services which are mostly administrative in nature, including information technology, human resources, finance and accounting, and claims services in return for fees paid by ACTS to Air Canada. ACTS may elect to terminate any services under the ACTS MSA or the entire ACTS MSA upon six months' prior written notice, with the exception of services relating to information technology which ACTS cannot terminate prior to the expiry of the ACTS MSA. Air Canada may elect to terminate any services under the ACTS MSA or the entire ACTS MSA upon 18 months' prior written notice.

ACTS Trademark License Agreement

ACTS and Air Canada are parties to a trademark license agreement (the "ACTS Trademark License Agreement"), effective September 30, 2004, pursuant to which Air Canada has granted ACTS a royalty-free, non-exclusive, non-assignable right to use certain Air Canada trademarks which incorporate the Air Canada name, and Air Canada's roundel design, solely in association with the provision of heavy maintenance, component maintenance and supply chain business services in Canada and the United States. The ACTS Trademark License Agreement was amended on completion of ACE's monetization of ACTS LP to provide for the termination of the agreement on October 16, 2008.

General Services Agreement

Pursuant to the ACTS GSA, Air Canada provides ACTS with the services of a group of unionized employees for which Air Canada is reimbursed by ACTS for all costs, including salary and benefits, on a fully allocated basis. Non-unionized employees, previously assigned to ACTS under another general services agreement, were transferred to ACTS on October 16, 2007. The ACTS GSA may be terminated by either party at any time upon 30 days' prior written notice.

ACTS Pension and Benefits Agreement

Air Canada, ACTS LP and ACTS entered into the ACTS Pension and Benefits Agreement, relating to pension and benefits arrangements pertaining to non-unionized and unionized employees of Air Canada who were previously assigned to ACTS LP pursuant to general services agreements between Air Canada and ACTS LP. On October 16, 2007, non-unionized employees of Air Canada who were previously assigned to the ACTS LP operation became employees of ACTS. New defined benefit and defined contribution pension plans as well as other employee and retiree benefit arrangements (including health, life and disability) are to be established by ACTS (the "ACTS Benefit Arrangements"). Upon receipt of regulatory approval where required and based upon valuations of the relevant pension and benefit arrangements of Air Canada (the "Air Canada Benefit Arrangements") as at October 16, 2007, the assets and obligations under the Air Canada Benefit Arrangements pertaining to the transferring non-unionized employees will be transferred to ACTS or the ACTS Benefit Arrangements, as applicable. Any solvency deficiency in the defined benefit pension plans as at October 16, 2007 related to transferring non-unionized employees will be funded by Air Canada through quarterly payments to ACTS until 2014. The accounting liability as at October 16, 2007 in respect of retiree and disability benefits related to transferring non-unionized employees will be funded by Air Canada through quarterly payments to ACTS until 2012.

In addition, the ACTS Pension and Benefits Agreement contemplates similar asset and liability transfer and compensation arrangements in respect of unionized employees, which arrangements would take effect at such future time as those unionized employees may be transferred from Air Canada to ACTS. However, the solvency deficiencies in respect of transferring unionized employees for which the future quarterly compensation payments would be made are determined as at October 16, 2007, subject to certain adjustments, and the discount rate used to compute the accounting liability for the unionized employees' retiree and disability benefits is fixed as at October 16, 2007. The compensation payments in respect of these solvency deficiencies and accounting liabilities would be made quarterly during the five years beginning after the unionized employees are transferred to ACTS, but only if such a transfer occurs. Until such future time as the assets and obligations under the Air Canada Benefit Arrangements pertaining to unionized employees may be transferred to ACTS, the current service pension cost and the current service and interest costs for other employee benefits in respect of Air Canada employees providing services to ACTS are charged to ACTS.

The ACTS Pension and Benefits Agreement also required that Air Canada provide letters of credit to ACTS on October 16, 2007, to secure the above-described payment obligations in respect of the solvency deficiencies of the defined benefit pension plans and accounting liabilities for other retiree and disability benefit arrangements. The letters of credit total \$101 million, subject to adjustment once the exact amounts of the relevant solvency deficiencies and accounting liabilities as at October 16, 2007 are determined by actuarial valuations. The face amount of the letter of credit in respect of the unionized solvency deficiency is also adjusted annually to recognize past service costs paid by Air Canada to the plan in respect of unionized employees assigned to ACTS. The face amounts of the letters of credit decrease as the related quarterly funding payments described above are made. ACTS may call the letters of credit in whole or in part, in the event of a default as defined in the ACTS Pension and Benefits Agreement.

Non-Compete and Repair Schemes Transfer Agreement

ACTS and Air Canada are parties to the Non-Compete and Repair Schemes Transfer Agreement. Generally described, repair schemes are processes and methods which may be used in the maintenance and repair of aircraft and related equipment. The ACTS Repair Schemes and Non-Compete Agreement confirmed an arrangement and provides for the sale from Air Canada to ACTS (as successor to ACTS LP) of an undivided joint ownership interest in repair schemes owned by Air Canada or approved under Air Canada's airworthiness engineering organization as well as the sale from ACTS to Air Canada of an undivided joint ownership interest in the repair schemes owned or developed by ACTS and applicable to airframe heavy maintenance services provided by ACTS to Air Canada under the parties' airframe heavy maintenance services agreement.

The ACTS Repair Schemes and Non-Compete Agreement also restricts Air Canada's ability to own any equity interest in an entity (other than entities in which Air Canada previously held interests), or to carry on a business activity, related to the following commercial maintenance, repair and overhaul services in the airline industry, namely, airframe heavy maintenance and paint services, engine and auxiliary power unit ("APU") overhaul maintenance services, and component maintenance services. The applicable non-compete periods are as follows:

- With respect to airframe heavy maintenance services and paint services, the non-compete period ends one year after the current heavy maintenance services agreement is terminated or expires (the current term of the heavy maintenance services agreement expires October 1, 2011);
- With respect to engine and APU overhaul maintenance services, the non-compete period ends on October 1, 2015; and
- With respect to component maintenance services, the non-compete period ends on October 1, 2016.

The ACTS Repair Schemes and Non-Compete Agreement does not restrict Air Canada from holding interests in any entities in which it held interests at the time of concluding the agreement nor does it limit Air Canada's line maintenance activities which it continues to operate.

In consideration for the transfer of repair schemes, Air Canada received \$20 million in 2007.

Real Estate Agreements

As part of the completion of ACE's monetization of ACTS LP, Air Canada sold a building to ACTS, effective as of October 16, 2007. In connection with the sale of the building, Air Canada and ACTS entered into a land lease for certain land contiguous with the building and a service contract whereby Air Canada provides ACTS with certain services related to the operation of the building. Air Canada and ACTS are also parties to a master lease agreement, effective as of October 1, 2006, pursuant to which Air Canada leases space to ACTS at the Vancouver, Winnipeg, Toronto and Montreal airports.

RELATIONSHIP BETWEEN AIR CANADA AND ACE

General

ACE owns, of record and beneficially, 75% of the outstanding Shares of Air Canada.

See "Corporate Structure — Intercorporate Relationship" for a chart illustrating, on a simplified basis, the current structure of Air Canada (including the jurisdictions of establishment/incorporation of the various entities).

Independent Review Process

Any material commercial transaction involving ACE or any of ACE's affiliates (other than Air Canada), on the one hand, and Air Canada, on the other hand, will be considered and approved by the directors of Air Canada who are independent of ACE as defined in National Policy 58-201 — Corporate Governance Guidelines ("Independent") and who are not directors or officers of ACE or its subsidiaries (other than Air Canada).

Master Services Agreement

Pursuant to the amended master services agreement effective as of January 1, 2007 ("ACE-AC MSA"), Air Canada has agreed to provide certain administrative services to ACE in return for a fee. Such services relate to finance and accounting, information technology, human resources and other administrative services.

Registration Rights Agreement

On the closing of the Initial Public Offering, Air Canada entered into a registration rights agreement (the "Registration Rights Agreement") with ACE pursuant to which ACE has been granted certain demand and "piggy-back" registration rights by Air Canada, subject to certain restrictions, which enables ACE to require Air Canada to file a prospectus and otherwise assist with a public offering of Shares under Canadian securities laws, in accordance with the terms and conditions contained in the Registration Rights Agreement. The Registration Rights Agreement covers all Shares that are held by ACE or permitted transferees. The registration rights under the Registration Rights Agreement may be exercised in respect of all or, from time to time, in respect of a portion of the Shares held by ACE or permitted transferees, in accordance with the terms and conditions contained in the Registration Rights Agreement.

The costs of any public offerings of Shares will be borne by Air Canada, other than any applicable underwriters' commissions which will be borne by ACE. The Registration Rights Agreement obligates Air Canada to provide indemnification and contribution for the benefit of ACE and its affiliates and representatives and any underwriters.

MARKET FOR SECURITIES

The Variable Voting Shares and the Voting Shares are traded on the TSX under the trading symbols "AC.A" and "AC.B", respectively. The following table sets forth the price range and trading volume of the Variable Voting Shares and the Voting Shares as reported by the TSX for the months of January to, and including, December 2007:

2007	Variable Voting Shares				Voting Shares			
	High	Low	Average Daily Trading Volume	Total Monthly Volume	High	Low	Average Daily Trading Volume	Total Monthly Volume
January.....	19.65	17.60	408,394	8,984,658	19.60	17.50	186,132	4,094,897
February.....	20.39	18.00	201,392	4,027,837	20.25	18.04	105,119	2,102,385
March	18.73	16.13	123,395	2,714,687	18.62	16.13	66,039	1,452,855
April	18.24	15.70	202,387	4,047,733	17.70	15.66	159,734	3,194,672
May.....	16.73	13.90	261,924	5,762,319	16.62	13.76	78,839	1,734,467
June.....	14.69	13.22	169,832	3,566,477	14.59	13.38	152,981	3,212,600
July	14.74	12.77	151,075	3,172,580	14.59	12.73	60,243	1,265,105
August	13.23	10.00	295,196	6,494,318	13.02	10.10	93,336	2,053,385
September.....	13.77	10.98	211,327	4,015,205	13.97	11.00	105,727	2,008,805
October	17.06	13.26	405,797	8,927,542	16.91	13.30	89,226	1,962,979
November	17.47	11.62	430,403	9,468,861	17.40	11.75	92,226	2,028,967
December.....	12.86	11.46	128,148	2,434,817	12.79	11.45	30,807	585,339

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Variable Voting Shares and the Voting Shares of Air Canada is CIBC Mellon Trust Company at its principal offices in Montreal, Toronto, Vancouver, Calgary and Halifax.

DIVIDEND RECORD

The Corporation has not declared or paid dividends on its Voting Shares and Variable Voting Shares for the year ended December 31, 2007.

Air Canada's current policy is to reinvest earnings in order to finance the growth and development of its business. As a result, Air Canada does not intend to pay dividends in the foreseeable future. Any future determination to pay cash dividends is at the discretion of Air Canada's board of directors and will depend on Air Canada's financial condition, results of operations, capital requirements and such other factors as Air Canada's board of directors deems relevant.

DESCRIPTION OF CAPITAL STRUCTURE

The share capital of Air Canada is comprised of an unlimited number of Variable Voting Shares and Voting Shares. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares and the Voting Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of Air Canada's articles of incorporation, as amended.

Variable Voting Shares

Voting

The holders of the Variable Voting Shares shall be 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.

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians, as such term is defined in the CTA ("Qualified Canadians") and are entitled to one vote per Variable Voting Share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of votes attaching to all issued and outstanding voting shares, exceeds 25% or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of Air Canada and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% of the votes that may be cast at such meeting.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of Air Canada properly applicable to the payment of dividends, any dividends declared and payable by Air Canada on the Variable Voting Shares and the Variable Voting Shares shall 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 shall 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 shall 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 shall be entitled to receive the remaining property of Air Canada and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Each 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 (i) such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Qualified 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 shall become convertible at the option of the holder into one Voting Share that shall be 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 shall 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 shall be reconverted automatically and without further act from Air Canada or the holder, into Variable Voting Shares.

There shall be 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 Air Canada articles of incorporation.

Constraints on Ownership of Shares

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians.

Voting Shares

Voting

The holders of the Voting Shares shall be 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 shall confer 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 shall, at the discretion of the directors, be 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 and the Voting Shares shall 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 shall 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 shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada ranking senior to the Voting Shares, upon liquidation, dissolution or winding up of Air Canada or other distribution of Air Canada's assets among its shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable Voting Shares shall be entitled to receive the remaining property of Air Canada and shall 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 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 not a Qualified 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 shall become convertible at the option of the holder into one Variable Voting Share that shall be 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 shall 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 shall be reconverted automatically and without further act from Air Canada or the holder, into Voting Shares.

There shall be 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 Air Canada articles of incorporation.

Constraints on Ownership of Shares

The Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Qualified Canadians.

Residency Declaration

Air Canada's articles of incorporation, as amended, provide that: (i) the Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by persons who are Qualified Canadians; and (ii) the Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians.

Repurchase of Shares

Air Canada will be allowed, from time to time, to purchase shares for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase will constitute an "issuer bid" under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Information and Reports

Air Canada will furnish to shareholders, in accordance with applicable securities laws, all financial statements of Air Canada (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of shareholders' tax returns under the *Income Tax Act* (Canada) and the regulations thereunder, as amended (the "Tax Act") and equivalent provincial legislation.

Prior to each meeting of shareholders, the board of directors of Air Canada will provide to the shareholders (along with notice of the meeting) a form of proxy and all information as is required by applicable law and the rules of the TSX to be provided to shareholders.

The directors and senior officers of Air Canada will be required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in securities of Air Canada.

Officers

The board of directors of Air Canada may from time to time appoint one or more officers of Air Canada. A majority of the officers of Air Canada shall be residents of Canada within the meaning of the Tax Act and Canadians within the meaning of the CTA.

DIRECTORS AND OFFICERS

Directors

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

Name and Municipality of Residence	Principal Occupation	Director Since
Bernard Attali ⁽¹⁾⁽³⁾⁽⁵⁾ Paris, France	Senior Advisor (France), TPG Capital	November 15, 2006
Montie R. Brewer..... Hudson, Québec	President and Chief Executive Officer, Air Canada	March 8, 2005
Brian Dunne Westmount, Québec	Executive Vice President and Chief Financial Officer, ACE	November 15, 2006
Pierre Marc Johnson ⁽¹⁾⁽³⁾⁽⁴⁾ Montreal, Québec	Senior Counsel, Heenan Blaikie LLP	November 15, 2006 ⁽⁶⁾
Robert G. Long ⁽²⁾⁽⁵⁾ Thornhill, Ontario	Corporate Director	January 1, 2008
Arthur T. Porter ⁽²⁾⁽⁴⁾⁽⁵⁾ Montreal, Québec	Director General and Chief Executive Officer, McGill University Health Centre	November 15, 2006
David I. Richardson ⁽¹⁾ Grafton, Ontario	Corporate Director	September 30, 2004 ⁽⁷⁾
Vagn Sørensen ⁽²⁾⁽³⁾⁽⁴⁾ Holte, Denmark	Corporate Director	November 15, 2006
Marvin Yontef ⁽¹⁾⁽³⁾ Toronto, Ontario	Senior Partner, Stikeman Elliott LLP	September 30, 2004

(1) Is currently also a director of ACE.
 (2) Member of the Audit, Finance and Risk Committee.
 (3) Member of the Governance and Corporate Matters Committee.
 (4) Member of the Human Resources and Compensation Committee.
 (5) Member of the Nominating Committee.
 (6) Mr. Johnson was also a director of Air Canada from May 2000 to September 2004.
 (7) Mr. Richardson has been a director of Air Canada since September 2004 and became Chairman of the Board of Air Canada on January 1, 2008.

Unless otherwise indicated below, each of the directors has held the occupation listed above for more than five years. Mr. Brewer was Executive Vice President, Commercial, Air Canada from 2002 to 2004. Mr. Dunne was Chief Financial Officer and Director of Aer Lingus Group Plc from 2002 to 2005. Mr. Porter was President and Chief Executive Officer of the Detroit Medical Center from 1999 to 2003. Mr. Richardson was Chairman, Ernst & Young Inc. and Senior Partner, Ernst & Young LLP (Canada) from 1987 to 2002. Mr. Sørensen was President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006.

Officers

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

Name and Municipality of Residence	Position with Air Canada	Principal Occupation	Executive Officer Since
David I. Richardson Grafton, Ontario	Chairman of the Board	Corporate Director	January 1, 2008
Montie R. Brewer..... Hudson, Québec	President and Chief Executive Officer	President and Chief Executive Officer, Air Canada	April 1, 2002
Duncan Dee..... Ottawa, Ontario	Executive Vice President, Customer Experience and Chief Administrative Officer	Executive Vice President, Customer Experience and Chief Administrative Officer, Air Canada	November 1, 2002
Robert (Rob) Reid..... Oakville, Ontario	Executive Vice President and Chief Operating Officer	Executive Vice President and Chief Operating Officer, Air Canada	October 9, 2000
Michael Rousseau Oakville, Ontario	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer, Air Canada	October 22, 2007
Benjamin M. Smith..... Toronto, Ontario	Executive Vice President and Chief Commercial Officer	Executive Vice President and Chief Commercial Officer, Air Canada	April 26, 2004
Lise Fournel Lachine, Québec	Senior Vice President, E-Commerce and Chief Information Officer	Senior Vice president, E-Commerce and Chief Information Officer, Air Canada	April 10, 1995
Kevin Howlett Delta, British Columbia	Senior Vice President, Employee Relations	Senior Vice President, Employee Relations, Air Canada	March 18, 2002
Alan Butterfield Beaconsfield, Québec	Vice President, Air Canada Maintenance and Engineering	Vice President, Air Canada Maintenance and Engineering, Air Canada	February 19, 2007
Yves Dufresne..... Montreal, Québec	Vice President, International and Regulatory Affairs	Vice President, International and Regulatory Affairs, Air Canada	April 26, 2004
Lucie Guillemette..... Pierrefonds, Quebec	Vice President, Revenue Management	Vice President, Revenue Management, Air Canada	February 6, 2008
Carolyn M. Hadrovic Beaconsfield, Québec	Corporate Secretary	Corporate Secretary, ACE and Air Canada	February 16, 2006

Name and Municipality of Residence	Position with Air Canada	Principal Occupation	Executive Officer Since
Chris Isford Winnipeg, Manitoba	Controller	Controller, Air Canada	November 1, 2006
Julie Laviolette Beaconsfield, Québec	Vice President, Procurement	Vice President, Procurement, Air Canada	May 10, 2006
Priscille LeBlanc, Toronto, Ontario	Vice President, Corporate Communications	Vice President, Corporate Communications, Air Canada	November 12, 2007
David Legge Mississauga, Ontario	Vice President, Flight Operations	Vice President, Flight Operations, Air Canada	March 1, 2006
Charles D. McKee, Jr. Toronto, Ontario	Vice President, Marketing	Vice President, Marketing, Air Canada	August 10, 2006
Scott Morey Oakville, Ontario	Vice President, Labour Relations	Vice President, Labour Relations, Air Canada	January 15, 2007
Marc Rosenberg Toronto, Ontario	Vice President, Sales and Product Distribution	Vice President, Sales and Product Distribution, Air Canada	November 6, 1996
David J. Shapiro Hampstead, Québec	Vice President and General Counsel	Vice President and General Counsel, Air Canada	November 12, 2004
Daniel Shurz Montreal, Québec	Vice President, Network Planning	Vice President, Network Planning, Air Canada	August 10, 2006
Susan Welscheid Town of Mont Royal, Québec	Vice President, Customer Service — In-Flight, Call Centres and Customer Relations	Vice President, Customer Service — In-Flight, Call Centres and Customer Relations, Air Canada	December 13, 1999
Chantal Baril Pointe-Claire, Québec	President and Chief Executive Officer, Air Canada Ground Handling	President and Chief Executive Officer, Air Canada Ground Handling Services	May 12, 2005
Claude Morin Montreal, Québec	President and Chief Executive Officer, Air Canada Cargo	President and Chief Executive Officer, Air Canada Cargo	March 2, 2000

Unless otherwise indicated below, each of the officers has held a position with Air Canada similar to that listed above for more than five years. Mr. Brewer was Executive Vice President, Commercial, Air Canada from 2002 to 2004. Mr. Dee was Senior Vice President, Corporate Affairs and Chief Administrative Officer, ACE, from 2004 to 2007 and Senior Vice President, Corporate Affairs, Air Canada from 2002 to 2004. Mr. Reid was Senior Vice President, Operations, Air Canada from 2004 to 2005, President and Chief Executive Officer, ACTS from 2003 to 2004 and Vice President, Systems Operation Control, Air Canada from 2000 to 2003. Mr. Rousseau was President, Hudson's Bay Company from 2006 to 2007 and Executive Vice President and Chief Financial Officer, Hudson's Bay Company from 2001 to 2006. Mr. Smith was President and Chief Executive Officer, Air Canada Vacations from 2006 to 2007 and Vice President, Network Planning, Air Canada from 2004 to 2006. Mr. Butterfield was Vice President, Line and Airframe Maintenance at United Airlines from 2004 to 2007. Mr. Dufresne was Senior Director, Bilaterals and International Regulatory Affairs, Air Canada from 1999 to 2004. Ms. Guillemette was Senior Director, Human Resources, Air Canada from 2007 to 2008 and Senior Director, Network Management, Air Canada from 2001 to 2007. Ms. Hadrovic was Deputy Secretary of ACE before being appointed Corporate Secretary in December 2005 and previously, Senior Counsel, Regulatory and International Law, with Air Canada. Mr. Isford was Manager, Financial Reporting, Air Canada from 2001 to 2004, Director, Financial Reporting, Air Canada from 2004 to 2005 and Senior Director, Financial Reporting, Air Canada from 2005 and 2006. Ms. Laviolette was Vice President, Procurement and Corporate Real Estate, Air Canada from 2006 to 2007, Senior Director, Procurement, Air Canada from 2005 to 2006 and Senior Director, Strategic Purchasing, Air Canada from 2004 to 2005. Ms. LeBlanc was Senior Director, Corporate Communications, Air Canada from 2000 to 2007. Captain Legge was Director, Flight Technical, Air Canada from 2004 to 2006 and Chief Pilot, Flight Standards, Air Canada from 2002 to 2004. Mr. McKee was Senior Director, Strategic Marketing, Air Canada prior to his appointment as Vice President, Marketing, Air Canada in August 2006. Mr. Morey was Director, Labour and Employee Relations, Coca Cola Bottling Company from 2004 to 2007. Mr. Shapiro was Assistant General Counsel, Air Canada from 2000 to 2004. Mr. Shurz was General Manager, Bus Operations, Archer Garage for the Chicago Transit Authority from 2003 to 2005, Director, Business Development Airports, Air Canada, from 2005 to 2006 and Senior Director, Airports, Air Canada in 2006. Ms. Welscheid was Vice President, In-Flight Services, Air Canada from 2004 to 2007 and Vice President, People, Air Canada from 1999 to 2004. Ms. Baril was General Manager, Customer Service - Airports, Air Canada from 2003 to 2005.

As at March 27, 2008, the directors and officers mentioned above, as a group, owned, or had control or direction over, directly or indirectly, 77,907 Voting Shares representing approximately 0.09% of the outstanding Voting Shares and 9,300 Variable Voting Shares representing approximately 0.05% of the outstanding Variable Voting Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Air Canada, no director or executive officer of Air Canada is, as at the date of the Annual Information Form, or was, within 10 years before the date of the Annual Information Form, a director, chief executive officer or chief financial officer of any company that, (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an "Order") that was issued while the director or executive officer of Air Canada was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an Order that was issued after the director or executive officer of Air Canada ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the knowledge of Air Canada, no director or executive officer of Air Canada, or a shareholder holding a sufficient number of securities of Air Canada to affect materially the control of Air Canada, (a) is, as at the date of the Annual Information Form, or has been within the 10 years before the date of the Annual Information Form, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of the Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder of Air Canada, except for:

- (i) Montie R. Brewer was Senior Vice President, Planning for United Airlines until March 31, 2002. UAL Corp., the parent company of United Airlines, filed for protection under Chapter 11 of the U.S. Bankruptcy Code on December 9, 2002. Montie R. Brewer was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (ii) Pierre Marc Johnson was a director of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (iii) Robert (Rob) Reid was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (iv) Lise Fournel was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (v) Marc Rosenberg was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (vi) Alan Butterfield was appointed Vice-President, Line and Airframe Maintenance at United Airlines in March 2004 while United Airlines was operating under bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code;
- (vii) Kevin Howlett was an executive officer when CAIL restructured under the CCAA pursuant to a plan of compromise which became effective on July 5, 2000. CAIL's common shares and non-voting shares were suspended from trading by the TSX on June 27, 2000 and delisted on July 6, 2000. Kevin Howlett was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (viii) Susan Welscheid was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003; and
- (ix) Claude Morin was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003.

To the knowledge of Air Canada, no director or executive officer of Air Canada or a shareholder holding a sufficient number of securities of Air Canada to affect materially the control of Air Canada, (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

AUDIT COMMITTEE

Audit Committee Charter

The charter of the Audit, Finance and Risk Committee (“Audit Committee”) is attached as Appendix A to this Annual Information Form.

Composition of Audit Committee

The Audit Committee of Air Canada consists of Robert G. Long (chairman), Arthur T. Porter and Vagn Sørensen. Each member of the Audit Committee is independent and financially literate as defined under Multilateral Instrument 52-110 – *Audit Committees*.

Relevant Education and Experience of Audit Committee Members

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

- (i) Robert G. Long is the former Vice-Chairman of Ernst & Young LLP. Mr. Long joined its predecessor Clarkson, Gordon & Co. in 1963. Mr. Long was also a member of the Executive and Management Committee of Ernst & Young LLP, and a senior partner in the international audit practice until his retirement from the partnership in 2001. Mr. Long holds a Bachelor of Commerce degree from the University of Toronto and is a member and a Fellow of the Institute of Chartered Accountants of Ontario.
- (ii) Arthur T. Porter has been the Director General and Chief Executive Officer of the McGill University Health Centre since January 2004. Dr. Porter is also a Professor of Oncology at McGill University and was the President and Chief Executive Officer of the Detroit Medical Center from 1999 to 2003. Dr. Porter has extensive clinical, research and administrative experience in a university teaching hospital environment. Dr. Porter has also acted as consultant for several major companies in the airline and energy sectors with respect to healthcare and logistical challenges. Dr. Porter is a director of Adherex, a publicly traded biotechnology company and a director and member of the Audit Committee of the Munder Funds. Dr. Porter holds a Medical Degree from the Cambridge School of Clinical Medicine, a Master of Business Administration from the University of Tennessee and Certificates in Medical Management from Harvard University and the University of Toronto.
- (iii) Vagn Sørensen is Chairman of Select Service Partner Ltd., BTX Group A/S and Scandis Hotels AB, and Vice Chairman of TDC A/S, DFDS A/S and ST Global. Mr. Sørensen was President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006, and previously held various senior marketing and management positions with SAS Scandinavian Airlines. Mr. Sørensen has served as Chairman of the Association of European Airlines, member of the Board of Governors of the International Air Transport Association and member of the Board of Vienna Stock Exchange. Mr. Sørensen holds a Master of Economics Degree from Aarhus Business School, Denmark.

Pre-approval Policies and Procedures

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

The Audit Committee will also require and review a report from the external auditor of all relationships between the external auditor and its related entities and the Corporation and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee will also review steps taken by the external auditor to address any findings in any of the foregoing reviews.

Auditors' Fees

PricewaterhouseCoopers LLP has served as the Corporation's auditing firm since April 26, 1990. Fees payable for the years ended December 31, 2007 and December 31, 2006 to PricewaterhouseCoopers LLP and its affiliates are \$2,354,582 and \$2,215,397, respectively. Fees payable to PricewaterhouseCoopers LLP and its affiliates in 2007 and 2006 are detailed below.

	Year ended December 31, 2007	Year ended December 31, 2006
Audit fees	\$2,039,178	\$1,794,807
Audit-related fees	297,404	390,590
Tax fees	18,000	30,000
All other fees	Nil	Nil
	\$2,354,582	\$2,215,397

The nature of each category of fees is described below.

Audit fees

Audit fees were paid for professional services rendered for the audit of the Corporation's annual financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements, including services with respect to the Initial Public Offering and the prospectuses filed in connection with such offering in 2006.

Audit-related fees

Audit-related fees were paid for professional services related to pension plan audits, specified procedures reports and other items related to the audit.

Tax fees

Tax fees were paid for professional services rendered with respect to income taxes.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set out below or described elsewhere in this Annual Information Form, none of the directors or senior officers, as applicable, of (i) Air Canada, (ii) ACE, or (iii) any associate or affiliate of the persons referred to in (i) and (ii), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or is reasonably expected to materially affect Air Canada or any of its subsidiaries. Air Canada is a party to the following agreements with ACE and other ACE-related entities, including Aeroplan, Jazz and ACTS:

- (i) the Registration Rights Agreement;
- (ii) the Jazz CPA;
- (iii) the Aeroplan CPSA;
- (iv) the Aeroplan GSA;
- (v) the ACTS GSA;
- (vi) the ACTS Maintenance Agreements.

For a description of such agreements, see “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS” of this Annual Information Form.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and registrar for the Variable Voting Shares and Voting Shares of Air Canada is CIBC Mellon Trust Company at its principal transfer offices in Montreal, Toronto, Vancouver, Calgary and Halifax.

LEGAL PROCEEDINGS

A description of certain legal proceedings to which Air Canada is a party appears under the heading “Current Legal Proceedings” in the Risk Factors section of this Annual Information Form.

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2007 or before such year but which are still in effect, and which are required to be filed with Canadian securities regulatory authorities in accordance with section 12.2 of National Instrument 51-102 — Continuous Disclosure Obligations, are as follows:

- (i) the Registration Rights Agreement, described under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACE — Registration Rights Agreement”;
- (ii) the Jazz CPA, described under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Jazz — Capacity Purchase Agreement with Jazz”;
- (iii) the ACTS GSA, described under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS — General Services Agreement”;
- (iv) the Aeroplan GSA, described under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Aeroplan - Aeroplan GSA”;
- (v) the Amended and Restated Credit Agreement, described under “Business of Air Canada — Debt Financing”;

- (vi) the Aircraft General Terms Agreement AGTA-ACN and related agreements between The Boeing Company and Air Canada dated November 4, 2005, described under “Three-Year Summary: Evolution of Business — Boeing Purchase Agreement”.

EXPERTS

The Corporation's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have issued an independent auditor's report dated February 6, 2008 in respect of the Corporation's consolidated financial statements as at December 31, 2007 and December 31, 2006 and for each of the years ended December 31, 2007 and December 31, 2006. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Corporation within the meaning of the Code of Ethics of the Ordre des comptables agréés du Québec.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Air Canada's securities and securities authorized for issuance under equity compensation plans are contained in Air Canada's management proxy circular for its 2007 annual and special meeting of shareholders which can be found on www.sedar.com and Air Canada's management proxy circular for its 2008 annual meeting of shareholders, scheduled for May 21, 2008, which will be filed on www.sedar.com in April 2008. Additional financial information is provided in Air Canada's consolidated financial statements and management's discussion and analysis for the year ended December 31, 2007. The above information and additional information relating to Air Canada are available on SEDAR at www.sedar.com.

The following documents can be obtained by sending your request to the Corporate Secretary of Air Canada, at Air Canada Centre, P.O. Box 14000, Station Airport, Dorval, Québec, H4Y 1H4:

- (i) this Annual Information Form, together with any document incorporated herein by reference;
- (ii) the Consolidated Financial Statements of Air Canada as at and for the year ended December 31, 2007, including the auditor's report and notes related thereto, the Management's Discussion and Analysis of results of Operations and Financial Conditions of Air Canada for the year ended December 31, 2007 and any interim financial statements filed after the audited financial statements for Air Canada's most recently completed financial year; and
- (iii) any other documents that are incorporated by reference into a short form prospectus pursuant to which securities of Air Canada are in the course of a distribution.

Except when securities of Air Canada are in the course of distribution pursuant to a short form prospectus, Air Canada may require the payment of a reasonable charge from persons, other than securityholders of Air Canada, requesting copies of these documents.

GLOSSARY OF TERMS

“**AC Flights**” means the flights operated by Air Canada and Jazz and certain other air carriers under the “AC” code;

“**ACE**” means ACE Aviation Holdings Inc., a corporation incorporated under the CBCA;

“**ACE-AC MSA**” shall have the meaning ascribed thereto under “Relationship between Air Canada and ACE”;

“**ACPA**” means Air Canada Pilots Association;

“**ACTS**” means ACTS Aero Technical Support & Services Inc.;

“**ACTS GSA**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS”;

“**ACTS Maintenance Agreements**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS”;

“**ACTS MSA**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS”;

“**ACTS Trademark License Agreement**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS”;

“**Aeroplan**” means Aeroplan LP, together with its general partner, Aeroplan GP and their respective subsidiaries and predecessors;

“**Aeroplan CPSA**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Aeroplan”;

“**Aeroplan GSA**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Aeroplan”;

“**Aeroplan LP**” means Aeroplan Limited Partnership, a limited partnership established under the laws of the Province of Québec on June 21, 2005;

“**Aeroplan Material Change**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Aeroplan — Aeroplan CPSA”;

“**Aeroplan MSA**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Aeroplan”;

“**Aeroplan Trademark License Agreements**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Aeroplan”;

“**Agent**” shall have the meaning ascribed thereto under “Business of Air Canada — Debt Financing”;

“**Air Canada Cargo**” means AC Cargo Limited Partnership, a limited partnership governed by the laws of the Province of Québec that, together with Air Canada, provides cargo services;

“**Air Canada Ground Handling Services**” means ACGHS Limited Partnership, a limited partnership established under the laws of the Province of Québec;

“**Air Canada Material Change**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Aeroplan — Aeroplan CPSA”;

“**Air Canada Vacations**” means Touram Limited Partnership, a limited partnership established under the laws of the Province of Québec;

“**ALPA**” means Air Line Pilots Association;

“**Amended and Restated Credit Agreement**” shall have the meaning ascribed thereto under “Overview of the Business — Debt Financing”;

“**Amended Credit Facility**” shall have the meaning ascribed thereto under “Overview of the Business — Debt Financing”;

“**Applicants**” shall have the meaning ascribed thereto under “Three-Year Summary: Evolution of Business — The Plan”;

“**ASMs**” means the total number of seats available for passengers multiplied by the miles flown;

“**block hours**” means the number of minutes elapsing from the time the chocks are removed from the wheels of an aircraft until the chocks are next again returned to the wheels of the aircraft, divided by 60;

“**Boeing**” means The Boeing Company;

“**Bombardier**” means Bombardier Inc.;

“**CATSA**” means the Canadian Air Transport Security Agency;

“**CAW**” means the National Automobile, Aerospace, Transportation and General Workers Union of Canada;

“**CBCA**” means the *Canada Business Corporations Act*, as amended;

“**CCAA**” means the *Companies' Creditors Arrangement Act*, as amended;

“**Corporation**” shall have the meaning ascribed thereto under “Explanatory Notes”;

“**Covered Aircraft**” means Jazz's aircraft subject to the Jazz CPA;

“**CTA**” means the *Canada Transportation Act* and the regulations thereunder, as amended;

“**CUPE**” means the Canadian Union of Public Employees;

“**Embraer**” means EMBRAER — Empresa Brasileira de Aeronautica S.A.;

“**FTE**” shall have the meaning ascribed thereto under “Employees”;

“**IAMAW**” means the International Association of Machinists and Aerospace Workers;

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

“**IBT**” means the International Brotherhood of Teamsters;

“**ICAO**” means the International Civil Aviation Organization;

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

“**Initial Public Offering**” shall have the meaning ascribed thereto under “Corporate Structure — Name, Address and Incorporation”;

“**Jazz**” means Jazz Air LP, a limited partnership established under the laws of the Province of Québec on September 12, 2005;

“**Jazz CPA**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Jazz”;

“**Jazz Air Income Fund**” is an unincorporated, open-ended trust established under the laws of the Province of Ontario that indirectly holds all outstanding units of Jazz.

“**Jazz MSA**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Jazz”;

“**Jazz Special Trademark Agreement**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Jazz”;

“**Jazz Trademark License Agreement**” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Jazz”;

“**Lenders**” shall have the meaning ascribed thereto under “Overview of the Business — Debt Financing”;

“**Management**” means management of Air Canada;

“**Montreal Trudeau Airport**” means Montreal's Pierre Elliott Trudeau International Airport;

“**OAG**” means Official Airline Guide;

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

“**OSFI**” means the Office of the Superintendent of Financial Institutions;

“**Open Skies Agreement**” means the agreement negotiated between the governments of Canada and the United States which further liberalized air transportation services and which came into force on March 12, 2007;

“**passenger load factor**” means Revenue Passenger Miles as a percentage of Available Seat Miles;

“**PIPEDA**” means the *Personal Information Protection and Electronic Documents Act* (Canada);

“**Plan**” means the consolidated plan of reorganization, compromise and arrangement of Air Canada and certain of its subsidiaries pursuant to which ACE became the parent holding company of the reorganized Air Canada and its subsidiaries;

“**Qualified Canadians**” means a “Canadian” for the purposes of the CTA, defined as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians;

“**RASM**” means average passenger revenue per ASM;

“Registration Rights Agreement” shall have the meaning ascribed thereto under “Relationship between Air Canada and ACE”;

“Revenue Passenger Miles” means a measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the numbers of miles they are carried;

“Scheduled Flights” means the flights on the Covered Aircraft whose routes, schedules and fares are determined by Air Canada in accordance with the Jazz CPA;

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

“Small Jets Settlement Agreement” shall have the meaning ascribed thereto under “Relationships and Related Party Transactions between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and Jazz”;

“subsidiary” has the meaning attributed to such term in the CBCA, provided that, notwithstanding the reference to a body corporate in the CBCA, a subsidiary may refer to a limited partnership or trust;

“Tax Act” means the *Income Tax Act* (Canada) and the regulations thereunder, as amended;

“TGWU” means the Transport and General Workers Union;

“Toronto Pearson Airport” means Toronto Lester B. Pearson International Airport;

“TSA” means the Transport Security Agency;

“TSX” means the Toronto Stock Exchange;

“Variable Voting Shares” means Class A variable voting shares in the capital of Air Canada;

“Voting Shares” means Class B voting shares in the capital of Air Canada;

“WestJet” means WestJet Airlines Ltd.; and

“yield” means average passenger revenue per Revenue Passenger Mile.

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

1. Purpose

The purpose of the Audit Committee is as follows:

- (i) To assist the Board in the discharge of its responsibility to monitor the component parts of the Corporation's financial reporting and audit process.
- (ii) To maintain and enhance the quality, credibility and objectivity of the Corporation's financial reporting and to satisfy itself and oversee management's responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.
- (iii) To assist the Board of Directors in its oversight of the independence, qualifications and appointment of the external auditor.
- (iv) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.
- (v) To provide independent communication among the Board, the internal auditor and the external auditor.
- (vi) To facilitate in-depth and candid discussions among the Audit Committee, management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

2. Composition and Qualification

- (a) The Audit Committee of the Corporation shall be composed of not less than three directors, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations as determined by the Board of Directors. The members of the Audit Committee shall have no relationships with management, the Corporation and its related entities, that in the opinion of the Board may interfere with their independence from management and from the Corporation. In addition, an Audit Committee member shall not receive, other than for service on the Board or the Audit Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation or any of its related entities, parties or subsidiaries. The members of the Audit Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Audit Committee and in particular each member of the Audit Committee shall be "financially literate" and at least one member shall be a "financial expert" as defined by relevant securities legislation or regulations.
- (b) The members of the Audit Committee shall be appointed by the Board to hold office from the time of their appointment until the next annual general meeting of the shareholders or until their successors are appointed. Unless a Chair and a Secretary are appointed by the Board, the members of the Audit Committee may designate a Chair and a Secretary by a majority vote of all the Audit Committee members.

- (c) The Audit Committee may invite, from time to time, such person as it may see fit to attend its meeting and to take part in discussion and consideration of the affairs of the Audit Committee. However, any such persons invited may not vote at any meeting of the Audit Committee.
- (d) The Board, may, at any time, remove any member of the Audit Committee at its discretion and may accept the resignation of any member of the Audit Committee. Vacancies at any time occurring on the Audit Committee shall be filled by the Board.

3. Meetings and Procedure

- (i) The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate. Such meetings shall be held by telephone or by any other mean which enables all participants to communicate with each other simultaneously.
- (ii) The Audit Committee may fix its own procedure at meetings and for the calling of meetings except as may be otherwise provided by the Board.
- (iii) A quorum for the transaction of business at an Audit Committee meeting shall be a majority of the Audit Committee members. All decisions and recommendations made by the Audit Committee shall be made by a majority vote of the members present at the meeting.
- (iv) An “in-camera” session of the members of the Audit Committee shall be held as part of each meeting of the Audit Committee.
- (v) Notice of meetings shall be given by letter, facsimile, email or telephone not less than 24 hours before the time fixed for the meeting. Notice of meetings shall state the date, the place and the hour at which such meetings shall be held. Members may waive notice of any meeting.
- (vi) The minutes of the Audit Committee meetings shall accurately record the significant discussions of, and decisions made by, the Audit Committee, including all recommendations to be made by the Audit Committee to the Board and shall be distributed to Audit Committee members as well as to all the directors of the Corporation, with copies to the Chief Executive Officer of the Corporation.
- (vii) The Audit Committee shall report to the Board on all proceedings and deliberations of the Audit Committee at the first subsequent meeting of the Board, and at such other times and in such manner as the Board may require or as the Audit Committee in its discretion may consider advisable.

4. Responsibilities and Duties

To achieve its objectives, the Audit Committee shall:

- (a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include a review of the annual and quarterly financial statements and Management's Discussion and Analyses (“MD&As”) to be filed with regulatory authorities and provided to shareholders, and financial statements and other financial disclosure included in prospectuses, earnings press releases and other similar documents. The Audit Committee shall also review the Corporation's annual information form and other similar documents. These reviews will include:
 - (i) discussions with management and the external auditor and a consideration of the report by the external auditor to the Audit Committee of matters related to the conduct of an audit;
 - (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of

financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case may be, of the accounting policies adopted by the Corporation, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;

- (iii) a review of significant adjustments arising from an audit;
 - (iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements. The Audit Committee is responsible for the resolution of disagreements between management and the external auditor regarding financial reporting;
 - (v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Corporation including their disclosure or lack thereof in the applicable quarterly or annual financial statements;
 - (vi) a review of the external auditor's suggestions for improvements to the Corporation's operations and internal controls;
 - (vii) a review of the nature and size of unadjusted errors of a non-trivial amount;
 - (viii) a review to ascertain that various covenants are complied with; and
 - (ix) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes.
- (b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such financial statements and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.
 - (c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Corporation's quarterly financial statements and related MD&A.
 - (d) Review with management, the external auditor and legal counsel, the Corporation's procedures to be satisfied that it complies with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements. The Audit Committee should be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and must periodically assess the adequacy of those procedures.
 - (e) Meet with the Corporation's external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department. The Audit Committee is responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.
 - (f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre-approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and

payment of fees to the external auditor rests solely and exclusively with the Audit Committee. The Corporation shall satisfy itself that funding is available to the Audit Committee for payment of compensation to the external auditor.

- (g) Review
 - (i) and approve, or delegate to a member of the Audit Committee the responsibility to review and approve, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporations' external auditor prior to the commencement of such work. In this regard the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period. The pre-approval of non-audit services by a member of the Audit Committee to whom such authority is delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval;
 - (ii) and implement from time to time a process in connection with non-audit services performed by the external auditor.
- (h) Review a report from the external auditor of all relationships between the external auditor and its related entities and the Corporation and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming, or otherwise, that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations. As well, at least once a year the Audit Committee will carry out a review of the credentials of the members of the firm including without limitation the biographies of the members, whether there has been any enforcement actions, issues related to the firm and law suits, if any. A formal written report will be obtained from the external auditor outlining: the auditing firm's internal quality control procedures; any material issues raised within the preceding five years by the auditing firm's internal quality control review, peer reviews or any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm. The Audit Committee will also review steps taken by the auditing firm to address any findings in any of the forgoing reviews.
- (i) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to satisfy itself that such matters are adequately guarded against.
- (j) At least once each year:
 - (i) Meet privately with management to assess the performance of the external auditor.
 - (ii) Meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.
- (k) Evaluate the performance of the external auditor, and if so determined, recommend that the Board either take steps to replace the external auditor or provide for the reappointment of the external auditor by the shareholders.
- (l) Regarding the services provided by the internal audit department, the Audit Committee will:

- (i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work;
 - (ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit group;
 - (iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff and approve the appointment, dismissal or replacement of the head of the internal audit department;
 - (iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;
 - (v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and
 - (vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.
- (m) Obtain from both the internal audit department and the Corporation's external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.
- (n) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Corporation's financial statements.
- (o) Establish policies and procedures for the receipt, retention and treatment of complaints received by the Corporation from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal accounting controls and internal or external auditing matters. The Audit Committee should be satisfied that sufficient controls are in place with the objective that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in place. The Audit Committee should also be satisfied that processes are in place with the objective that all such complaints, regardless of significance, are presented to the Audit Committee.
- (p) Review policies for approval of senior management expenses.
- (q) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.
- (r) Review with management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.
- (s) Review and approve all related party transactions as such term is defined from time to time in *Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions* of the Autorité des marchés financiers and Multilateral Instrument 61-101 issued by the Ontario Securities Commission, as may be amended from time to time.

- (t) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.
- (u) Whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Audit Committee as the Audit Committee may consider appropriate. The Corporation shall satisfy itself that funding is available to the Audit Committee in respect of the aforementioned activities.
- (v) Report regularly to the Board in writing on the activities, findings and conclusions of the Audit Committee.
- (w) Review this Charter on an annual basis and recommend to the Board any changes to it that the Audit Committee considers advisable.
- (x) Complete a self-assessment annually to determine how effectively the Audit Committee is meeting its responsibilities.
- (y) Perform such other functions as may be delegated from time to time by the Board.
- (z) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner.
- (aa) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

OTHER

(a) Pension Plans

In relation to the Corporation's pension plans, the Audit Committee shall:

- (i) On the recommendation of the Chief Financial Officer, approve the investment structure for the plans, any applicable Statement of Investment Policies and Objectives ("SIP&O"), Statement of Investment Principles and Beliefs ("SIP&B") and other investment policies for the plans;
- (ii) With the assistance of the Chief Financial Officer, periodically review for appropriateness of the pension funds mission, funding policy, SIP&O, SIP&B, other investment policies and investment structure, and monitor overall pension funds operation, in particular plans funded status, compliance of funding practices with funding policy, compliance of investments with the SIP&O and as applicable, the compliance of SIP&O with the investment principles and beliefs as set out in the SIP&B;
- (iii) With the assistance of the Chief Financial Officer, periodically review and monitor the total and asset class return for the defined benefit pension plans, and the investment matters relating to the defined contribution plans;
- (iv) Recommend to the Board for its approval the mission for the pension funds, the funding policy, the level of annual contributions, the appointment of the external auditor and the custodians of the assets of the pension plans;
- (v) Approve the actuary and consultant recommended by management;
- (vi) On the recommendation of management, accept the actuarial assumptions and actuarial valuation reports for the pension plans; and

- (vii) Approve the annual audited financial statements and the pension accounting for the pension plans.

(b) Public Disclosure

The Audit Committee shall:

- (i) Review and approve the Corporation's Public Disclosure Policy and any changes related thereto and satisfy itself that such policy is consistent with current developments and best practices;
- (ii) Where practicable, management will review with the Audit Committee or the Chairman of the Audit Committee draft news releases to be disseminated to the public related to earnings warnings or financial results forecasting by the Corporation which are expected by management to be material in relation to the market price of any of the Corporation's securities.

(c) Risk Identification and Management

The Audit Committee shall make all reasonable efforts to identify and address material financial and other risks to the business and affairs of the Corporation and its subsidiaries and make recommendations in that regard to the Board of Directors of the Corporation. The Audit Committee shall review and discuss with management, the internal audit department and the external auditor all major financial risk exposures and the steps management has taken to monitor/control those exposures. The Audit Committee shall be entitled, from time to time, to retain experts and consultants to assist the Audit Committee with the discharge of such mandate. The Audit Committee shall have the discretion in the discharge of these duties to address risks to the Corporation's and its subsidiaries' revenues and costs, as well as potentially corrupt or other practices that may lead to loss or depreciation of business reputation.

(d) Contingent Liabilities

The Audit Committee shall establish processes and procedures to identify and monitor contingent liabilities of the Corporation and its subsidiaries. In the discharge of these duties, the Audit Committee shall have the discretion to retain experts and consultants and to review, without limitation, workplace safety, environmental issues and any other matters, whether of a financial nature or otherwise, that can give rise to a contingent liability. The Audit Committee shall make recommendations, from time to time, to the Board of Directors of the Corporation on these matters.

(e) Corporate Authorizations Policies

The Audit Committee shall:

- (i) Periodically review and approve policies relative to the financial control, conduct, regulation and administration of subsidiary companies;
- (ii) Periodically review any administrative resolutions adopted from time to time pursuant to the Corporation's By-laws pertaining to the establishment of procedures relative to commitment and transaction authorizations, the determination of the officers or other persons by whom any instrument in writing or document is to be executed and the manner of execution thereof;
- (iii) Review, monitor and approve the Corporate Donations Policy and any changes thereto and the annual Corporate Donations Budget; and
- (iv) Review, monitor and approve any other financial expenditure policies that would affect the Corporation's and its subsidiaries' financial condition or reputation.

(f) Performance to Budget

The Audit Committee shall review actual financial performance compared to budget.

(g) **Responsibilities**

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

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

March 28, 2008