AIR CANADA

2010
Annual Information Form

March 30, 2011

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EXPLANATORY NOTES

The information in this Annual Information Form ("AIF") is stated as at December 31, 2010, 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, refer to the section entitled "Glossary of Terms" at the end of this AIF.

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 AIF 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 forward-looking statements within the meaning of applicable securities laws. Such statements may be included in this AIF and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements may be 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. 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. 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. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, 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 Air Canada's public disclosure file available at www.sedar.com, including the section entitled "Risk Factors" of this AIF. Any forward-looking statements contained in this AIF represent Air Canada's expectations as of date of this AIF (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

Assumptions were made by Air Canada in preparing and making forward-looking statements. Air Canada's outlook assumes that the North American economy will continue to recover in 2011. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.00 per U.S. dollar in the first quarter of 2011 and for the full year 2011 and that the price of fuel will average 76 cents per litre for the first quarter of 2011 and 87 cents per litre for the full year 2011.

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 a consolidated plan of reorganization, compromise and arrangement of Air Canada and certain of its subsidiaries made pursuant to the Companies Creditors Arrangement Act ("CCAA") (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") (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. As at November 24, 2006, ACE held a 75% ownership interest in Air Canada.

On October 27, 2009, Air Canada completed a bought deal public offering pursuant to which it sold to an underwriting syndicate 160,500,000 units of Air Canada at a price of $1.62 per unit for aggregate gross proceeds to Air Canada of $260 million (net proceeds of $249 million after expenses and underwriter fees). Each unit was comprised of one Variable Voting Shares or one Voting Share, of Air Canada, and one-half of one share purchase warrant (each whole warrant a "Warrant") entitling the holder thereof to acquire one Variable Voting Share or one Voting Share at an exercise price of $2.20 per Share, at any time prior to 36 months following October 27, 2009. In the event that, prior to the time of expiry of the warrants, the 20-day volume weighted average trading price of the Variable Voting Shares on the Toronto Stock Exchange ("TSX") is equal to or greater than $4.00 or the 20-day volume weighted average trading price of the Voting Shares on the TSX is equal to or greater than $4.00 (each, an "Acceleration Event"), Air Canada shall have the right, at its option, within 10 business days after the Acceleration Event, to accelerate the time of expiry of the warrants. As a result of this public offering, and shares issued by Air Canada to a trust in conjunction with the adoption, in July 2009, of the Air Canada 2009 Pension Regulations and the completion of pension funding agreements with the Corporation's Canadian-based unions (the "Pension MOUs") which are identified in "Pension Plan Arrangements" of this AIF, ACE's ownership interest in Air Canada, as at October 27, 2009, was reduced from 75% to 27%.

Effective December 1, 2009, the operations of AC Cargo Limited Partnership and ACGHS Limited Partnership, previously wholly-owned subsidiaries of Air Canada, were wound up into Air Canada and are now operated as divisions of Air Canada.

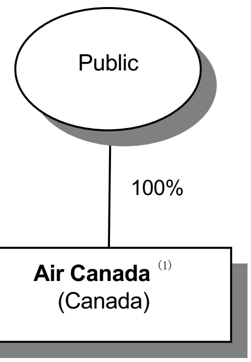
On December 23, 2010, ACE announced that it had concluded a public secondary offering on a bought deal basis of 44 million Class B voting shares of Air Canada for net proceeds to ACE of $156 million. Air Canada did not receive any of the proceeds from this offering. As at December 23, 2010, after giving effect to this offering, ACE reported its ownership interest in Air Canada as having been reduced from 27% to approximately 11%.

The head office of Air Canada is located at 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec, H4S 1Z3. Air Canada's website address is **www.aircanada.com** (For greater certainty, no information contained in Air Canada's website is incorporated in this AIF by reference, unless expressly stated herein).

Additional information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2010 and Air Canada's 2010 Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") dated February 10, 2011, both of which are available on Air Canada's website at www.aircanada.com and on SEDAR at www.sedar.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) as at December 31, 2010.



(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. Air Canada holds all the issued and outstanding limited partner units of Touram Limited Partnership, a limited partnership formed under the laws of the province of Quebec. 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, 2010, 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 Canadian 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

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 in force except for the provisions which seek to regulate the advertising of prices for air services. Bill C-11, among other things, amends the *Canada Transportation Act (“*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. Management cannot predict if or when the provisions on the advertising of prices for air services will come into force.

On May 13, 2009, Bill C-310, *An Act to Provide Certain Rights to Air Passengers,* passed second reading in the House of Commons. Bill C-310, provides for, among other things, obligations on air carriers to disclose certain information to passengers and to provide compensation and other assistance to passengers in certain cases when a flight has been cancelled or delayed, when boarding has been denied, and when an aircraft has remained on the ground for a period of more than an hour at an airport. On November 25, 2009, the Standing Committee on Transport, Infrastructure and Communities recommended that the House of Commons not proceed further with Bill C-310 because it would make air carriers responsible for passenger inconveniences and would exclude the responsibility of other parties such as airport authorities, NAV Canada, Canadian Air Transport Security Authority, and the Canada Border Services Agency. The legislative process regarding Bill C-310 is suspended.

On June 15, 2010, Bill C-541, *An Act respecting the rights of air passengers*, also seeking to address rights of passengers, including in relation to flight cancellations, delays, denied boarding, was tabled for first reading in the House of Commons. Management cannot predict if or when the House of Commons will proceed with such proposed legislation or, if or when similar proposed legislation will be introduced.

Transborder Services

Transborder services between Canada and the United States were initially liberalized by the 1995 Canada–U.S. Air Services Agreement. This agreement provides Canadian air carriers unlimited route rights to provide “own aircraft” services between points in Canada and points in the United States. 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 transborder flights operated by Jazz Aviation LP (“Jazz”), the successor to Jazz Air LP.

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. The carriage of local traffic between points within one country by carriers of the other country, commonly known as cabotage, continues to be 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 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, when in Canada’s overall interest, 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. On December 9, 2008, the Minister of Transport announced that Canada had successfully concluded negotiations with the European Union on a comprehensive air transport agreement. Such agreement includes, among other things, unrestricted direct air services between Canada and European Union member states, flexible pricing arrangements, increased flexibility on codesharing and improved flexibility on cargo services. Although not yet in force, these rights and others contained in this new air transport agreement are available, on a provisional basis, as of December 18, 2009.

Charter Services

Charter operations are generally not covered by bilateral agreements, although charter services are covered under the Open Skies Agreement. Canadian government policy permits 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.

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 is chartered and that charter carriers are prohibited from selling seats directly to the public.

Foreign Ownership Rules

The Government of Canada's Bill C-10, the *Budget Implementation Act* 2009, contains provisions whereby the provisions relating to voting securities in the *Air Canada Public Participation Act* ("ACPPA") would be repealed and the CTA would be amended to provide the Governor in Council with flexibility to increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These provisions will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Finance, in the case of the ACPPA, and on the recommendation of the Minister of Transport, in the case of the CTA. Management cannot predict if or when the provisions relating to foreign ownership limits will come into force.

Carbon Emissions

There is heightened focus on carbon emissions emanating from the aviation industry and legislation in various jurisdictions is being considered or adopted. Legislative initiatives include, for example, market-based mechanisms called emissions trading systems designed to reduce the amount of carbon emissions through the setting of permissible emissions allowances for industries, and individual operators within those industries and by allowing for the exchange or sale of the permissible emissions allowances among operators across different industries, and charging aircraft operators for a certain percentage of these allowances.

On November 19, 2008, the European Parliament adopted directive 2008/101/EC to add the aviation industry to the industries covered by the existing European Emission Trading Scheme ("EU ETS"). The EU ETS caps greenhouse gases ("GHG") emissions from covered industries while allowing trading of permissible GHG emissions allowances among the operators in the covered industry. The EU ETS will begin covering carbon dioxide emissions from the aviation industry in January 2012, including for flights operated between Canada and countries within the European Union and would require aircraft operators to monitor and report on fuel use and carbon dioxide emissions data. While this legislation would be expected to result in increased costs relating to the purchase of emissions allowances, the net financial impact would, in part, depend upon how much of such cost, if any, would be recoverable in the form of higher passenger and cargo fares.

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 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 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 per revenue tonne kilometre). Although it is no longer a member of ATAC, Air Canada (through its current membership in the National Airline Council of Canada) affirmed its continued support of the Voluntary Agreement and its goals and has already surpassed the fuel efficiency improvement target set out therein. In 2010, Air Canada endorsed the new industry targets (as set out by the International Air Transport Association "IATA") to collectively achieve: 1) an average improvement of fuel efficiency of 1.5% per year from 2009 to 2020, 2) Carbon neutral growth from 2020 onwards, and 3) a reduction in CO2 emissions of 50% by 2050, relative to 2005. Air Canada implemented a fuel efficiency program in mid-2006. Since that time, and inclusive of 2010, the program has achieved a CO2 emission reduction of 250,000 tonnes, compared to what Air Canada would have otherwise emitted.

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 ACPPA 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.

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.

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.

Since the September 11, 2001, terrorist attacks in the United States, new air security measures have been and are being regularly introduced in Canada and elsewhere (such as increased passenger and baggage screening, enhanced security procedures at check-in gates and on board the aircraft, reinforced cockpit doors on aircraft, an expanded program of armed police on aircraft and a requirement for passengers to produce valid identification prior to boarding all flights). On April 1, 2002, the Federal Government established the Canadian Air Transport Security Authority ("CATSA"). CATSA's responsibilities fall into four major air security areas, namely, pre-board screening of passengers and their belongings, hold baggage screening, non-passenger screening of those entering airport restricted areas and restricted area identity card implementation and management.

An air traveler's security charge was introduced on April 1, 2002, to cover the costs of CATSA. The charges have been revised in subsequent federal budgets. As of April 1, 2010, the maximum charge is $15 for domestic travel, $13 for transborder travel and $26 for international travel.

In October 2002, the Canadian government implemented its Advance Passenger Information initiative to help 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 ("CBSA") 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. As of the end of 2010, Air Canada also complies with the Secure Flight requirements imposed by the U.S. Transportation Security Administration (TSA) which require the provision of basic passenger information prior to flight and more complete information at check-in to enable the TSA and U.S. Customs and Border Protection (CBP) to perform their watch list and Electronic System for Travel Authorization ("ESTA") verifications prior to the issuance of the passenger's boarding pass.

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.

The Passenger Protect Program and Identity Screening Regulations came into effect in June 2007. Passengers aged 18 or over are required to have in their possession government-issued identification which includes their name, date of birth and gender. The identification may be required at check-in and must be presented at the boarding gate. The verification requirements were amended in 2010 to require a comparison of the passenger's full face with the identification document. If a passenger refuses to remove facial coverings, Air Canada must deny carriage. All immigration documentation requirements still apply on international flights.

The failed terrorist attack in December 2009 on board a U.S. commercial carrier prompted the implementation of additional security measures for flights to the United States, including restrictions relating to carry-on baggage. The October 2010 attempted attacks on cargo aircraft bound from Yemen to the United States have resulted in regulations imposing stricter controls on cargo security.

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 was the first carrier in Canada to provide Transport Canada with a security management system. The security management system uses threat/risk assessments in conjunction with government regulations to define appropriate security measures and then monitors compliance through audits and incident reporting;

- Air Canada has implemented the measures imposed by Transport Canada under the Passenger Protect Program as Air Canada already complies with similar requirements imposed by the TSA, a U.S. government agency for its Secure Flight program;

- Air Canada works with 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; and

- The TSA has implemented new cargo screening regulations for flights coming into or out of the United States. Air Canada has implemented these new measures and is working with both the Canadian and U.S. governments on further developments of these regulations.

Safety

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 the 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, but the legislative process was terminated on September 7, 2008, when the 39th Parliament was dissolved. 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.

Air Canada implemented a safety management system in accordance with the amendments to the Canadian Aviation Regulations. The President and Chief Executive Officer, Calin Rovinescu, has been appointed as the accountable executive for Air Canada's safety management system and Air Canada's Executive Vice President and Chief Operating Officer, Duncan Dee, is responsible for the implementation of the safety management system.

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 implicit or explicit consent, as the case may be, 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.

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®, AC Priority™, AC Air Freight™, Rapidair®, Maple Leaf™, Feuille d'érable™, Air Canada Super Elite®, Air Canada Elite® and related design marks such as the Air Canada Roundel®. Air Canada has granted Aeroplan Canada Inc. ("Aeroplan") (the successor to Aeroplan Limited Partnership) 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 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.

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.

Over the past three decades, governments 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 transformed the airline industry and allowed the emergence of low-cost carriers, which 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 generally achieving lower yields than network carriers. By offering lower fares, these carriers have expanded and succeeded in gaining market share 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, Caribbean and certain other North American markets with a fleet of 91 Boeing 737 aircraft at December 31, 2010.

Along with many airline carriers globally, Air Canada faced a number of significant challenges in 2008 and 2009, including as a result of volatile fuel prices and foreign exchange, liquidity requirements and a downturn in demand for air travel. Air Canada undertook various initiatives and developed a plan to manage through the challenges brought on by the prevailing weak economic environment. These initiatives included adjusting capacity to better match passenger demand; launching a comprehensive company-wide cost transformation program (the "CTP") to improve unit revenue and cost productivity; stabilizing its finances through a series of significant transactions; and reducing the risks associated with the expiry of its labour collective agreements in 2009 and the pension solvency deficit in its registered pension plans.

In 2010, Air Canada benefited from an improving economy and made significant progress on executing and delivering on its key priorities (which are discussed in this AIF under the heading "Air Canada's Business Strategy") which allowed it to record operating income (before a net reduction of $46 million to a provision for cargo investigations) of $361 million in 2010, a $677 million improvement from 2009. EBITDAR (before a net reduction of $46 million to a provision for cargo investigations) of $1,386 million in 2010 was the highest EBITDAR recorded in the airline's history. Refer to section 20 "Non-GAAP Financial Measures" of Air Canada's 2010 MD&A dated February 10, 2011, which can be found on Air Canada's website at **www.aircanada.com** or on SEDAR at **www.sedar.com** and which section is hereby incorporated by reference in this AIF, for a reconciliation of EBITDAR (before a provision adjustment for cargo investigations) to operating income (loss).

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 Canada around four major hubs: Toronto, Montreal, Vancouver and Calgary.

According to Transport Canada, the number of domestic passengers grew at an average annual rate of 2.2% from 2000 to 2009.

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, 2010 to December 31, 2010, Air Canada led the Canadian airline industry's domestic scheduled capacity with an estimated market share of approximately 56% based on Available Seat Miles ("ASMs").

Air Canada is Canada's largest domestic airline. Jazz is the largest regional airline in Canada and operates regional services for Air Canada under a capacity purchase agreement with Jazz (the "Jazz CPA"). Air Canada, together with Jazz and other airlines operating flights on behalf of Air Canada under commercial agreements with Air Canada (referred to in this AIF as "Contracted Carriers"), 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, 2010, Air Canada, together with its Contracted Carriers, serviced 59 domestic destinations within Canada, while WestJet serviced 31 domestic destinations.

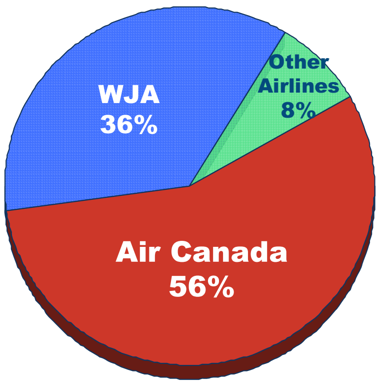
Other airlines operating in the domestic market include Canadian North and First Air, respectively, based in Yellowknife and Iqaluit, and they operate services primarily within northern Canada and connecting northern Canada to the rest of the country.

Porter Airlines Inc. ("Porter") is a regional passenger carrier based at and operating from Billy Bishop Toronto City Airport primarily in the eastern triangle market to compete with Air Canada's Rapidair services at Toronto Pearson Airport. The airline serves primarily short-haul business markets such as Ottawa, Montreal, New York (Newark), Chicago (Midway) and Boston (Logan) from Toronto, operating with a fleet of eighteen 70-seat Bombardier Q400 aircraft.

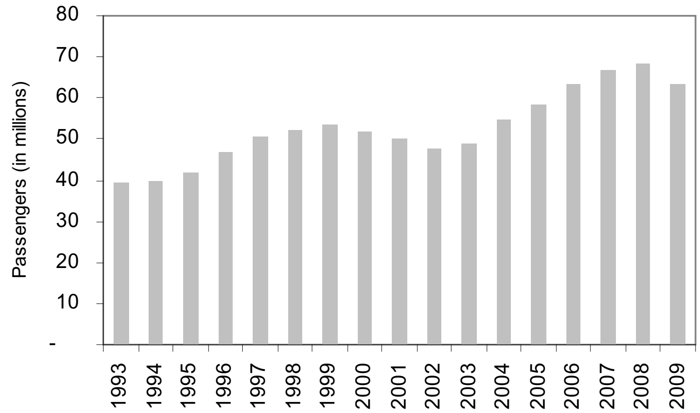
On October 4, 2010, Air Canada announced that it entered into a capacity purchase agreement with Sky Regional Airlines Inc., an associated company of Skyservice Business Aviation, to operate, on behalf of Air Canada, flights to and from Billy Bishop Toronto City Airport. On March 4, 2011, Air Canada announced that it will commence service from the Toronto Island's Billy Bishop Airport on May 1, 2011 following the conclusion of a terminal agreement with City Centre Terminal Corp., the airport terminal owned by Porter Aviation Holdings Inc. Air Canada's initial schedule will provide up to 15 daily non-stop return flights between downtown Toronto and Montreal Pierre Elliott Trudeau International Airport ("Montreal Trudeau Airport").

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

Estimated Domestic Scheduled Capacity Market Share (1)



Historical Domestic Passengers (2)



(1) Source: OAG data, based on ASMs during the period from January 1, 2010 to December 31, 2010. The estimated share of the overall domestic scheduled capacity of Air Canada, together with its Contracted Carriers.

(2) Source: Transport Canada, Assumptions Report 2010-2024, November 17, 2010. Represents the total number of enplaned and deplaned domestic passengers in all reporting airports.

(3) WJA refers to WestJet Airlines.

U.S. Transborder Market

In 2010, there were, on average, 1,130 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, the number of U.S. transborder passengers fell at an average annual rate of 0.6% from 2000 to 2009.

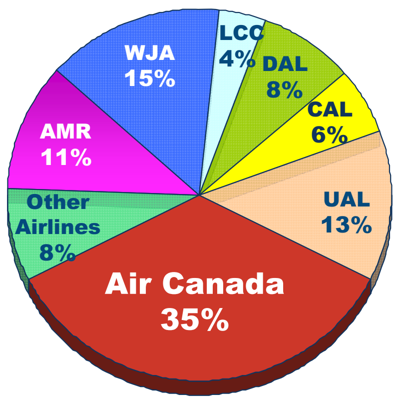
Air Canada is the largest provider of scheduled passenger services in the U.S. transborder market. Based on OAG data, during the period from January 1, 2010 to December 31, 2010, Air Canada provided more U.S. transborder scheduled capacity than any other airline with an estimated market share of approximately 35% based on ASMs.

Air Canada, together with its Contracted Carriers, carry more passengers, serves more non-stop destinations and provides more flights in the U.S. transborder market than any other airline. Competition in the U.S. transborder market is primarily from U.S. network carriers and their regional affiliates and from WestJet. The U.S. network carriers tend to operate flights between the United States and Canada into their hubs, connecting to flights to other U.S. destinations, as well as WestJet. U.S. network carriers with U.S. transborder operations include Alaska Airlines, American Airlines, United Airlines, Delta Airlines (including their subsidiary Northwest Airlines), and U.S. Airways. In 2010, Air Canada, together with its Contracted Carriers, serviced 59 U.S. destinations from Canada, while U.S. carriers serviced 26 U.S. destinations from Canada.

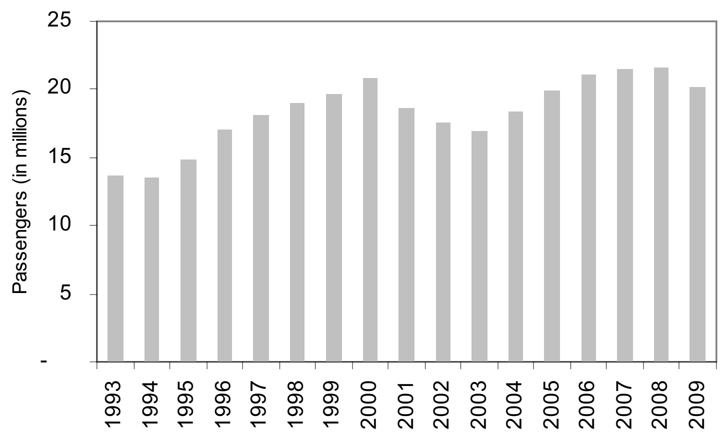
Canadian low-cost carriers also operate transborder services and have expressed an intention to further expand these operations in the future. In 2010, WestJet provided transborder services to 18 destinations in the United States (i.e., Atlantic City, Fort Lauderdale, Fort Myers, Honolulu, Kona, Las Vegas, Lihue, Los Angeles, Maui, Miami, New Orleans, Newark, Orlando, Palm Springs, Phoenix, San Diego, San Francisco, and Tampa).

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

Estimated Transborder Scheduled Capacity Market Share (1)(3)



Historical Transborder Passengers (2)



(1) *Source: OAG data, based on ASMs during the period from January 1, 2010 to December 31, 2010. The estimated share of the overall transborder scheduled capacity of Air Canada and Contracted Carriers. 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. AMR: American Airlines; WJA: WestJet Airlines; UAL: UAL Airlines; CAL: Continental Airlines; DAL: Delta Air Lines; and LCC: U.S. Airways*

(2) *Source: Transport Canada, Assumptions Report 2010-2024, November 17, 2010. Represents the total number of enplaned and deplaned transborder passengers in all reporting airports.*

(3) *On October 1, 2010, United Continental Holdings, Inc. announced the closing of the merger of United Air Lines (UAL) and Continental Air Lines (CAL).*

International Market

Canadian airlines principally service the international market from three strategically-positioned airports. Toronto Pearson Airport, Canada's largest airport, 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 destinations to Asia. Toronto Pearson Airport offers, on average, approximately 514 daily departures, of which 13% are to international destinations. 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, on average, approximately 229 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, on average, approximately 287 daily departures, of which 7% are to international destinations.

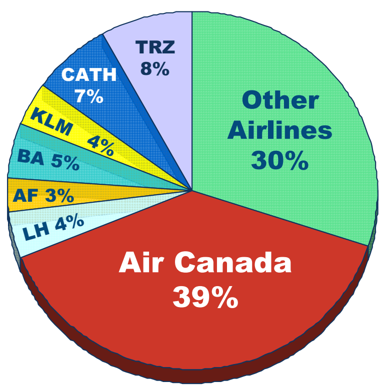
According to Transport Canada, the number of international passengers in the international market to and from Canada grew at an average annual rate of 4.1% from 2000 to 2009.

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, 2010 to December 31, 2010, 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 39% 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 non-stop service to Canada.

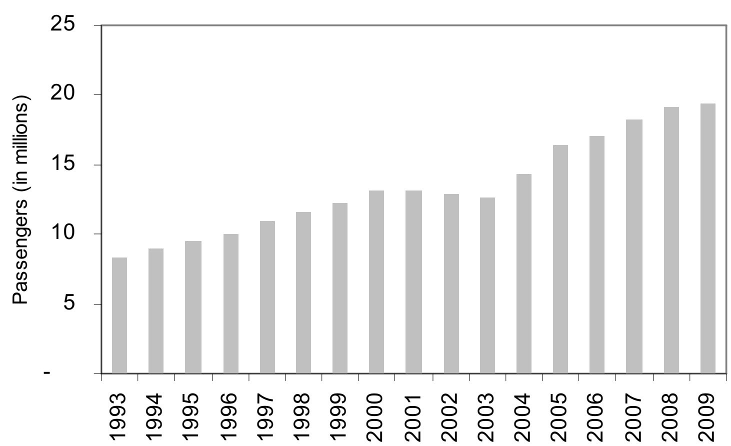
In the trans-Atlantic and trans-Pacific markets, Air Canada competes primarily with foreign network carriers and, to a lesser extent, with charter carriers on higher density routes during peak travel seasons. In addition, U.S. network carriers compete by flying Canadian passengers through their hubs to destinations in international markets.

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 estimated number of international passengers per year.

Estimated International Scheduled Capacity Market Share(1)



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



(1) Source: OAG data, based on ASMs during the period from January 1, 2010, to December 31, 2010. BA: British Airways; TRZ: Transat A.T. Inc.; AF: Air France KLM; CATH: Cathay Pacific Airways; KLM: KLM Royal Dutch Airlines; and LH: Deutsche Lufthansa.

(2) Source: Transport Canada, Assumptions Report 2010-2024, November 17, 2010. Represents the total number of enplaned and deplaned international passengers in all reporting airports.

OVERVIEW OF THE BUSINESS

Air Canada is Canada's largest domestic, U.S. transborder 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.

In 2010, Air Canada, together with its Contracted Carriers, operated, on average, 1,470 daily departures to 59 destinations in Canada, 59 destinations in the U.S. and 60 destinations in the Canada-Europe, Canada-Pacific, Canada-Caribbean/Central America and Canada-South America markets. Domestic, U.S. transborder and international departures accounted for approximately 66%, 27% and 7%, respectively, of the approximately 1,470 average daily departures. In addition, Air Canada provides certain passenger charter services under the brand name "AC Jetz". In 2010, Air Canada, together with its Contracted Carriers, carried over 32 million passengers and provided passenger service to 178 direct destinations on five continents.

As at December 31, 2010, Air Canada operated a mainline fleet of 205 aircraft, comprised of 89 Airbus narrow-body aircraft, 56 Boeing and Airbus wide-body aircraft and 60 Embraer regional jets. In addition, under the Jazz CPA, Jazz operated, for Air Canada, 123 aircraft comprised of 63 Bombardier regional jets and 60 Dash-8 aircraft.

Air Canada enhances its network through the Jazz CPA, pursuant to which Air Canada purchases the greater part of Jazz's fleet capacity based on predetermined rates and Air Canada determines the routes and schedule which Jazz operates on Air Canada's behalf. Under the Jazz CPA, Jazz operates with smaller 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 as well as in higher density markets at off-peak times throughout Canada and the United States.

On October 4, 2010, Air Canada announced that it entered into a capacity purchase agreement with Sky Regional Airlines Inc., an associated company of Skyservice Business Aviation, to operate, on behalf of Air Canada, flights to and from Billy Bishop Toronto City Airport.

Air Canada is a founding member of the Star Alliance® network. The Star Alliance® network includes 27 member airlines. Through its membership in the Star Alliance® network, Air Canada is able to offer its customers access to approximately 1,160 destinations in 181 countries, as well as reciprocal participation in frequent flyer programs and use of airport lounges.

In October 2010, Air Canada announced that it had concluded a memorandum of understanding with United Airlines, Inc. and Continental Airlines, Inc. (both of which having recently merged to form United Continental Holdings Inc. ("United Airlines")) setting out the principles for a comprehensive revenue-sharing joint venture on U.S. transborder flights. The joint venture is expected to come into effect in 2011, subject to the parties obtaining regulatory approvals, making the necessary filings, and finalizing the arrangements and documentation.

In December 2010, Air Canada finalized a transatlantic joint venture with United Airlines and Deutsche Lufthansa AG through which the carriers provide customers with more choice and streamlined service on routings between North and Central America, and Africa, India, Europe and the Middle East. This transatlantic joint venture, including its revenue share structure, was implemented effective January 1, 2010.

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 is designed to provide 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.

Air Canada also generates revenue from its Air Canada Cargo division and from tour operator services provided by its wholly-owned subsidiary, Touram Limited Partnership (doing business as "Air Canada Vacations").

Air Canada Cargo provides direct cargo services to over 150 Canadian, U.S. transborder and international destinations and has sales representation in over 50 countries. Air Canada Cargo is Canada’s largest provider of air cargo services as measured by cargo capacity. Air cargo services are provided on domestic and U.S. transborder flights and on international flights on routes between Canada and major markets in Europe, Asia, South America and Australia.

Air Canada Vacations is one of Canada’s leading tour operators. Based in Montreal and Toronto, Air Canada Vacations operates its business in the outbound leisure travel market (Caribbean, Mexico, U.S., Europe, Central and South America, South Pacific and Asia) by developing, marketing and distributing vacation travel packages. Air Canada Vacations also offers cruise packages in North America, Europe and the Caribbean.

Air Canada's Business Strategy

In 2010, Air Canada improved its reputation as one of the world's leading international air carriers. Significant progress was made on executing and delivering on its four key priorities and this, coupled with improving economic conditions, allowed Air Canada to record operating income (before a net reduction of $46 million to a provision for cargo investigations) of $361 million in 2010, a $677 million improvement from 2009. EBITDAR (before a net reduction of $46 million to a provision for cargo investigations) of $1,386 million in 2010 was the highest EBITDAR recorded in the airline's history.

Air Canada's financial strategy is to continue to improve both the level and sustainability of its earnings and, in turn, maximize long-term value for its stakeholders. In 2011, Air Canada plans to build on the progress it achieved in 2010 and focus on the following four key priorities:

- Building on the Air Canada brand and global network;

- Leveraging new opportunities for revenue growth and cost transformation;

- Engaging with customers with a focus on premium passengers and premium products;

- Enhancing the corporate culture and developing a strong employee brand.

Building on the Air Canada brand and global network

In 2011, Air Canada will continue to remain disciplined in its approach to growth. Air Canada believes that Canada's multi-ethnic demographic profile provides the airline with opportunities to benefit from a growing demand for international travel. Combined with a powerful brand franchise and an industry leading international product, Air Canada plans on leveraging its network in order to benefit from the higher margins generally available in international markets. The airline will also continue leveraging its world class hub at Toronto Pearson Airport and other Canadian hubs with the objective of increasing global connecting traffic via Canada. Toronto Pearson Airport has a geographic advantage due to its proximity to densely populated markets and is also a destination for a large number of business and leisure travelers. The Greater Toronto Airport Authority has made terminal improvements, including improvements that enabled Air Canada and most of its Star Alliance® partners to consolidate operations in one terminal, thereby facilitating transfer traffic and improving the customer experience. These improvements have strengthened the position of Toronto Pearson Airport as a major gateway for global flow traffic.

In 2010, Air Canada expanded its capacity to Asia, Europe and the U.S. by close to 11%. Air Canada recognizes the growing importance of the Asian travel market and, in 2010, increased Pacific traffic by over 22% from 2009. The decision to add capacity to this market was driven, in part, by Canada being granted Approved Destination Status from China, a designation that makes it easier for Chinese nationals to visit Canada. Furthermore, aided by the addition of services to Geneva, Rome, Brussels, Athens, Copenhagen and Barcelona, Air Canada also increased 2010 traffic in the Atlantic market by 6.7% from 2009 levels. These additional services are strengthening the airline's European flagship routes of London, Paris and Frankfurt. Air Canada also added service to a number of U.S. cities in 2010, including San Diego, Portland (Oregon), Cincinnati, Memphis, Portland (Maine), Syracuse (New York) and New Orleans, with the goal of growing connecting traffic from the U.S. in support of its international expansion initiatives.

An important aspect of Air Canada's international expansion program is the continued development of commercial alliances with major international carriers to extend the airline's global reach and enhance market presence. This is being achieved through Air Canada's membership in Star Alliance® which allows the airline to offer its customers a choice of 1,160 airports in 181 countries. In addition, through its transatlantic joint venture with United Airlines and Deutsche Lufthansa AG, referred to as A++, Air Canada is strengthening its market presence in North America and Europe, the Middle East as well as Africa and India. In early October 2010, Air Canada announced a joint venture in the Canada-U.S. market with United Airlines, subject to obtaining regulatory approvals, making the necessary filings, and finalizing the arrangements and documentation. This joint venture will provide Air Canada with benefits and revenue synergies allowing the airline to compete more effectively. By managing pricing, scheduling and sales, Air Canada will be better able to serve customers by offering more travel options, while reducing travel times. The Canada-U.S. transborder joint venture is expected to come into effect in 2011.

Leveraging new opportunities for revenue growth and cost transformation

Air Canada recognizes that the long term success of the airline is dependent on sustaining a competitive cost structure and Air Canada is committed to making cost containment and reduction a permanent part of its corporate culture without compromising the customer experience. In 2011, Air Canada is focused on building on the progress it achieved in 2010 to improve unit revenue and cost productivity. The airline will continue to focus on improving business processes and leveraging technology to improve the quality of its products and services and reduce costs.

One of Air Canada's objectives is to achieve annualized revenue improvements and cost savings of $530 million by the end of 2011. Through extensive management analysis and benchmarking against other airlines, over 125 initiatives have been identified, the vast majority of which relate to cost savings such as contract renegotiation, operational process improvements and productivity gains. In 2010, Air Canada has achieved annual benefits of $330 million, $30 million more than its $300 million CTP target for 2010 (the result of having completed planned 2011 CTP initiatives earlier than expected), and has achieved $400 million of its overall CTP target of $530 million for the end of 2011, on a run-rate basis.

In 2011, Air Canada will be focusing on business processes and leveraging technology aimed at improving the quality of its products and at reducing costs. A new business transformation team has recently been formed whose primary focus is to identify opportunities and work with cross-functional teams to implement best practices and to lower Air Canada's cost structure over the medium term.

In 2010, the cost transformation program was a factor in lowering Air Canada's cost per available seat mile ("CASM"), excluding fuel, by 4.5% from 2009.

Engaging with customers with a focus on premium passengers and premium products

Customer satisfaction and growth of the premium class segment are key elements to Air Canada's long term success. Air Canada's goal is to continuously meet and exceed customer expectations by delivering consistently friendly, professional and "best in class" service. In 2011, Air Canada will remain focused on premium passengers and products to build on its success in 2010, which reflected passenger revenue growth of $378 million or 23% in the premium cabin when compared to 2009. The airline will continue to focus on better managing its premium class cabin to maximize revenues, seeking new opportunities to increase premium revenues, and broadening access to corporate customers.

Air Canada is one of the most respected brands in Canada, and Air Canada plans to continue to leverage this strength to attract premium revenue, particularly on its international service. Air Canada has one of the youngest fleets among North American legacy carriers, with an average age of 10.7 years at December 31, 2010. The airline's investment in Boeing 777 and Embraer aircraft and industry-leading on-board products, including personal in-flight entertainment systems and in-seat power outlets accessible at virtually every seat, showcase the advantages of flying Air Canada. In addition, customers are increasingly recognizing the value of the airline's Maple Leaf Lounges, its concierge program and its loyalty program.

In 2010, Air Canada was recognized with the following awards, reflecting the skill and professionalism of its employees as well as the quality of its product offerings:

- Five top honours in Business Traveler's "Best in Business Travel" award program, the most first place awards won by any airline in the world in the magazine's annual reader survey.
    - Best Flight Attendants in North America
    - Best In-Flight Services in North America
    - Best North American Airline for Business Class Service
    - Best North American Airline for International Travel
    - Best Airline Web Site
- "Best Airline in North America" in the annual The Global Traveler Reader Survey Awards, based on the responses of more than 25,000 readers of Global Traveler Magazine.
- "Best Airline for Flights to Canada" by readers of Executive Travel Magazine in annual "Leading Edge Awards" readership survey of frequent international travelers, for a third consecutive year.
- "Best Airline in North America" in a worldwide survey of more than 17 million air travelers conducted by independent research firm, Skytrax, for their 2010 World Airline Awards.

Furthermore, in 2010, 71% of Canadian business travelers surveyed by Ipsos Reid in their 2010 Canadian Business Travel Study named Air Canada as their preferred airline, the third consecutive year of improvement in the airline's ratings.

The continued year-over-year improvements in monthly customer satisfaction ratings and the numerous industry awards won in late 2009 and 2010 is evidence that the airline has been successful in engaging with its customers.

Enhancing the corporate culture and developing a strong employee brand

One of Air Canada's key priorities is to improve its corporate culture to one that promotes leadership, ownership and entrepreneurship. Air Canada recognizes the need to simplify processes, give its employees the tools and training required to foster a culture of top customer care and empower employees to allow them to make decisions or solve problems quickly. The emphasis on cost containment is helping forge a more entrepreneurial culture at Air Canada in which all employees are encouraged to act as owners and ambassadors of the airline.

With internal departments working better together, Air Canada has become more efficient with the use of its fleet. This past summer, the airline flew 3,700 more flights or 12,630 more hours and carried 400,000 more customers with almost the same number of aircraft that it operated in 2009.

This positive shift in Air Canada's culture enabled the airline to better manage through major challenges, both planned, such as the Olympics, and unplanned, such as the Icelandic volcano eruption. The airline is managing irregular operations more efficiently to minimize customer inconvenience. This was demonstrated again during the flight disruptions at European airports during the Christmas holidays when the airline was praised for its customer service and the speed with which it was able to resume operations following snow storms which had disrupted operations at these airports.

The recent industry honours awarded to Air Canada are an indication that employees are participating in the airline's transformation and recognize that the airline’s success depends on being resolutely customer focused. According to internal surveys, there has been a 20% improvement in employee engagement from 2008. In addition, initiatives undertaken, such as the granting of shares to each employee through the 2010 Employee Recognition Award, together with the Sharing Our Success monthly incentive program, are intended to further align employees’ personal interests with corporate goals.

Pension Plan Arrangements

Air Canada maintains several defined benefit pension plans. Based on preliminary estimates as at January 1, 2011, the aggregate solvency deficit in the registered pension plans is estimated to be approximately $2.1 billion, whereas the aggregate solvency deficit in the registered pension plans, as at January 1, 2010, was $2.7 billion.

The preliminary estimate as at January 1, 2011 includes the impact of the actual return on plan assets as well as recently released guidance from the Canadian Institute of Actuaries regarding discount rates. The final actuarial valuations for January 1, 2011 will be completed in the first half of 2011 but they will not increase past service pension funding obligations projected for 2011 to 2013, as described below.

In July 2009, the Government of Canada adopted the Air Canada 2009 Pension Regulations. The Air Canada 2009 Pension Regulations relieve Air Canada from making any past service contributions (i.e. special payments to amortize the plan solvency deficits) to its ten domestic defined benefit registered pension plans in respect of the period beginning April 1, 2009, and ending December 31, 2010. Thereafter, in respect of the period from January 1, 2011 to December 31, 2013, the aggregate annual past service contribution shall equal the lesser of (i) $150 million, $175 million, and $225 million in 2011, 2012, and 2013, respectively, on an accrued basis, and (ii) the maximum past service contribution permitted under the Income Tax Act (Canada).

The Air Canada 2009 Pension Regulations were adopted during the third quarter of 2009 in coordination with pension funding agreements reached with all of Air Canada’s Canadian-based unions (“the Pension MOUs”). Pursuant to the Pension MOUs, on October 26, 2009, Air Canada issued to a trust, 17,647,059 Class B voting shares. This number of shares represented 15% of the shares of Air Canada issued and outstanding as at the date of the Pension MOUs and the date of issuance (in both cases after taking into account such issuance). All net proceeds of sale of such shares by the trust are to be contributed to the pension plans. For so long as the trust continues to hold at least 2% of the issued and outstanding shares of Air Canada, the trustee will have the right to designate one nominee (who shall not be a member or officer of any of Air Canada’s Canadian-based unions) to Air Canada’s board of directors, subject to completion of Air Canada’s usual governance process for selection and confirmation of director nominees. On February 9, 2010, Air Canada’s Board of Directors approved the appointment of the Honourable Roy Romanow to the Air Canada Board of Directors, following his nomination by Air Canada’s Canadian-based unions pursuant to the Pension MOUs. Current service contributions will continue to be made in the normal course while the Air Canada 2009 Pension Regulations are in effect.

After consideration of the effect of the Air Canada 2009 Pension Regulations, as outlined above, Air Canada's pension funding contributions amounted to $243 million in 2010.

(Canadian dollars in millions)	2010	2009
Past service cost for registered pension plans	$ -	$ 140
Current service cost for registered pension plans	169	185
Other pension arrangements(1)	74	64
Total contributions	**$ 243**	**$ 389**

(1) Includes retirement compensation arrangements, supplemental plans and international plans.

Funding obligations are generally dependent on a number of factors, including the assumptions used in the most recently filed actuarial valuation reports for current service (including the applicable discount rate used or assumed in the actuarial valuation), the plan demographics at the valuation date, the existing plan provisions, existing pension legislation and changes in economic conditions (mainly the return on fund assets and changes in interest rates). Actual contributions that are determined on the basis of future valuation reports filed annually may vary significantly from projections. In addition to changes in plan demographics and experience, actuarial assumptions and methods may be changed from one valuation to the next, including by reason of changes in plan experience, financial markets, future expectations, and changes in legislation and other factors. Until 2013, Air Canada's past service pension funding obligations are also limited by the Air Canada 2009 Pension Plan Funding Regulations.

Air Canada's projected pension funding obligations, on a cash basis, for 2011 and for the next two years, are provided in the table below. As of 2014, the Air Canada 2009 Pension Regulations will cease to have effect and Air Canada's pension funding obligations may vary significantly based on a wide variety of factors, including those identified above.

(Canadian dollars in millions)	2011	2012	2013
Past service domestic registered plans	$ 138	$ 173	$ 221
Current service domestic registered plans	180	186	191
Other pension arrangements(1)	79	81	83
Projected pension funding obligations	**$ 397**	**$ 440**	**$ 495**

(1) Includes retirement compensation arrangements, supplemental plans and international plans.

The net deficit, on an accounting basis, at December 31, 2010, for pension benefits was $2,077 million (2009 - $1,186 million). The increase in the accounting deficit is mainly the result of the increase to the accrued benefit obligation resulting from the decrease in the discount rate and, to some extent, offset by the higher than expected returns on plan assets.

Arrangements with Unions

Following its filing for protection under the CCAA in April 2003, 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"), the International Brotherhood of Teamsters ("IBT"), the AMICUS and the Transportation and General Workers Union ("TGWU"). 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. The 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.

In 2006, Air Canada concluded wage re-opener agreements, mediations or arbitrations under the collective agreements negotiated with all its union groups for the period from 2003 and 2004, to 2009. The average of the wage adjustment agreements and awards represented an increase of approximately 5% over the three-year period from mid-2006 to mid-2009. In July 2009, collective agreements with the IAMAW, ACPA, CUPE, CAW and CALDA were renewed or extended and have or are expiring in the first quarter of 2011. The labour agreements provide for no increases to wage rates and no changes to group insurance coverage, benefits or pension benefit levels during the contract extension or renewal periods. No strikes or lock-outs may lawfully occur during the term of the collective agreements, nor during the negotiations of their renewal until a number of pre-conditions, in respect of the unions for Canadian-based employees, prescribed by the Canada Labour Code, have been satisfied. For an additional discussion of risks relating to labour, see the “Risk Factors” section of this AIF.

In March 2011, Air Canada reached a tentative collective agreement with ACPA. The agreement, which is subject to ratification, covers approximately 3,000 pilots.

The collective agreement with the IBT representing certain airport and call centre employees in the United States was renewed in 2008 for a term of three years. Air Canada also concluded agreements with the TGWU and Amicus, both in the United Kingdom. These two unions subsequently merged and now refer to themselves as UNITE.

Air Canada is bargaining with most of its unionized employee groups whose collective agreements have expired.

On January 31, 2011, the Canada Industrial Relations Board issued an order determining that the sale of Air Canada’s former aircraft, engine and component maintenance and repair business had occurred within the meaning of the Canada Labour Code, and establishing Aveos as a distinct employer, bound by separate collective agreements. The issuance of this order triggers the commencement of the process by which certain employees represented by the IAMAW will transition from Air Canada to employment with Aveos. Pursuant to this order and a related separation program, Air Canada may be required to provide up to a maximum of 1,500 separation packages to IAMAW-represented Aveos employees employed as of the date of the order (with each package including up to a maximum of 52 weeks of pay), in the event that such employees are permanently laid off or terminated as a direct result of Aveos ceasing to be the exclusive provider of airframe maintenance services to Air Canada prior to June 30, 2015. These packages will also be made available at any time up to June 30, 2013, in the event of an insolvency, liquidation or bankruptcy involving Aveos resulting in the cancellation of Air Canada-Aveos contracts and in the termination or permanent layoff of IAMAW-represented employees. The airframe maintenance services agreement may be terminated, as of June 30, 2013, by either party.

Air Canada's 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 is designed to ensure continuous improvement in its efforts towards meeting its environmental objectives.

Air Canada's environmental objectives are as follows:

(i) optimize energy consumption and minimize emissions resulting from air and ground operations including aircraft maintenance;

(ii) minimize noise from aircraft operations;

(iii) ensure efficient use of resources, minimal waste generation and appropriate waste disposal;

(iv) respond effectively to accidental release of potentially harmful or hazardous substances and eliminate the future occurrence of similar events; and

(v) promote sound environmental management policies and practices throughout the Corporation.

Air Canada measures and discloses its greenhouse gas emissions and climate change strategies through annual reporting to the Carbon Disclosure Project ("CDP"). The CDP is an organization based in the United Kingdom which works with shareholders and corporations to disclose the greenhouse gas emissions of major corporations.

BUSINESS OF AIR CANADA

The table below sets forth Air Canada's financial results for the twelve months ended December 31, 2010:

(Canadian dollars in millions)	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009
Passenger Revenue	$ 9,427	$ 8,499
Cargo Revenue	466	358
Other Revenue[1]	893	882
Total Operating Revenues	10,786	9,739
Total Operating Expenses	10,425	10,055
Operating Income (Loss) before Provision Adjustment for Cargo Investigations, net [2]	**$ 361**	**$ (316)**

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

(2) In the first quarter of 2008, Air Canada recorded a provision for cargo investigations of $125 million. In the fourth quarter of 2010, Air Canada recorded a net reduction of $46 million to this provision.

The table below sets forth the proportions of passenger revenues derived from domestic, transborder and international services of Air Canada for the twelve months ended December 31, 2010 and December 31, 2009.

(Passenger revenues, in percent)	Twelve months ended December 31, 2010	Twelve months ended December 31, 2009
Domestic	40	42
Transborder	19	19
International	41	39
Total	**100 %**	**100 %**

For additional information on Air Canada's financial results for 2010, refer to Air Canada's consolidated financial statements for the year ended December 31, 2010, and Air Canada's 2010 MD&A dated February 10, 2011, both of which are available on Air Canada's website at **www.aircanada.com** or on SEDAR at **www.sedar.com**.

Routes and Schedules

Air Canada

In 2010, Air Canada and Contracted Carriers, operated, on average, 1,470 daily departures to 59 destinations in Canada, 59 destinations in the U.S. and 60 destinations in the Canada-Europe, Canada-Pacific, Canada-Caribbean/Central America and Canada-South America markets. Domestic, U.S. transborder and international departures accounted for approximately 66%, 27% and 7%, respectively, of the approximately 1,470 average daily departures. In addition, Air Canada provides certain passenger charter services under the brand name "AC Jetz".

In 2010, Air Canada, together with its Contracted Carriers, carried over 32 million passengers and provided passenger service to 178 direct destinations on five continents.

Air Canada's hubs are located in Toronto, Vancouver, Montreal and Calgary, each of which provides 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, 2010, Air Canada, together with its Contracted Carriers, operated, on average, 320 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, 2010, Air Canada, together with its Contracted Carriers, operated on average 141 daily departures from Vancouver. Montreal Trudeau Airport is the third most important hub in Air Canada's network. For the year ended December 31, 2010, Air Canada, together with its Contracted Carriers, operated, on average, 126 daily departures from Montreal. Calgary International Airport is Air Canada's fourth largest hub. For the year ended December 31, 2010, Air Canada, together with its Contracted Carriers, operated, on average, 112 daily departures from Calgary.

Domestic Services

In 2010, Air Canada, together with its Contracted Carriers, provided the largest network and most extensive product offering in Canada, with scheduled direct passenger service to 59 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. On a combined basis, Air Canada, together with its Contracted Carriers, operate a large number of short-haul routes, including Rapidair® routes, linking Toronto, Montreal and Ottawa. Air Canada, together with its Contracted Carriers also offer frequent service linking major centres within Western Canada, and operates numerous flights including Calgary, Edmonton and Vancouver. In addition to transcontinental and commuter routes, Air Canada, together with its Contracted Carriers provide service between and within Central Canada, the Prairies and the Atlantic provinces.

Transborder Services

With the most non-stop destinations and flights from Canada to the United States, Air Canada, together with its Contracted Carriers, carry more passengers between Canada and the United States than any other airline. Air Canada, together with its Contracted Carriers, directly served 59 U.S. destinations in 2010. Air Canada's network reach is also increased by its extensive connections to, and code sharing flights with United Airlines its Star Alliance® partner.

Air Canada also added service to a number of U.S. cities in 2010, including San Diego, Portland (Oregon), Cincinnati, Memphis, Portland (Maine), Syracuse (New York) and New Orleans, with the goal of growing connecting traffic from the U.S. in support of its international expansion initiatives.

International Services

Air Canada is well positioned as Canada's largest scheduled international airline. In 2010, Air Canada provided scheduled service directly to 60 destinations in Europe, the Middle East, Asia, Australia, the Caribbean and Central America and South America.

Air Canada offers trans-Atlantic services to the United Kingdom, Germany, France, Switzerland, Israel, Ireland, Italy and Spain. In 2010, Air Canada added services to Belgium, Denmark and Greece.

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), China (Vancouver and Toronto to Beijing, Shanghai and Hong Kong) and Korea (Vancouver to Seoul). In 2010, Air Canada also added a new non-stop service to between Calgary and Tokyo.

Air Canada has also expanded its services to South America, Australia and Central America/Caribbean. Air Canada currently provides service directly to 6 destinations in South America, 1 in Australia, 7 in Central America and 26 in the Caribbean.

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 749 departures per day to 57 destinations in Canada and 30 destinations in the United States as at December 31, 2010. Approximately 37% of Jazz's traffic connects to Air Canada's mainline network. In 2010, Jazz contributed approximately 18% of Jazz's and Air Canada's combined domestic ASM capacity and approximately 18% of Jazz's and Air Canada's combined transborder ASM capacity.

Aircraft Fleet

Current and Planned Operating Fleet

The following table provides the number of aircraft in Air Canada's operating fleet as at December 31, 2009, and December 31, 2010, as well as planned changes to its operating fleet (excluding aircraft operated by Jazz under the Jazz CPA and aircraft operated by other regional airlines on behalf of and under commercial agreements with Air Canada):

	Actual			Planned			
Fleet Plan	**December 31, 2009**	**2010 Fleet Changes**	**December 31, 2010**	**2011 Fleet Changes**	**December 31, 2011**	**2012 Fleet Changes**	**December 31, 2012**
Boeing 777-300	**12**	**-**	**12**	-	**12**	**-**	**12**
Boeing 777-200	**6**	**-**	**6**	-	**6**	**-**	**6**
Boeing 767-300	**30**	**-**	**30**	1	**31**	(1)	**30**
Airbus A330-300	**8**	**-**	**8**	-	**8**	**-**	**8**
Airbus A321	**10**	**-**	**10**	-	**10**	**-**	**10**
Airbus A320	**41**	**-**	**41**	-	**41**	**-**	**41**
Airbus A319	**35**	3	**38**	-	**38**	-	**38**
EMBRAER 190	**45**	**-**	**45**	-	**45**	**-**	**45**
EMBRAER 175	**15**	**-**	**15**	-	**15**	**-**	**15**
Total	**202**	3	**205**	1	**206**	(1)	**205**
Average age (years)	**9.7**		**10.7**		**11.6**		**12.6**

On October 4, 2010, Air Canada announced that it entered into a capacity purchase agreement with Sky Regional Airlines Inc., an associated company of Skyservice Business Aviation, to operate, on behalf of Air Canada, flights to and from Billy Bishop Toronto City Airport. On March 4, 2011, Air Canada announced that it will commence service from the Toronto Island's Billy Bishop Airport on May 1, 2011 following the conclusion of a terminal agreement with City Centre Terminal Corp., the airport terminal owned by Porter Aviation Holdings Inc. Air Canada's initial schedule will provide up to 15 daily non-stop return flights between downtown Toronto and Montreal Trudeau Airport.

Air Canada entered into lease agreements with a lessor for five Bombardier Dash 8 Q400 aircraft. Sky Regional Airlines Inc. will sublease and operate these Dash 8 Q400 aircraft on behalf of Air Canada pursuant to the terms of the capacity purchase agreement.

Widebody Aircraft Fleet

Current Fleet of Widebody Aircraft

As at December 31, 2010, Air Canada's operating widebody fleet was comprised of 56 aircraft, each configured in two classes of service: Executive First or Executive Class, and Economy Class. The Airbus A330-300 aircraft is a 265-seat aircraft twin-engine aircraft that Air Canada operates mainly on trans-Atlantic 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 191-213-seat aircraft used mainly on international routes.

Boeing Orders and Financing Terms

Air Canada has 37 firm orders for Boeing 787 aircraft with The Boeing Company (“Boeing”). Air Canada also holds purchase options for 13 Boeing 787 aircraft and purchase rights for 10 Boeing 787 aircraft and 18 Boeing 777 aircraft.

Boeing notified Air Canada that the first five deliveries of its Boeing 787 aircraft, previously scheduled to be delivered in the second half of 2013, are now targeted for delivery during the fourth quarter of 2013 and the first half of 2014. This represents an average delay of between five and seven months from the previous schedule. Boeing also indicated that they continue to evaluate the schedule for deliveries of Air Canada's remaining 32 firm orders for Boeing 787 aircraft and would provide Air Canada with an update when available.

Air Canada has financing commitments from Boeing and the engine manufacturer covering 31 of the 37 Boeing 787 firm aircraft orders. The financing terms for 28 out of the 31 covered aircraft are for 80% of the aircraft delivery price and the term to maturity is 12 years with straight-line principal repayments. For the remaining three out of the 31 covered aircraft, the financing under the commitment covers up to 90% of the capital expenditure and the term to maturity is 15 years with principal payments made on a mortgage style basis resulting in equal installment payments of principal and interest over the term to maturity.

Narrowbody and Regional Jet Aircraft Fleet

Current Fleet of Narrowbody and Regional Jet Aircraft

As at December 31, 2010, Air Canada operated 149 narrowbody aircraft, including 89 Airbus narrowbody aircraft. These aircraft are configured in two classes of service: Executive Class and Economy Class. The Airbus A320 aircraft is a 146-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 similar 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 E190 and E175 aircraft are 93-seat and 73-seat twin-engine aircraft, respectively. These small jets have lower trip operating costs than Air Canada’s Airbus narrowbody aircraft. All of these narrowbody aircraft types primarily serve Air Canada's domestic, transborder and Caribbean routes.

Jazz's Regional Jet and Turboprop Aircraft Fleet

The fleet of aircraft operated as at December 31, 2010, by Jazz on behalf of Air Canada pursuant to the Jazz CPA is shown below ("Covered Aircraft"):

	Number of Covered Aircraft under the Jazz CPA as at December 31, 2010
Air Canada	
Bombardier CRJ-100	22
Bombardier CRJ-200	25
Bombardier CRJ-705	16
Total Bombardier CRJ Aircraft	**63**
Dash 8-300	34
Dash 8-100	26
Total Turboprop Aircraft	**60**
Total Covered Aircraft	**123**

Pursuant to the Jazz CPA, Air Canada purchases capacity from Jazz 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, which are covered under the Jazz CPA, 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.

Air Canada entered into an agreement amending the terms of the Jazz CPA effective August 1, 2009. This amending agreement provided, among other things, for a reduction in Air Canada's commitment to Jazz's minimum fleet from 133 to 125 aircraft. The reduction in aircraft operated by Jazz on behalf of Air Canada has been completed. The fleet operated by Jazz on behalf of Air Canada has been reduced to 123 aircraft. On April 30, 2010, Jazz signed a purchase agreement with Bombardier Inc. for the purchase of 15 Dash 8 Q400 NextGen aircraft with options for an additional 15 aircraft. Aircraft deliveries are planned to commence in May 2011. The aircraft will accommodate 74 passengers in a single cabin configuration. On March 8, 2011, Jazz and Air Canada entered into an agreement to amend the terms of the Jazz CPA to incorporate the first 15 Dash 8 Q400 NextGen aircraft into the fleet operated by Jazz on behalf of Air Canada.

As at December 31, 2010, Jazz operated, on behalf of Air Canada, 63 Bombardier regional jet aircraft as Covered Aircraft under the Jazz CPA. 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 Executive Class and Economy Class cabins and is an economical aircraft due to its operational efficiencies and lower trip costs. These aircraft are used in selected domestic and transborder markets.

In addition, as at December 31, 2010, Jazz operated 60 Bombardier Dash 8 aircraft as Covered Aircraft under the Jazz CPA. With the exception of seven Dash 8-300 aircraft leased from third parties and five Dash 8-100 aircraft leased from Air Canada's subsidiary, Air Canada Capital Ltd, all remaining Dash 8 aircraft forming part of the Covered Aircraft are owned by Jazz. Jazz also leases two Dash 8-100 aircraft from Air Canada Capital Ltd. for its charter business. 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 a more 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.

During 2011, seven Dash 8 Q400 NextGen aircraft, to be purchased by Chorus Aviation Inc. (the holding company which owns Jazz) and leased to Jazz, will be introduced into the Jazz fleet and five Bombardier CRJ-100 aircraft, owned by Air Canada, will be removed, increasing Jazz's covered fleet to 125 aircraft.

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 2010 total operating expenses. During 2010, the price of WTI crude oil per barrel averaged U.S. $78. Based on 2010 volumes, management estimates that a US$1 per barrel movement in the average price of WTI crude oil would have resulted in an approximate $25 million change in 2010 fuel expense for Air Canada (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.

In order to manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, Air Canada enters into derivative contracts with financial intermediaries. Air Canada uses derivative contracts on jet fuel and other crude oil-based commodities, heating oil and crude oil. Heating oil and crude oil commodities are used 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's policy permits hedging of up to 75% of the projected jet fuel purchases for the next 12 months, 50% for the next 13 to 24 months and 25% for the next 25 to 36 months. These are maximum (but not mandated) limits. There is no minimum monthly hedging requirement. Air Canada performs regular reviews and, if necessary, adjusts the strategy in light of market conditions. Air Canada does not purchase or hold any derivative financial instrument for speculative purposes.

As of February 28, 2011, approximately 25% of Air Canada's anticipated purchases of jet fuel for the remainder of 2011 is hedged at an average West Texas Intermediate ("WTI") capped price of US$96 per barrel and approximately 4% is subject to an average floor price of US$83 per barrel. Air Canada's contracts to hedge anticipated jet fuel purchases over the 2011 period are crude-oil based contracts.

Refer to the section entitled "Risk Factors" of this AIF for a discussion of risk factors relating to fuel.

For additional information on Air Canada's fuel derivatives, refer to Air Canada's consolidated financial statements for the year ended December 31, 2010, and Air Canada's 2010 MD&A dated February 10, 2011, both of which are available on Air Canada's website at **www.aircanada.com** or on SEDAR at **www.sedar.com**.

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 the following 27 airlines: Adria Airways, Aegean, Air Canada, Air China, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian, Blue1, bmi, Brussels Airlines, Croatia Airlines, EGYPTAIR, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Singapore Airlines, South African Airways, Spanair, Swiss, TAM, TAP Portugal, Thai Airways Intl, Turkish Airlines, United Airlines, and U.S. Airways.

Through Air Canada's strategic and commercial arrangements with Star Alliance® members and other airlines, Air Canada's customers have access to over 1,160 destinations in 181 countries, with reciprocal participation in frequent flyer programs and use of airport lounges. The Star Alliance® is an alliance that brings together networks, lounge access, check-in services, ticketing and dozens of other services to improve the travel experience for customers. 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 for Adria Airways, Aegean, Blue 1, Croatia Airlines, EGYPTAIR, South African Airways, Turkish Airlines, and U.S. Airways.

Other Services

Cargo Services

Air Canada Cargo provides direct cargo services to over 150 Canadian, U.S. transborder and international destinations and has sales representation in over 50 countries. Air Canada Cargo is Canada’s largest provider of air cargo services as measured by cargo capacity. Air cargo services are provided on domestic and U.S. transborder flights and on international flights on routes between Canada and major markets in Europe, Asia, South America and Australia. Air Canada’s cargo network is also extended through interline agreements with other air carriers worldwide and through ground trucking services offered in selected markets.

Air Canada'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 cargo shipments. Cargo services offered by the Corporation include services for high priority shipments (AC Priority1™) and standard air freight services (AC Standard™) to Air Canada destinations worldwide and most Jazz destinations in North America. Air Canada's freight management system, AC Lynx™, offers customers a number of services including on-line tracking of cargo shipments. Air Canada is a founding member of Cargo Portal Services which offers customers a web-based booking and an air cargo management tool that facilitates the movement and tracking of air cargo globally. In 2007, Air Canada also joined the Global Freight Exchange (“GF-X”), a large electronic cargo distribution channel, to offer customers greater choice.

In the face of the economic downturn in 2009, Air Canada Cargo reviewed its organizational structure and invested in programs to strengthen its commercial teams. As a result, Air Canada Cargo has implemented a series of commercial initiatives with the objective of improving traffic, better managing capacity and increasing cargo revenues. In 2009, Air Canada Cargo developed a new key account management program. This program was implemented in 2010 to strengthen the relationship between Air Canada Cargo and its top customers. Also during 2009, a new mail scanning process was implemented to offer postal authorities an improved, high quality postal product. Air Canada Cargo is a leading carrier in the IATA e-freight pilot initiative which has the objective of removing the need to carry paper documents for international shipments. Air Canada's cargo terminal at Toronto Pearson Airport and the new cargo terminal at Montreal Trudeau Airport are equipped with modern cargo handling technology to promote efficient operations. Air Canada is also actively involved in Cargo 2000 and several other industry initiatives to promote more efficient cargo operations and improved ongoing measurement of cargo performance for its customers.

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 outbound leisure travel market (Caribbean, Mexico, U.S., Europe, Central and South America, South Pacific and Asia) by developing, marketing and distributing vacation travel packages. Air Canada Vacations also offers cruise packages in North America, Europe and the Caribbean.

Air Canada Vacations offers its products through its website (**www.aircanadavacations.com**) and a network of independent travel agencies across Canada.

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, 2010:

Principal Properties	Description	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	258,757	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	131,626	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 Aveos, Jazz and other third parties. In addition, a significant portion of Air Canada's office space in the Winnipeg Air Canada Building is subleased to third parties.

Key Financing Activities Completed in 2010

On August 12, 2010, Standard & Poor's Ratings Services ("Standard & Poor's") reported an upgrade to its long-term corporate credit rating on Air Canada from "B-" with an outlook of negative to B+ and a stable outlook. The upgrade was stated as reflecting Standard & Poor's assessment that with the completion of the August 2010 Notes offerings of approximately $1.1 billion (as described below), Air Canada's liquidity situation had improved to a level Standard & Poor's believed removed Air Canada's near-term liquidity concerns.

In the first quarter of 2010, Air Canada entered into arrangements with a new lender, comprised of a group of entities that are related to each other, to obtain a $100 million increase to its $600 million secured term credit facility concluded in July 2009.

On August 3, 2010, Air Canada completed a private offering of two series of senior secured notes, consisting of US$600 million senior secured first lien notes due 2015 (the "U.S. Dollar First Lien Notes") and $300 million senior secured first lien notes due 2015 (the "Canadian Dollar First Lien Notes" and, collectively with the U.S. Dollar First Lien Notes, the “First Lien Notes”). On August 3, 2010, Air Canada also completed a private offering of US$200 million senior secured second lien notes due 2016 (the "Second Lien Notes" and, together with the First Lien Notes, the "Notes"). Air Canada received net proceeds of $1,075 million after deduction of fees, expenses and discounts. Air Canada used approximately $729 million of the net proceeds of the offerings to repay all of the outstanding debt under the above-referenced secured term credit facility, including $29 million for early payment fees. For additional information on Air Canada’s private offering of Notes, refer to Air Canada's consolidated financial statements for the year ended December 31, 2010, and Air Canada’s 2010 MD&A dated February 10, 2011, both of which are available on Air Canada’s website at **www.aircanada.com** or on SEDAR at **www.sedar.com**.

On August 20, 2010, Air Canada concluded a credit agreement with GE Japan Corporation, PK Airfinance Japan (“GE Japan”) for a senior secured term loan facility in the amount of up to approximately US$171 million to refinance amounts due in 2011 and 2012 related to 16 aircraft currently operated by Air Canada and leased from special purpose leasing entities which are consolidated by Air Canada. As at March 4, 2011, six of the 16 aircraft have been refinanced in part using proceeds of this loan facility.

Liquidity Risks

Liquidity risk is the risk that Air Canada will encounter difficulty in meeting obligations associated with its financial liabilities and other contractual obligations. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. Air Canada’s principal objective in managing liquidity risk is to maintain a minimum unrestricted cash balance in excess of a target liquidity level of 15% of annual operating revenues.

At December 31, 2010, cash, cash equivalents and short-term investments amounted to $2,192 million, or approximately 20% of 2010 operating revenues, exceeding Air Canada’s minimum target liquidity level of 15% of 12-month trailing operating revenues.

Managing Air Canada’s liquidity position was a particular focus in 2010 and remains a significant priority going forward. In 2010, Air Canada’s unrestricted cash balance increased $785 million due mainly to positive cash from operations of $864 million. Air Canada manages its liquidity through a variety of strategies, including by seeking to achieve positive cash from operations, sourcing committed financing for new and existing aircraft and through other financing activities.

Covenants in Credit Card Agreements

Air Canada has various agreements with companies that process customer credit card transactions. Approximately 85% of Air Canada’s sales are processed using credit cards, with remaining sales processed through cash-based transactions. Air Canada receives payment for a credit card sale generally in advance of when the passenger transportation is provided.

Air Canada’s principal credit card processing agreements for card processing services requirements in North America are scheduled to terminate at the end of May 2011. Air Canada’s obligation to provide a deposit to the credit card processor under these agreements, as well as the amount of such deposit, are determined pursuant to a matrix measuring, on a quarterly basis, both a fixed charge coverage ratio for Air Canada and the unrestricted cash of Air Canada. Air Canada also has agreements with this processor for the provision of certain credit card processing services requirements for markets other than North America and for its cargo operations worldwide and such agreements contain deposit obligations similar to the obligations set forth above.

Air Canada has accepted a proposal from a new service provider for the provision of its principal credit card processing services requirements in North America for Visa and MasterCard for a five-year term beginning at the expiry of the current agreements being replaced. Air Canada and the credit card processor have agreed to triggering events upon which Air Canada would be required to provide the credit card processor with deposits. The obligation to provide, and the amount of, deposits required would be based upon a matrix measuring, on a quarterly basis, both a fixed charge coverage ratio and unrestricted cash of Air Canada. The agreement between Air Canada and the credit card processor is subject to certain conditions, including conclusion of formal documentation.

Refer to the section entitled "Risk Factors" of this AIF for additional information.

Employees

The following table provides a breakdown of Air Canada's average full-time equivalent ("FTE") employees for the fourth quarter of 2010 and 2009 and for the full year 2010 and 2009 together with the unions that represent them.

Employee Group	Union(1)	Fourth Quarter 2010	Fourth Quarter 2009	Full Year 2010	Full Year 2009
Management and Administrative Support	n/a(2)	3,088	2,948	3,030	2,990
Pilots	ACPA	2,705	2,761	2,726	2,803
Flight Attendants	CUPE	5,948	5,464	5,843	5,549
Customer Sales and Service Agents (3)	CAW/IBT	3,286	3,245	3,404	3,426
Technical Services, Ramp and Cargo	IAMAW	7,311	7,074	7,231	7,143
United Kingdom Unionized Employees	UNITE	583	635	606	648
Other Unionized		332	353	340	356
Total		**23,253**	**22,480**	**23,180**	**22,915**

(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 UNITE.

(2) Certain administrative support employees are represented by IAMAW.

(3) In addition to the numbers presented in the table above, pursuant to the Aveos General Services Agreement, Aveos 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 Aveos. Such group represented 2,617 FTE employees as at December 31, 2010, and 2,820 FTE employees as at December 31, 2009. On January 31, 2011, the Canada Industrial Relations Board issued an order determining that the sale of Air Canada's former aircraft, engine and component maintenance and repair business had occurred within the meaning of the Canada Labour Code, and establishing Aveos as a distinct employer, bound by separate collective agreements. The issuance of this order triggers the commencement of a process by which certain employees will transition from Air Canada to employment with Aveos. Pursuant to this order and a related separation program, Air Canada may be required to provide up to a maximum of 1,500 separation packages to IAMAW-represented Aveos employees employed as of the date of the order (with each package including up to a maximum of 52 weeks of pay), in the event that such employees are permanently laid off or terminated as a direct result of Aveos ceasing to be the exclusive provider of airframe maintenance services to Air Canada prior to June 30, 2015. These packages will also be made available at any time up to June 30, 2013, in the event of an insolvency, liquidation or bankruptcy involving Aveos resulting in the cancellation of Air Canada-Aveos contracts and in the termination or permanent layoff of IAMAW-represented employees. The airframe maintenance services agreement may be terminated, as of June 30, 2013, by either party.

RISK FACTORS

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

Risks Relating to Air Canada

Operating Results

Prior to emergence, on September 30, 2004, from its restructuring under the CCAA, Air Canada had sustained significant losses and Air Canada may sustain significant losses in the future. Since emergence from CCAA to December 31, 2010, Air Canada has accumulated losses of $620 million. A variety of factors, including economic conditions and other factors described in this Risk Factors section, may result in Air Canada incurring significant losses. Despite ongoing strategic and business initiatives, including efforts at securing cost reductions and revenue improvements, Air Canada may not be able to successfully achieve positive net profitability or realize the objectives of any or all of its initiatives, including those which seek to improve yield or offset or mitigate risks facing Air Canada, including those relating to economic conditions, liquidity, pension funding, unexpected volatility in fuel costs and other expenses.

Leverage

Air Canada has, and is expected to continue to have and incur, a significant amount of indebtedness, including substantial fixed obligations under aircraft leases and financings (including under the private offering of senior secured notes completed on August 3, 2010), and as a result of challenging economic or other conditions affecting Air Canada, Air Canada may incur greater levels of indebtedness than currently exist. The amount of indebtedness that Air Canada currently has and which it may incur in the future could have a material adverse effect on Air Canada, for example, by (i) limiting Air Canada's ability to obtain additional financing, (ii) requiring Air Canada 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 Air Canada more vulnerable to economic downturns, and (iv) limiting Air Canada's flexibility in planning for, or reacting to, competitive pressures or changes in its business environment.

The ability of Air Canada 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. In addition, as Air Canada 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 Air Canada will be able to generate sufficient cash from its operations to pay its debts and lease obligations. Each of these factors is, to a large extent, subject to economic, financial, competitive, regulatory, operational and other factors, many of which are beyond Air Canada's control.

Need for Additional Capital and Liquidity

Air Canada faces a number of challenges in its business, including in relation to economic conditions, pension plan funding, volatile fuel prices, contractual covenants which could require Air Canada to deposit cash collateral with third parties, foreign exchange rates and increased competition from international, U.S. transborder and low-cost domestic carriers. Air Canada's liquidity levels may be adversely impacted by these as well as by other factors and risks identified in this AIF. As part of Air Canada's efforts to meet such challenges and to support Air Canada's business strategy, significant liquidity and significant operating and capital expenditures are, and will in the future be, required. There can be no assurance that Air Canada will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to Air Canada to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome challenges and 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, could require Air Canada to delay or abandon some or all of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Furthermore, competitors with greater liquidity or their ability to raise money more easily and on less onerous terms could create a competitive disadvantage for Air Canada.

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

Economic and Geopolitical Conditions

Airline operating results are sensitive to economic and geopolitical conditions which can have a significant impact on Air Canada. For example, economic and geopolitical conditions may impact demand for air transportation in general or to or from certain destinations, and may also impact Air Canada's operating costs, future pension plan contributions, fuel costs, and costs and availability of capital and supplies required by Air Canada. Especially in light of Air Canada's substantial fixed cost structure, any prolonged or significant impact arising from economic and geopolitical conditions, including weakness of the Canadian, U.S. or world economies could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. Air Canada is not able to predict with certainty market conditions and the fares that Air Canada 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. Demand travel for business and premium travel are also impacted by economic conditions. Depressed economic conditions in North America and other areas served by Air Canada, as well as geopolitical instability in various areas of the world, 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 could materially adversely impact Air Canada's profitability.

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).

Pension plan solvency valuations are influenced primarily by long-term interest rates and by the investment return on plan assets, which in turn may be dependent on a variety of factors, including economic conditions. 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. Deteriorating economic conditions may result in significant increases in Air Canada's funding obligations, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Refer to the section entitled "Pension Plan Arrangements" in this AIF for additional information relating to Air Canada's pension funding obligations. In particular, as of 2014, the Air Canada 2009 Pension Regulations will cease to have effect and Air Canada's pension funding obligations may vary significantly based on several factors, including regulatory developments, assumptions and methods used and changes in the economic conditions (mainly the return on fund assets and changes in interest rates). Underfunded pension plans or a failure or inability by Air Canada to make required cash contributions to its registered pension plans could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Fuel Costs

Fuel costs constituted the largest percentage of the total operating costs of Air Canada in 2010. 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 the last five years, fuel prices increased and fluctuated near or at historically high levels. Should fuel prices fluctuate significantly or increase significantly above current levels, fuel costs could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Due to the competitive nature of the airline industry, Air Canada may not be able to pass on increases in fuel prices to its customers by increasing its fares. Based on 2010 volumes, management estimates that a US$1 per barrel movement in the average price of West Texas Intermediate ("WTI") crude oil would have resulted in an approximate $25 million change in 2010 fuel expense for Air Canada (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.

Foreign Exchange

Air Canada's financial results are sensitive to the fluctuating value of the Canadian dollar. In particular, Air Canada has a significant annual net outflow of U.S. dollars and is affected by fluctuations in the U.S./Canada dollar exchange rate. Management estimates that during 2010, a $0.01 weakening of the Canadian dollar versus the U.S. dollar (i.e., $1.00 to $1.01 per U.S. dollar) would have had an estimated $24 million unfavourable impact on operating income and a $61 million unfavourable impact on pre-tax income. Conversely, an opposite change in the exchange rate would have had the opposite effect. Air Canada incurs significant expenses in U.S. dollars for such items as fuel, aircraft rental and maintenance 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 Air Canada relative to its U.S. competitors and could have a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, Air Canada may be unable to appropriately hedge the risks associated with fluctuations in exchange rates.

Labour Costs and Labour Relations

Labour costs constitute one of Air Canada's largest operating cost items. There can be no assurance that Air Canada 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 Air Canada's expectations or comparable to agreements entered into by Air Canada'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 Air Canada, its business, results from operations and financial condition.

Most of Air Canada's employees are unionized. In July 2009, collective agreements with the IAMAW, ACPA, CUPE, CAW and CALDA were renewed or extended and have or are expiring in the first quarter of 2011. While no strikes or lock-outs may lawfully occur during the term of the collective agreements, nor during the negotiations of their renewal until a number of pre-conditions, in respect of the unions for Canadian-based employees, prescribed by the Canada Labour Code, have been satisfied, there can be no assurance that collective agreements will be further renewed without labour conflict or action or that there will not otherwise be any labour conflict or action that could also lead to an interruption or stoppage in Air Canada's service or otherwise adversely affect the ability of Air Canada to conduct its operations, any of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Any labour disruption or work stoppage by any of the unionized work groups of Jazz or other parties, with whom Air Canada conducts business could have a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, labour conflicts at Star Alliance® partners could result in lower demand for connecting traffic with Air Canada and, ultimately, could have a material adverse effect on Air Canada, its 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 would have a significant effect on Air Canada'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 Air Canada, its business, results from operations and financial condition. Air Canada incurs substantial fixed costs which do not meaningfully fluctuate with overall capacity. As a result, should Air Canada 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 Air Canada, its business, results from operations and financial condition.

Competition

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

Canadian low-cost and other carriers have entered and/or expanded or announced their intention to compete in many of Air Canada's key domestic markets and, along with some U.S. carriers have also entered and/or expanded their operations in the U.S. transborder and leisure-oriented markets. Carriers against which Air Canada may compete, including U.S. carriers, may undergo (and some have undergone) substantial reorganizations (including by way of merger with or acquisition by another carrier), creating reduced levels of indebtedness and lower operating costs and may be in a position to more effectively compete with Air Canada. Air Canada 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 Air Canada's domestic and the U.S. transborder markets, if additional U.S. or other carriers against which Air Canada competes are successful in entering Air Canada's U.S. transborder market or if carriers are successful in their expansion in international markets of Air Canada, Air Canada's business results from operations and financial condition could be materially adversely affected.

Air Canada also encounters substantial price competition. The prevalence of low-cost carriers, 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 Air Canada'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 Air Canada, its business, results from operations and financial condition. Furthermore, Air Canada's ability to reduce its fares in order to effectively compete with other carriers is dependent on Air Canada's ability to achieve acceptable operating margins and may also be limited by government policies to encourage competition. Likewise, competitors continue to pursue commissions/incentive actions and, in many cases, increase these payments. The decision to modify Air Canada's current programs in order to remain competitive and maintain passenger traffic could result in increased costs to Air Canada's business.

In addition, consolidation in the airline industry could result in increased competition as some airlines emerging from such consolidations and the entering into integrated commercial cooperation such as joint ventures may be able to compete more effectively against Air Canada which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Limitations Due to Restrictive Covenants

Some of the financing and other major agreements to which Air Canada is a party contain restrictive, financial (including in relation to liquidity, minimum EBITDAR, fixed charge coverage ratio and debt coverage ratios) and other covenants which affect and, in some cases, significantly limit or prohibit, among other things, the manner in which Air Canada may structure or operate its business, including by reducing Air Canada's liquidity, limiting Air Canada's ability to incur indebtedness, create liens, sell assets, pay dividends, make capital expenditures, and engage in acquisitions, mergers or restructurings or a change of control. Future financing and other major agreements 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 ability to operate its business and its profitability.

A failure by Air Canada to comply with its contractual obligations (including restrictive, financial and other 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, lessors or other co-contracting parties, and such defaults could trigger additional defaults under other indebtedness or agreements. In such a situation, Air Canada may not 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 Air Canada which secure Air Canada's obligations.

Refer to the section entitled "Liquidity Risks" in this AIF for information on Air Canada's credit card processing agreements.

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. Though certain authorities have implemented some fee reductions, if authorities in Canada or elsewhere were to increase their fees, Air Canada, its business, results from operations and financial condition could be materially adversely affected.

Strategic, Business, Technology and Other Important Initiatives

In order to operate its business, achieve its goals and remain competitive, Air Canada continuously seeks to identify and devise, invest in, implement and pursue strategic, business, technology and other important initiatives, such as those relating to the aircraft fleet restructuring, business processes, information technology, revenue management, cost transformation, improving premium passenger revenues, expansion of flying capacity (including in respect of new routes), corporate culture transformation, initiatives seeking to ensure a consistently high quality customer service experience and others. 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 Air Canada's control. Such factors include the performance of third parties, including suppliers, the implementation and integration of such initiatives into Air Canada's other activities and processes as well as the adoption and acceptance of initiatives by Air Canada'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 Air Canada's ability to operate its business, achieve its goals and remain competitive and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

For instance, a key component of Air Canada's business plan is the completion of Air Canada's fleet restructuring program through the acquisition of new and more efficient Boeing 787 aircraft. A delay or failure in the completion of Air Canada's fleet restructuring, including further delays by the manufacturers in the delivery of the wide-body 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 Air Canada's business plan which may, in turn, have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Dependence on Technology

Air Canada relies heavily 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 Air Canada'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 Air Canada 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, interruption or misuse could materially and adversely affect Air Canada's operations and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Key Supplies and Suppliers

Air Canada is dependent upon its ability to source, on favourable terms and costs, sufficient quantities of goods and services in a timely manner, including those available at airports or from airport authorities or otherwise required for Air Canada's operations such as fuel, aircraft and related parts and aircraft maintenance services (including maintenance services obtained from Aveos). In certain cases, Air Canada may only be able to access goods and services from a limited number of suppliers and transition to new suppliers may take significant amounts of time and require significant resources. A failure, refusal or inability of a supplier may arise as a result of a wide range of causes, many of which are beyond Air Canada's control. In addition, there can be no assurance as to the continued viability of any of Air Canada's suppliers. Any failure or inability of Air Canada 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 Air Canada, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Aeroplan

Through its commercial agreement with Aeroplan, Air Canada 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 contributes to building customer loyalty. The failure by Aeroplan to adequately fulfill its obligations towards Air Canada under the Aeroplan Commercial Participation and Services Agreement and in connection with the Aeroplan program®, or other unexpected interruptions of Aeroplan services which are beyond Air Canada's control, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Jazz

Under the Jazz CPA, Jazz provides Air Canada'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 Air Canada's mainline routes. Pursuant to the terms of the Jazz CPA, Air Canada pays Jazz a number of fees which are determined based upon certain costs incurred by Jazz. Air Canada also 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 Air Canada under the Jazz CPA, or other unexpected interruptions or cessation of Jazz's services which are beyond Air Canada's control could have a material adverse effect on Air Canada, its 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 Air Canada make certain minimum payments to Jazz regardless of the amount of flying done on its behalf by Jazz.

Star Alliance®

The strategic and commercial arrangements with Star Alliance® members provide Air Canada with important benefits, including codesharing, 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, Air Canada, its business, results from operations and financial condition could be materially adversely affected.

Interruptions or Disruptions in Service

Air Canada'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 Air Canada or other causes beyond the control of Air Canada could have a material adverse impact on Air Canada, its business, results from operations and financial condition.

Interruptions and disruptions in service may be caused by, and the demand and cost of air travel may be adversely impacted by, environmental conditions and factors in addition to those relating to the weather. Environmental conditions and factors, such as those arising from volcanic eruptions or other natural phenomena, as well as those arising from man-made sources, could cause interruptions and disruptions in service, increase Air Canada's costs or adversely impact demand for air travel, any of which could have a material adverse impact on Air Canada, its business, results from operations and financial condition.

Current Legal Proceedings

The European Commission, the United States Department of Justice and the Competition Bureau in Canada have investigated or are investigating alleged anti-competitive cargo pricing activities, including the levying of certain fuel surcharges, of a number of airlines and cargo operators, including Air Canada. Competition authorities have sought or requested information from Air Canada as part of their investigations. Air Canada has been cooperating with these investigations, which are likely to lead, or have led, to proceedings against Air Canada and a number of airlines and other cargo operators in certain jurisdictions. Air Canada is named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada and in Europe in connection with these allegations. Air Canada has been or may be named as a defendant or may otherwise be implicated in these or other lawsuits or proceedings in connection with these allegations. The usual five-year statute of limitations period during which the U.S. Department of Justice could seek the indictment of a party for a violation in respect of such alleged activities expired on February 14, 2011 without any such proceedings having been instituted against Air Canada.

During 2008, Air Canada recorded a provision of $125 million as a preliminary estimate. This was only an estimate based upon the status of the investigations and proceedings at that time and Air Canada's assessment as to the potential outcome for certain of them. This provision did not address the proceedings and investigations in all jurisdictions, but only where there was sufficient information to do so. On November 9, 2010, Air Canada announced that the European Commissions issued a decision finding that 12 air cargo carriers (including groups of related carriers) had infringed European Union competition law in the setting of certain cargo charges and rates for various periods between 1999 and 2006. Air Canada was among the carriers subject to the decision and a fine of 21,037,500 Euros (approximately $29.4 million at an exchange rate of $1.3970) was imposed on Air Canada. The amount of the fine was included in the $125 million provision taken by Air Canada in 2008. Air Canada is appealing this decision and filed an application for appeal before the European General Court. In February 2011, Air Canada paid the fine, as required, pending the outcome of its appeal.

As a result of the decision by the European Commission and a further review of proceedings and investigations in other jurisdictions, Air Canada recorded a net reduction to the provision for cargo investigations of $46 million in 2010. The revised provision does not address the proceedings and investigations in all jurisdictions, but only where there is sufficient information to do so. Air Canada has determined it is not possible at this time to predict with any degree of certainty the outcome of all proceedings and investigations. As stated above, Air Canada is appealing the decision issued by the European Commission and, if and as appropriate, based on the outcome of any updates regarding this appeal as well as developments regarding proceedings and investigations in other jurisdictions, may adjust the provision in its results for subsequent periods as required.

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against Porter and other defendants (collectively the "Porter Defendants") after Jazz became aware that it would be excluded from operating flights from Billy Bishop Toronto City Airport. 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. On October 16, 2009, Jazz discontinued its suit in the Ontario Superior Court against Porter.

Concurrently with the Ontario Superior Court of Justice proceedings, Jazz commenced judicial review proceedings against the Toronto Port Authority ("TPA") before the Federal Court of Canada relating to Jazz's access to the Billy Bishop Toronto City Airport. The Porter Defendants were granted intervener and party status in these proceedings. In January 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. In March 2010, Jazz discontinued its proceedings in the Federal Court of Canada against the TPA. On May 14, 2010, Porter filed a discontinuance of its counterclaim before the Federal Court of Canada.

The counterclaim filed by Porter in the Ontario Superior Court of Justice against Jazz and Air Canada was stayed pending the outcome of the mirror counterclaim in the Federal Court. The stay has now been lifted and the counterclaim has been reactivated. Management views Porter's counterclaim as being without merit.

In the first quarter of 2010, Air Canada filed legal proceedings with the Federal Court of Canada seeking to challenge the process announced by the TPA to allocate flight capacity or slots at the Billy Bishop Toronto City Airport. On July 21, 2010, the Federal Court of Canada dismissed Air Canada's challenge and Air Canada is appealing this decision before the Federal Court of Appeal.

The Canadian Union of Public Employees ("CUPE"), which represents Air Canada's flight attendants, filed 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 addressed 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 Air Canada for investigation and an investigation is proceeding. Air Canada 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 Commission's investigation.

Air Canada is engaged in a number of proceedings involving challenges to the mandatory retirement provisions of certain of its collective agreements, including the Air Canada-Air Canada Pilots Association collective agreement which incorporate provisions of the pension plan terms and conditions applicable to pilots requiring them to retire at age 60. Air Canada is defending these challenges. At this time, it is not possible to determine with any degree of certainty the extent of any financial liability that may arise from Air Canada being unsuccessful in its defense of these proceedings, though any such financial liability, if imposed, would not be expected to be material.

Future Legal Proceedings

Airlines are susceptible to various claims and litigation, including class action claims, in the course of operating their business or with respect to the interpretation of existing agreements. Any future claims or litigation could also have a material adverse effect on Air Canada, its business and results from operations.

Key Personnel

Air Canada 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 Airline Industry

Terrorist Attacks and Security Measures

The September 11, 2001 terrorist attacks and subsequent terrorist activity, notably in the Middle East, Southeast Asia, Europe and the U.S., causes uncertainty in the minds of the traveling public. The occurrence of a terrorist attack (or attempted attacks) (whether domestic or international and whether involving Air Canada or another carrier or no carrier at all) and increasingly restrictive security measures, such as those relating to the content of carry-on baggage, passenger identification document requirements, and passenger screening procedures could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada'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 costs, including insurance, security or other costs could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Epidemic Diseases (Severe Acute Respiratory Syndrome (SARS), H1N1 Influenza or Other Epidemic Diseases)

The international outbreaks of Severe Acute Respiratory Syndrome (SARS) in 2003, and the resulting actions tabled by the World Health Organization (the "WHO"), including a travel advisory against non-essential travel to Toronto, Canada had a significant adverse effect on passenger demand for air travel in Air Canada's markets and resulted in a major negative impact on traffic on the entire network. An outbreak of influenza, SARS, H1N1 influenza virus or of another epidemic disease (whether domestic or international) or any WHO or similar travel advisories (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 Air Canada could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Casualty Losses

Due to the nature of its core operating business, Air Canada may be subject to liability claims arising out of accidents or disasters involving aircraft on which Air Canada's customers are traveling or involving aircraft of other carriers maintained or repaired by Air Canada, including claims for serious personal injury or death. There can be no assurance that Air Canada'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 Air Canada's aircraft or an aircraft of another carrier receiving line maintenance services from Air Canada may significantly harm Air Canada's reputation for safety, which would have a material adverse effect on Air

Canada, its business, results from operations and financial condition.

Seasonal Nature of the Business, Other Factors and Prior Performance

Air Canada 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. Air Canada has substantial fixed costs that do not meaningfully fluctuate with passenger demand in the short term.

As described elsewhere, demand for and cost of air travel is also affected by factors such as geopolitical and 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 an 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, privacy, licensing, competition, environment (including noise levels and carbon emissions) and, in some measure, pricing. For example, new and proposed legislation have been considered or adopted concerning carbon emissions emanating from the aviation industry. Such legislative initiatives include, for example, market-based mechanisms called emissions trading systems which are being proposed and implemented to reduce the amount of carbon emissions through the setting of emissions allowances and charging aircraft operators for a certain percentage of theses allowances. The implementation of additional regulations or decisions, including those relating to carbon emissions, and others, whether 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 Air Canada, its business, results from operations and financial condition.

The European Union passed legislation for an Emissions Trading System which will include carbon emissions from aviation commencing in January 2012, including for flights operated between Canada and countries within the European Union. The legislation would require aircraft operators to monitor and report on fuel use and emissions data. While this legislation would be expected to result in increased costs relating to the purchase of emissions allowances, the net financial impact would, in part, depend upon how much of such cost, if any, would be recoverable, including in the form of higher passenger fares and cargo rates.

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 Air Canada and its international operations.

Air Canada 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 Air Canada operates. The need to comply with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

There can be no assurances that new laws, regulations or revisions to same, or decisions, will not be adopted or rendered, from time to time, and these could impose additional requirements or restrictions, which may adversely impact Air Canada's business, results form 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 Air Canada's existing insurance carriers or Air Canada's ability to obtain future insurance coverage. To the extent that Air Canada'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, Air Canada's insurance costs may increase further and may result in Air Canada being in breach of regulatory requirements or contractual arrangements requiring that specific insurance be maintained, which may have a material adverse effect on Air Canada, its 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 Air Canada 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, Air Canada and other industry participants would have to turn to the commercial insurance market to seek such coverage. Air Canada estimates that such coverage would cost Air Canada approximately US$5 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.

MARKET FOR SECURITIES

The Variable Voting Shares, the Voting Shares and the Warrants are traded on the TSX under the trading symbols “AC.A", "AC.B” and “AC.WT”, respectively. The following table sets forth the price range and trading volume of the Variable Voting Shares, the Voting Shares and the Warrants as reported by the TSX for the months of January to, and including, December 2010.

	Variable Voting Shares				Voting Shares				Warrants			
2010	**High**	**Low**	**Average Daily Trading Volume**	**Total Monthly Volume**	**High**	**Low**	**Average Daily Trading Volume**	**Total Monthly Volume**	**High**	**Low**	**Average Daily Trading Volume**	**Total Monthly Volume**
January	1.35	1.25	72,446	1,448,914	1.35	1.24	656,403	13,128,065	0.40	0.30	607,234	12,144,681
February	1.56	1.27	158,352	3,008,695	1.58	1.25	1,107,527	21,043,011	0.45	0.27	253,585	4,818,120
March	2.43	1.46	228,656	5,259,091	2.29	1.49	1,263,867	29,068,939	0.70	0.39	109,544	2,519,506
April	2.75	2.20	265,691	5,579,507	2.67	2.20	1,120,467	23,529,797	0.85	0.64	184,837	3,881,582
May	2.27	1.51	236,672	4,733,442	2.28	1.40	1,025,850	20,516,997	0.65	0.365	65,976	1,319,513
June	2.00	1.62	81,702	1,797,445	1.99	1.63	525,452	11,559,944	0.51	0.34	11,837	260,410
July	2.48	1.58	531,135	11,153,828	2.50	1.60	1,113,242	23,378,091	0.78	0.34	303,129	6,365,700
August	2.35	2.11	427,332	8,973,965	2.35	2.13	882,379	18,529,967	0.67	0.56	208,668	4,382,033
September	3.26	2.25	189,864	3,987,151	3.05	2.29	1,522,045	31,962,953	1.08	0.61	434,976	9,134,502
October	3.88	2.72	244,827	4,896,538	3.85	2.76	2,192,512	43,850,237	1.72	0.91	547,097	10,941,943
November	4.11	3.32	145,261	3,195,733	4.09	3.31	2,151,468	47,332,288	1.88	1.15	549,754	12,094,593
December	3.92	3.42	170,333	3,576,993	3.93	3.39	2,744,351	57,631,371	1.71	1.20	129,923	2,728,379

TRANSFER AGENT AND REGISTRAR

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

PRIOR SALES

On August 3, 2010, Air Canada completed a private offering of two series of senior secured notes. This offering is described in this AIF under the section entitled "Key Financing Activities Completed in 2010". The price at which these notes were issued as well as the value of and the date on which the notes were issued is described below.

Issue Date (both tranches): August 3, 2010

First Lien Senior Notes:

US$ 600 million - 9.25% Senior Secured Notes due 2015
Issue price: 99.025% of principal amount

C$ 300 million – 10.125% Senior Secured Notes due 2015
Issue Price: 99.046% of principal amount

Second Lien Senior Notes:

US$ 200 million – 12.0% Senior Secured Second Lien Notes due 2016
Issue price: 96.16% of principal amount

DIVIDEND RECORD

The Corporation has not declared or paid dividends on its Voting Shares and Variable Voting Shares for the financial years ended December 31, 2010, 2009 and 2008.

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 expect 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, restrictive covenants in contracts and such other factors as Air Canada's board of directors deems relevant. The Notes, the Pension MOUs and certain other agreements of Air Canada include restrictions with respect to Air Canada's ability to declare and pay dividends.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Air Canada is comprised of an unlimited number of Variable Voting Shares and Voting Shares. As of March 30, 2011, 43,229,380 Class A Variable Voting Shares and 235,918,004 Class B Voting Shares were issued and outstanding. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares and the Voting Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of Air Canada's articles of amalgamation, 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 any higher percentage that the Governor in Council may by regulation specify) or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify) 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% (or any higher percentage that the Governor in Council may by regulation specify) 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% (or any higher percentage that the Governor in Council may by regulation specify) of the votes that may be cast at such meeting.

The Government of Canada's Bill C-10, the *Budget Implementation Act 2009*, contains provisions whereby the provisions relating to voting securities in the ACPPA would be repealed and the CTA would be amended to provide the Governor in Council with flexibility to increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These provisions will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Finance, in the case of the ACPPA, and on the recommendation of the Minister of Transport, in the case of the CTA.

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 amalgamation.

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 amalgamation.

Constraints on Ownership of Shares

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

Declaration as to Canadian Status

Air Canada's articles of amalgamation, 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 or its transfer agent 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 officers of Air Canada are 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.

Air Canada Shareholder Rights Plan

The Board of Directors of Air Canada approved a shareholder rights plan on March 30, 2011 (the "Rights Plan"). The Rights Plan was designed to foster fair treatment of all shareholders of Air Canada in connection with any take-over bid for Air Canada. The plan is in effect as of March 30, 2011, subject to shareholder ratification within six months of adoption.

The Rights Plan creates one right in respect of each Variable Voting Share and Voting Share of Air Canada outstanding as at March 30, 2011 or subsequently issued. The Rights Plan is scheduled to expire at the close of business on the date immediately following the date of Air Canada's annual meeting of shareholders to be held in 2014, unless terminated earlier in accordance with the terms of the Rights Plan. Until the separation time, which typically occurs at the time of an unsolicited take-over bid, whereby an Acquiring Person (as defined in the Rights Plan) acquires or attempts to acquire 20% or more of Air Canada's Variable Voting Shares or 20% or more of Air Canada's Voting Shares, the rights are not separable from the shares, are not exercisable and no separate rights certificates are issued.

Under the Rights Plan, each right, other than those held by an Acquiring Person and certain of its related parties, entitles the holder in certain circumstances following the acquisition by an Acquiring Person of 20% or more of the Variable Voting Shares or 20% or more of the Voting Shares of Air Canada (otherwise than through the "Permitted Bid" requirements of the Rights Plan) to purchase from Air Canada $200 worth of Variable Voting Shares or Voting Shares for $100 (i.e. at a 50% discount). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Variable Voting Shares.

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)(4)(5)(6) Paris, France	Senior Advisor, TPG Capital	November 15, 2006
Michael M. Green(2)(5)(6) Radnor, Pennsylvania	Chief Executive Officer and Managing Director, Tenex Capital Management	March 30, 2009
Jean Marc Huot(3)(4) Montreal, Québec	Partner, Stikeman Elliott LLP	May 8, 2009
Pierre Marc Johnson (1)(3)(4)(5) Montreal, Québec	Counsel, Heenan Blaikie LLP	November 15, 2006(7)
Joseph B. Leonard (2)(3)(5) Minneapolis, Minnesota	Interim Chief Executive Officer, Walter Energy, Inc.	May 21, 2008
Arthur T. Porter (2)(4)(6) 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(8)
Roy J. Romanow (2)(4) Saskatoon, Saskatchewan	Senior Fellow, Public Policy University of Saskatchewan	February 9, 2010
Calin Rovinescu Montreal, Québec	President and Chief Executive Officer, Air Canada	April 1, 2009
Vagn Sørensen (2)(3)(5) Holte, Denmark	Senior Industrial Advisor, EQT Partners	November 15, 2006

(1) Is currently also a director of ACE Aviation Holdings Inc.
(2) Member of the Audit, Finance and Risk Committee.
(3) Member of the Pension Committee.
(4) Member of the Governance and Corporate Matters Committee.
(5) Member of the Human Resources and Compensation Committee.
(6) Member of the Nominating Committee.
(7) Mr. Johnson was also a director of Air Canada from May 2000 to September 2004.
(8) 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. Green was Managing Director at Cerberus Capital Management, L.P. from 2004 to 2009. Mr. Leonard was Chairman of AirTran Airways from 1999 to 2008 and was also Chief Executive Officer from 1999 to 2007. Mr. Rovinescu was Co-founder and Senior Principal of Genuity Capital Markets from 2004 to 2009. Mr. Sørensen was President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006.

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.

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
Calin Rovinescu Montreal, Québec	President and Chief Executive Officer	President and Chief Executive Officer, Air Canada	April 1, 2009 (1)
Duncan Dee Ottawa, Ontario	Executive Vice President and Chief Operating Officer	Executive Vice President and Chief Operating Officer, Air Canada	April 3, 2009 (2)
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 C. Howlett Delta, British Columbia	Senior Vice President, Employee Relations	Senior Vice President, Employee Relations, Air Canada	March 18, 2002
David Legge Mississauga, Ontario	Senior Vice President, Operations	Senior Vice President, Operations, Air Canada	March 1, 2006
Susan Welscheid Mont Royal, Québec	Senior Vice President, Customer Service	Senior Vice President, Customer Service, Air Canada	December 13, 1999
Alan D. Butterfield Beaconsfield, Québec	Vice President, Air Canada Maintenance and Engineering	Vice President, Air Canada Maintenance and Engineering, Air Canada	February 19, 2007

Name and Municipality of Residence	Position with Air Canada	Principal Occupation	Executive Officer Since
Nick Careen Candiac, Québec	Vice President, Airports	Vice President, Airports, Air Canada	June 1, 2009
Yves Dufresne Montreal, Québec	Vice President, Alliances, International Operations and Regulatory Affairs	Vice President, Alliances, International Operations and Regulatory Affairs, Air Canada	April 26, 2004
Marcel Forget Montreal, Québec	Vice President, Network Planning	Vice President, Network Planning, Air Canada	April 8, 2009
Lucie Guillemette Pierrefonds, Québec	Vice President, Revenue Management	Vice President, Revenue Management, Air Canada	February 6, 2008
Carolyn M. Hadrovic Beaconsfield, Québec	Corporate Secretary	Corporate Secretary, Air Canada and ACE Aviation Holdings Inc.	February 16, 2006
Chris Isford Winnipeg, Manitoba	Vice President and Controller	Vice President and Controller, Air Canada	November 1, 2006
Amos Kazzaz Arlington Heights, Illinois	Vice President, Financial Planning and Analysis	Vice President, Financial Planning and Analysis, Air Canada	May 3, 2010
Craig Landry Montreal, Quebec	Vice President, Marketing	Vice President, Marketing, Air Canada	August 1, 2010
Priscille LeBlanc Toronto, Ontario	Vice President, Corporate Communications	Vice President, Corporate Communications, Air Canada	November 8, 2007
Scott Morey Burlington, Ontario	Vice President, Labour Relations	Vice President, Labour Relations, Air Canada	January 15, 2007
Claude Morin Montreal, Québec	Vice President, Global Sales	Vice President, Global Sales, Air Canada	March 2, 2000
David J. Shapiro Hampstead, Québec	Vice President and General Counsel	Vice President and General Counsel, Air Canada	November 12, 2004

(1) Mr. Rovinescu was also an executive officer of Air Canada from 2000 to 2004.

(2) Mr. Dee was also an executive officer of Air Canada from 2002 to 2004 and from 2007 to 2008.

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. Rovinescu was Co-founder and Senior Principal of Genuity Capital Markets from 2004 to 2009. Mr. Dee was Executive Vice President, Customer Experience and Chief Administrative Officer, Air Canada from 2007 to 2008 and Senior Vice President, Corporate Affairs and Chief Administrative Officer, ACE Aviation Holdings Inc. from 2004 to 2007. 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. Careen was Senior Vice President, Operations, Air Canada Jazz from 2008 to 2009, Vice President, Airports and SOC, Air Canada Jazz from 2007 to 2008 and Senior Director, SOC and Resource

Planning, Air Canada Jazz from 2005 to 2006. Mr. Forget was a consultant from 2007 to 2009 and Senior Director, Network Planning, Air Canada from 2005 to 2006. Ms. Guillemette was Senior Director, Human Resources, Air Canada from 2007 to 2008 and Senior Director, Network Management, Air Canada from 2001 to 2007. Mr. Kazzaz was Chief Operating Officer, ZAP! from 2007 to 2010 and Vice President, Cost Management, United Airlines from 2006 to 2007. Mr Landry was Senior Vice President, Commercial, Aeroplan Canada from 2009 to 2010, Senior Vice President, Corporate Development, Groupe Aeroplan from 2008 to 2009 and Vice President, Marketing and Rewards, Aeroplan Canada from 2006 to 2008. Mr. Isford was Senior Director, Financial Reporting, Air Canada from 2005 to 2006. Ms. LeBlanc was Senior Director, Corporate Communications, Air Canada from 2000 to 2007. Captain Legge was Vice President, Flight Operations, Air Canada from 2006 to 2009. Mr. Morey was Director, Labour and Employee Relations, Coca Cola Bottling Company from 2004 to 2007. Mr. Morin was President and Chief Executive Officer, Air Canada Cargo from 2004 to 2008. Ms. Welscheid was Vice President, In-Flight Services, Air Canada from 2004 to 2007.

As at March 30, 2011, the directors and officers mentioned above, as a group, owned, or had control or direction over, directly or indirectly, 601,173 Voting Shares representing approximately 0.25% of the outstanding Voting Shares and 119,300 Variable Voting Shares representing approximately 0.28% 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 AIF, or was, within 10 years before the date of the AIF, 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 AIF, or has been within the 10 years before the date of the AIF, 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 AIF, 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) Michael M. Green was a director of Anchor Glass Container Corporation when it filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in August 2005.

(ii) Pierre Marc Johnson was a director of Air Canada when it filed for protection under the CCAA on April 1, 2003;

(iii) Calin Rovinescu was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;

(iv) Duncan Dee was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;

(v) Lise Fournel was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;

(vi) Kevin C. 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;

(vii) Susan Welscheid was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;

(viii) Alan D. Butterfield was appointed Vice President, Line and Airframe Maintenance at United Airlines in March 2004 while United Airlines and its parent company, UAL Corp. were operating under bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code;

(ix) Amos Kazzaz was Vice President, Corporate Real Estate at United Airlines when its parent company, UAL Corp. filed for protection under Chapter 11 of the U.S. Bankruptcy Code in December 2002; and

(x) 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, FINANCE AND RISK COMMITTEE

Audit Committee Charter

The charter of the Audit, Finance and Risk Committee ("Audit Committee") is attached as Appendix A to this AIF.

Composition of Audit Committee

As of the date hereof, the Audit Committee of Air Canada consists of Michael M. Green (chair), Joseph B. Leonard, Arthur T. Porter, Roy J. Romanow and Vagn Sørensen. Each member of the Audit Committee is independent and financially literate as defined under National 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 responsibilities as an Audit Committee member is as follows:

(i) Michael M. Green is the Chief Executive Officer and Managing Director of Tenex Capital Management, a private investment firm. Mr. Green has a multi-industry investment and operations background in aerospace, transportation, telecommunications and software systems. Mr. Green was Managing Director of Cerberus Capital Management, L.P. from 2004 to 2009. From 1999 to 2004, Mr. Green was Managing Partner of TenX Capital Partners, and joined Cerberus in 2004 when Cerberus acquired certain portfolio companies from TenX. Previously, Mr. Green was Chief Executive Officer of Trispan Solutions and Naviant Technology. Mr. Green began his career at General Electric Company where he worked in several operating departments and held positions in engineering, manufacturing, sales, marketing and general management. Mr. Green holds a dual B.S. in Electrical Engineering and Physics from State University of New York, Buffalo and an M.S. in Electrical Engineering from Villanova University.

(ii) Joseph B. Leonard is a director and Interim Chief Executive Officer of Walter Energy, Inc. He is also a director of Mueller Water Products, Inc. Mr. Leonard was Chairman of AirTran Airways from 1999 to 2008 and Chief Executive Officer from 1999 to 2007. Mr. Leonard was also President and Chief Executive Officer of AlliedSignal's Aerospace marketing, sales and service organization and previously held various senior management positions with Northwest Airlines, Eastern Airlines and American Airlines. Mr. Leonard holds a Bachelor of Science degree in Aerospace Engineering from Auburn University Montgomery.

(iii) Arthur T. Porter is the Director General and Chief Executive Officer of the McGill University Health Centre. Dr. Porter was previously President and Chief Executive Officer of the Detroit Medical Center from 1999 to 2003 and 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 human resources and logistic challenges. Dr. Porter is a director and member of the Audit Committee of the Munder Funds and the Chairman of CancerPartnersUK. 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. Dr. Porter is the Chairman of Canada's Security Intelligence Review Committee.

(iv) Roy J. Romanow is a Senior Fellow in Public Policy at the University of Saskatchewan. Mr. Romanow is also a director of Torstar Corporation until May 4, 2011. During his career in public office, Mr. Romanow served as Premier of Saskatchewan from 1991 until 2001. Mr. Romanow was previously Deputy Premier, Attorney General and Minister of Intergovernmental Affairs. From 2001 to 2002, Mr. Romanow led the Royal Commission on the Future of Health Care in Canada, and from 2003 to 2008, he served on Canada's Security Intelligence Review Committee. Mr. Romanow holds a Bachelor of Arts degree and a Bachelor of Law degree from the University of Saskatchewan.

(v) Vagn Sørensen is a Senior Industrial Advisor with EQT Partners, a private equity fund. Mr. Sørensen is also Chairman of KMD A/S, Select Service Partner Plc U.K, Scandic Hotels AB and TDC A/S, and Vice Chairman of DFDS A/S. Mr. Sørensen is a director of Braganza AS, F L Smidth & Co A/S and Lufthansa Cargo AG. Mr. Sørensen was previously President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006, and held various senior commercial positions with SAS Scandinavian Airlines System. 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 in 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 Corporation's 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 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 the foregoing review.

Auditors' Fees

PricewaterhouseCoopers LLP has served as the Corporation's auditing firm since April 26, 1990. Fees payable for the years ended December 31, 2010 and December 31, 2009 to PricewaterhouseCoopers LLP and its affiliates are $2,839,038 and $3,923,863, respectively, as detailed below.

	Year ended December 31, 2010	**Year ended December 31, 2009**
Audit fees	$1,748,468	$2,862,627
Audit-related fees	522,075	635,556
Tax fees	60,961	59,680
All other fees	507,534	366,000
	$2,839,038	$3,923,863

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 consolidated financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements related to the annual consolidated financial statements, including review engagements performed on the interim consolidated financial statements of the Corporation.

Audit-related fees

Audit-related fees were paid for professional services related to the audit of the non-consolidated financial statements of Air Canada, pension plan audits, audits of subsidiary companies, where required, specified procedures reports and other audit engagements not related to the consolidated financial statements of the Corporation.

Tax fees

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

All other fees

Other fees were paid for translation services, advisory services and fees related to the auditors' involvement with offering documents.

The classifications of fees for the year ended December 31, 2009 have been restated to conform to the classifications described above.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set out below or described elsewhere in this AIF, none of the directors or senior officers, as applicable, of (i) Air Canada, (ii) ACE, PAR Capital Management Inc., UBS AG, Anchorage Capital Master Offshore, Ltd., Fidelity Management and Research Company, Pyramis Global Advisors, LLC, Pyramis Global Advisors Trust Company, Strategic Advisers Incorporated and FIL Limited and Polar Securities Inc. 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:

(i) the Registration Rights Agreement which was entered into on the closing of the Initial Public Offering of Air Canada 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.

LEGAL PROCEEDINGS

A description of certain legal proceedings to which Air Canada is a party appears under the heading "Current Legal Proceedings" in the section entitled "Risk Factors" of this AIF.

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2010, 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;

(ii) the Indentures dated August 2010 governing the First Lien Notes and the Second Lien Notes, and the Collateral Trust Agreement dated August 2010 governing the holding of collateral securing the First Lien Notes and the Second Lien Notes;

(iii) the Jazz CPA;

(iv) the Aveos General Services Agreement; and

(v) the Aircraft General Terms Agreement AGTA-ACN and related agreements between Boeing and Air Canada dated November 4, 2005.

EXPERTS

The Corporation's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have issued an auditor's report dated February 9, 2011, in respect of the Corporation's consolidated financial statements as at December 31, 2010, and December 31, 2009, and for each of the years ended December 31, 2010, and December 31, 2009. 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 Air Canada's securities and securities authorized for issuance under equity compensation plans will be contained in Air Canada's management proxy circular for its 2011 annual and special meeting of shareholders, scheduled for May 5, 2011, which will be posted on Air Canada's website at **www.aircanada.com** and will be filed on SEDAR at **www.sedar.com**. Additional financial information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2010, and Air Canada's 2010 MD&A dated February 10, 2011. The above documents and additional information relating to Air Canada are available on Air Canada's website at **www.aircanada.com** or 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 AIF, 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, 2010, including the auditor's report and notes related thereto, Air Canada's MD&A for the year ended December 31, 2010, 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

"ACE" means ACE Aviation Holdings Inc., a corporation incorporated under the CBCA;

"ACPA" means Air Canada Pilots Association;

"Aeroplan" means Aeroplan Canada Inc.;

"Air Canada Cargo" means the cargo services division of Air Canada;

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

"Air Canada Public Participation Act" or "**ACPPA"** means the *Air Canada Public Participation Act* (Canada);

"ASMs" means the total number of seats available for passengers multiplied by the miles flown;

"ATAC" means the Air Transportation Association of Canada;

"Audit Committee" means the Audit, Finance and Risk Committee of Air Canada;

"Aveos" means Aveos Fleet Performance Inc. (formerly called ACTS Aero Technical Support & Services Inc.);

"Boeing" means The Boeing Company;

"CAIL" means Canadian Airlines International Ltd.;

"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 aircraft operated by Jazz under the Jazz CPA;

"CTA" means the *Canada Transportation Act,* 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”;

“**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 Aviation LP;

“Jazz CPA” means the Amended and Restated Capacity Purchase Agreement between Air Canada and Jazz dated January 1, 2006, as amended;

“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 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;

“RASM” means average passenger revenue per ASM;

“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;

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

“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 Transportation Security Administration;

“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. <u>Meetings and Procedure</u>

(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. <u>Responsibilities and Duties</u>

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 the annual and quarterly financial statements and related MD&A, and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.

(c) 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.

(d) 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.

(e) 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 ensure that funding is available to the Audit Committee for payment of compensation to the external auditor.

(f) 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 Corporation’s 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.

(g) Review a report from the external auditor 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 and to confirm that it is not the subject of any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Corporation's financial statements.

(n) 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.

(o) Review policies for approval of senior management expenses.

(p) 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.

(q) 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.

(r) 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.

(s) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.

(t) 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 ensure that funding is available to the Audit Committee in respect of the aforementioned activities.

(u) Report regularly to the Board on the activities, findings and conclusions of the Audit Committee.

(v) Review this Charter on an annual basis and recommend to the Board any changes to it that the Audit Committee considers advisable.

(w) Complete a self-assessment annually to determine how effectively the Audit Committee is meeting its responsibilities.

(x) Perform such other functions as may be delegated from time to time by the Board.

(y) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner of the external auditor of the Corporation.

(z) 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.

<u>OTHER</u>

(a) **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.

(b) **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.

(c) **Contingent Liabilities**

The Audit Committee shall monitor contingent liabilities of the Corporation and its subsidiaries. In the discharge of this duty, 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.

(d) **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.

(e) **Performance to Budget**

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

(f) **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.

August 6, 2009