AIR CANADA

INITIAL ANNUAL INFORMATION FORM

March 27, 2007

TABLE OF CONTENTS

EXPLANATORY NOTES 1
DEFINITION OF EBITDAR 1
PRESENTATION OF SEGMENT INFORMATION 2
TRADEMARKS 2
CORPORATE STRUCTURE 3
REGULATORY ENVIRONMENT 5
INDUSTRY OVERVIEW AND COMPETITIVE ENVIRONMENT 9
THREE-YEAR SUMMARY: EVOLUTION OF BUSINESS 12
OVERVIEW OF THE BUSINESS 15
BUSINESS OF AIR CANADA 19
EMPLOYEES 29
RISK FACTORS 30
RELATIONSHIPS AND RELATED PARTY TRANSACTIONS BETWEEN AIR CANADA AND JAZZ, AEROPLAN AND ACTS 39
RELATIONSHIP BETWEEN AIR CANADA AND ACE 45
MARKET FOR SECURITIES 47
TRANSFER AGENT AND REGISTRAR 47
DIVIDEND RECORD 47
DESCRIPTION OF CAPITAL STRUCTURE 47
DIRECTORS AND OFFICERS 51
AUDIT COMMITTEE 55
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS 57
TRANSFER AGENT AND REGISTRAR 58
LEGAL PROCEEDINGS 58
MATERIAL CONTRACTS 58
EXPERTS 59
ADDITIONAL INFORMATION 59
GLOSSARY OF TERMS 61
SCHEDULE A A-1

EXPLANATORY NOTES

The information in this Initial Annual Information Form is stated as at December 31, 2006, 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.

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

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

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

Forward-looking statements — This Initial Annual Information Form includes forward-looking statements within the meaning of applicable securities laws. These statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions.

These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this Initial Annual Information Form and, in particular, those identified in the "Risk Factors" section. The forward-looking statements contained in this Initial Annual Information Form represent Air Canada's expectations as of the date of this Initial Annual Information Form 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.

DEFINITION OF EBITDAR

EBITDAR (earnings before interest, taxes, depreciation, amortization and obsolescence and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before aircraft rent and depreciation, amortization and obsolescence, as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. EBITDAR is not a recognized measure for financial statement presentation under Canadian generally accepted accounting principles ("Canadian GAAP") and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other issuers.

PRESENTATION OF SEGMENT INFORMATION

Air Canada has two operating segments: Air Canada Services and Jazz. The Air Canada Services segment is comprised of the passenger and cargo transportation services business operated by Air Canada and related ancillary services. The Jazz segment represents the results of Jazz Air LP ("Jazz LP") operating under the amended and restated capacity purchase agreement effective January 1, 2006 between Air Canada and Jazz (the "Jazz CPA"). Jazz is consolidated within Air Canada's financial statements under Accounting Guideline 15 — Consolidation of Variable Interest Entities. Air Canada consolidates Jazz as Air Canada has certain contractual interests in Jazz through the Jazz CPA which may require Air Canada to absorb certain variability in the operations of Jazz and make certain payments to Jazz.

Under the Jazz CPA, Air Canada has provided a minimum daily utilization guarantee and a minimum capacity guarantee to Jazz, pays certain variable costs of operating Jazz aircraft and is obligated to cover the costs of certain aircraft return obligations related to Jazz aircraft covered under the Jazz CPA. Due to the terms of the Jazz CPA, Air Canada is deemed to have a variable interest in Jazz, as defined under Accounting Guideline 15 — Consolidation of Variable Interest Entities. As a result, Air Canada's combined financial statements consolidate the results of Jazz as a business segment of Air Canada. Notwithstanding the consolidation of Jazz by Air Canada, Air Canada does not hold any of the limited partnership units of Jazz LP or any of the shares of its general partner, Jazz Air Holding GP Inc. On February 2, 2006, Jazz Air Income Fund completed its initial public offering and listed its units on the Toronto Stock Exchange ("TSX") under the symbol JAZ.UN. Jazz Air Income Fund currently has 75,638,223 units issued and outstanding and holds a 61.6% interest in Jazz LP. ACE currently holds a 38.4% direct interest in Jazz LP and holds 25,000,000 units of Jazz Air Income Fund, representing 33.1% of units issued and outstanding. In total, ACE currently holds a 58.8% interest in Jazz.

The segment information provides useful information to shareholders as it enables them to distinguish between the results of operations, cash and other assets and liabilities between the two segments. This is significant as Air Canada does not have access to the cash and other assets of Jazz, nor is there any recourse to Air Canada for any of the recognized liabilities of Jazz LP, unless otherwise specifically agreed to by Air Canada. However, Air Canada is required to pay fees to Jazz for Jazz services and may be required to assume certain obligations if such services are cancelled. Management of Air Canada ("Management") uses the segment information for making operating decisions, allocating resources and assessing performance of the segments individually. Air Canada may also utilize segment results to assess the performance of its regional operations under the Jazz CPA.

For further details, refer to Notes 1 and 14 of Air Canada's combined consolidated financial statements for the year ended December 31, 2006. Air Canada's combined consolidated financial statements for the year ended December 31, 2006 are available on SEDAR at www.sedar.com.

TRADEMARKS

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

CORPORATE STRUCTURE

Name, Address and Incorporation

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

On November 24, 2006, ACE and Air Canada completed an initial public offering and secondary offering of an aggregate 25 million Class A variable voting shares of Air Canada (the "Variable Voting Shares") and Class B voting shares of Air Canada (the "Voting Shares", together with the Variable Voting Shares, the "Shares") at $21 per Share for gross proceeds of $525 million (the "Initial Public Offering"). The Shares trade on the 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.

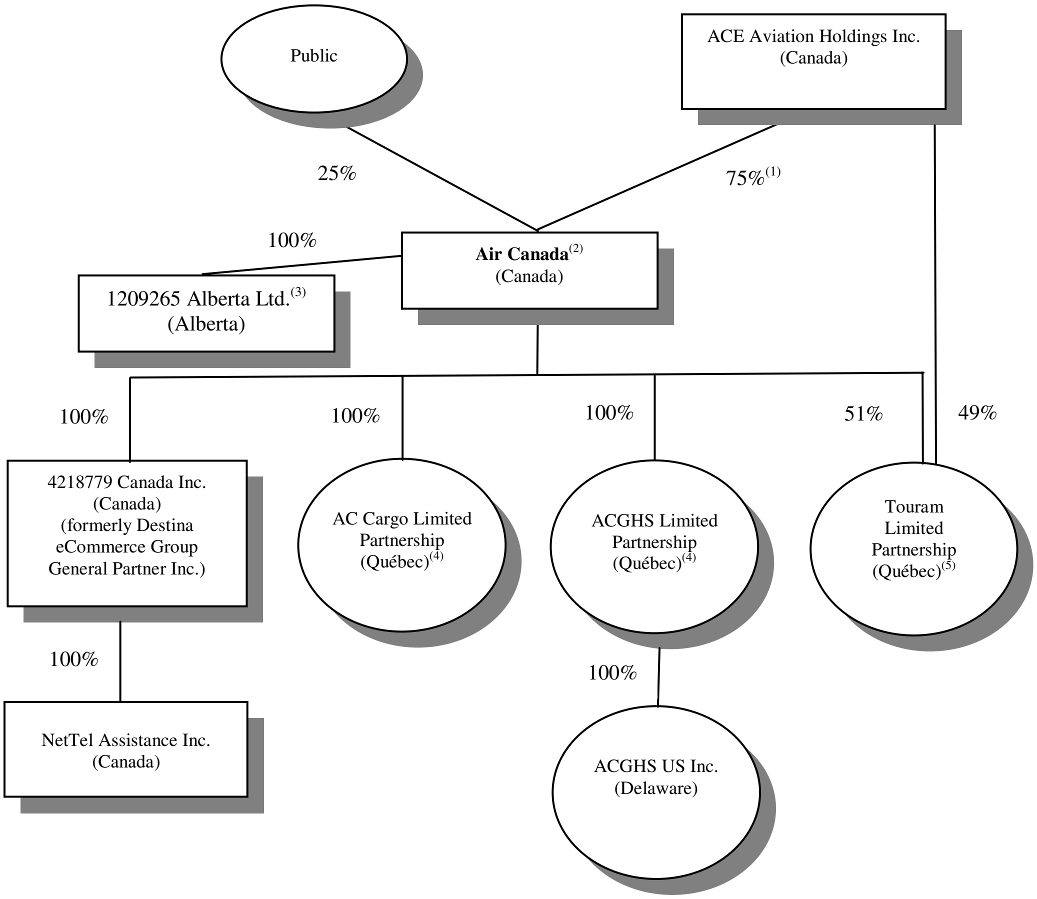
With the completion of the Initial Public Offering, Air Canada put in place a $400 million senior secured revolving credit facility pursuant to an amended and restated credit agreement entered into with a syndicate of lenders, to be used by Air Canada for working capital and general corporate purposes. Air Canada has not, as of March 27, 2007, drawn on this credit facility.

Prior to the closing of the Initial Public Offering, ACE proceeded with a reorganization of its corporate structure. Pursuant to such reorganization, the partnership interests, as well as the interests in the general partners of ACGHS Limited Partnership ("Air Canada Ground Handling") and AC Cargo Limited Partnership ("Air Canada Cargo") not held by Air Canada, were transferred to Air Canada and ACE transferred a 51% partnership interest, as well as a 51% interest in the general partner of Touram Limited Partnership ("Air Canada Vacations") to Air Canada. As at December 31, 2006 and the date of this Initial Annual Information Form, ACE directly and indirectly holds 75% of Air Canada's outstanding shares. As part of the reorganization, Air Canada completed a corporate amalgamation with ACGHS Holding GP Inc. effective November 24, 2006 with the amalgamated entity retaining the name Air Canada.

The head office of Air Canada is located at 7373 Côte Vertu Boulevard West, Saint-Laurent, Québec, H4Y 1H4.

Intercorporate Relationship

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



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(1) ACE holds a direct 68.4% interest in Air Canada and an indirect 6.6% interest in Air Canada through a wholly-owned subsidiary, 4352891 Canada Inc., a corporation incorporated under the laws of Canada.

(2) 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.

(3) 1209265 Alberta Ltd. holds and manages excess cash and investments of Air Canada on its behalf.

(4) AC Cargo General Partner Inc. and ACGHS General Partner Inc., corporations incorporated under the laws of Canada, are the general partners of AC Cargo Limited Partnership and ACGHS Limited Partnership and hold a 0.00001% interest in AC Cargo Limited Partnership and ACGHS Limited Partnership, respectively. Air Canada holds a 100% interest in each of AC Cargo General Partner Inc. and ACGHS General Partner Inc.

(5) 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 and ACE hold, respectively, a 51% and 49% 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, 2006, have been omitted.

REGULATORY ENVIRONMENT

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

Domestic Services

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

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

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

In addition, on November 2, 2004, the Minister of Industry tabled amendments to the Competition Act in Bill C-19 which, if enacted, would have removed the airline-specific "abuse of dominance" provisions from the Competition Act. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-19 was terminated. Management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons.

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

On May 4, 2006, 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), was tabled for first reading in the House of Commons. It passed third reading on February 28, 2007 and was tabled for first reading in the Senate on March 1, 2007. Bill C-11 seeks, among other things, to amend the CTA with respect to the air transportation sector, in relation to complaints processes, the advertising of prices for air services and 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 such proposed legislation will enter into force.

On June 15, 2006, Bill C-20, *An Act respecting airports, airport authorities and other airport operators and amending the Transportation Appeal Tribunal of Canada Act*, was tabled for first reading in the House of Commons.

Bill C-20 provides for, among other things, a declaration of Canadian airport policy, a number of basic obligations of airport operators and the powers and capacity of airport authorities and the scope of their activities. Bill C-20 also introduces principles affecting airport users such as slot allocation and a framework for the fees imposed by large airport authorities. Management cannot predict if or when such proposed legislation will enter into force.

Transborder Services

In February 1995, a new air services agreement (the "1995 Canada-U.S. Air Services Agreement") was implemented between Canada and the United States, replacing the previous bilateral agreement, which had imposed greater restrictions on market access and fares. This agreement gave Canadian air carriers unlimited route rights to provide "own aircraft" services between points in Canada and points in the United States. The carriage of local traffic between points within one country by carriers of the other country, commonly known as cabotage, continued to be prohibited.

Under the 1995 Canada-U.S. Air Services Agreement, rules governing fare levels and the requirement to file tariffs (excluding rules tariffs) with government authorities were eliminated. 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. As a result, Air Canada increased its code-sharing with certain Star Alliance® partners via Canada and the United States and some of these Star Alliance® partners' codes appear on some Jazz operated transborder flights.

On November 11, 2005, Transport Canada announced that the governments of Canada and the United States had negotiated an open skies agreement (the "Open Skies Agreement") which further liberalizes air transportation services. The Open Skies Agreement was initially expected to come into force on September 1, 2006, but was delayed due to the then pending immunity application filed with the U.S. Department of Transportation by some Star Alliance® carriers, including Air Canada. The final order from the U.S. Department of Transportation concerning the immunity application was issued on February 13, 2007. The Open Skies Agreement came into force on March 12, 2007. The Open Skies Agreement allows air carriers of both countries (i) to pick up passenger and/or cargo traffic in the other country and carry that traffic to a third country as part of a service to or from the carrier's home country, (ii) to operate stand-alone all-cargo services between the other country's territory and third countries, and (iii) greater pricing flexibility for services between the other country and a third country. Cabotage remains prohibited.

International Services

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

In February 2001, the Minister of Transport launched an international air services policy review to address competition in the international markets with the objective of liberalizing Canada's policy for scheduled international air services, including how Canada approaches the negotiation and management of air traffic rights with other countries.

In May 2002, the Minister of Transport introduced a liberalized multiple designation policy applicable to scheduled international air services by Canadian carriers (excluding services to the United States). Any Canadian carrier may apply to be designated to serve any foreign country regardless of the size of the air travel market. If the number of Canadian carriers permitted is restricted under existing bilateral agreements, the Canadian government has indicated that it 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. Under the new policy, Canada will 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. Air Canada provided its views on the new policy expressing, among other things, that it fully supports a liberalization based on the principle of balanced economic opportunities which yield mutually beneficial commercial opportunities for carriers of both contracting states.

Transport Canada has also engaged stakeholders on key longer-term issues that are not part of the new policy such as the exploration of a comprehensive Canada-European Union air transport agreement, a review of ownership and control regimes of foreign air carriers, the movement towards the creation of a North American aviation market and the adoption of a multilateral approach to some negotiations. Air Canada provided its views on such longer-term issues during the consultation period following the release of the consultation document introducing the Blue Sky international air transportation policy.

Charter Services

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

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

Official Languages Act

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

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

On May 2, 2005, Bill C-47, *An Act to amend the Air Canada Public Participation Act* (Canada) (the "Bill C-47"), was tabled in the House of Commons. On November 3, 2005, Bill C-47 passed second reading and was referred to the Standing Committee on Transport. Bill C-47 sought to amend existing legislation to ensure that Air Canada's successor entities are subject to official language requirements. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-47 was terminated. On October 18, 2006, Bill C-29, *An Act to amend the Air Canada Public Participation Act* (Canada) (the "Bill C-29") was tabled in the House of Commons. Bill C-29 proposes provisions on official languages similar to those contained in Bill C-47. Management cannot predict if or when such proposed legislation will enter into force.

Security Initiatives

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

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

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

Safety Initiatives

On June 15, 2005, the Minister of Transport announced regulatory amendments to further improve the safety performance of Canadian air operators and increase accountability in the aviation sector through the implementation of safety management systems. The goals of safety management systems are to increase industry accountability, to instill a consistent and positive safety culture, and to help improve the safety performance of air operators. Amendments to the Canadian Aviation Regulations require air operators to implement safety management systems in their organizations and appoint executives who are accountable for safety. These amendments came into force on May 31, 2005. On April 27, 2006, Bill C-6, *An Act to amend the Aeronautics Act and to make consequential amendments to other Acts* (Canada) ("Bill C-6"), was tabled for first reading in the House of Commons. On November 7, 2006, Bill C-6 passed second reading and was referred to the Standing Committee on Transport, Infrastructure and Communities. 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. Management cannot predict if or when such proposed legislation will enter into force.

Air Canada is in the process of implementing its safety management systems in accordance with the recent amendments to the Canadian Aviation Regulations. The President and Chief Executive Officer of Air Canada, Montie Brewer, has been appointed as the executive currently accountable for Air Canada's 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. The PIPEDA also applies to the collection or disclosure of personal information across provincial or Canadian international borders and within provinces without substantially similar private sector privacy legislation. The PIPEDA requires informed consent by the individuals whose personal information is collected and used. The personal information may then only be used for the purposes for which it was originally collected or for other specific purposes specified in the PIPEDA. Air Canada has a privacy policy which is designed to meet or exceed the requirements of such privacy legislation. Management believes that its privacy policy and practices comply with applicable law in Canada and elsewhere.

INDUSTRY OVERVIEW AND COMPETITIVE ENVIRONMENT

General

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

Over the past two decades, governments have gradually reduced economic regulation of commercial aviation. This has resulted in a more open and competitive environment for domestic, transborder and international airline services, for both scheduled and leisure charter operations. This deregulation has transformed the global airline industry and allowed the emergence of low-cost carriers, which has resulted in a rapid shift in the competitive environment. With their relatively low unit costs largely resulting from lower labour costs and a simplified operational model and product offering, low-cost carriers are able to operate profitably while offering substantially lower fares than network carriers. By offering lower fares, these carriers have expanded and succeeded in taking market share away from network carriers. While the majority of low-cost carriers offer predominantly point-to-point services between designated cities, some utilize a "hub and spoke" strategy, where air transportation is offered from a local airport to a central airport from which long-distance flights are available.

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

Domestic Market

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

According to Transport Canada, domestic revenue passengers grew at a compound annual rate of 3.2% from 1994 through 2004 and are expected to grow at a compound annual rate of 3.0% from 2005 through 2009.

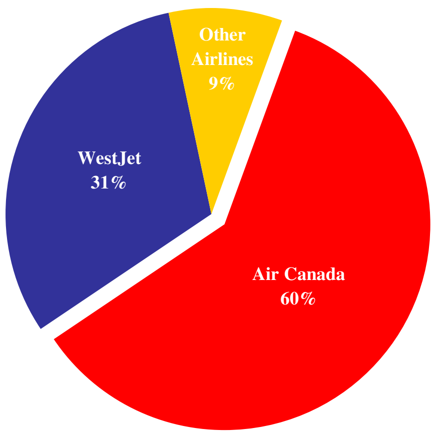
Air Canada is Canada’s largest domestic airline. Jazz, Air Canada’s regional affiliate, is the largest regional airline in Canada and Canada’s second largest airline based on fleet size and number of routes operated.

WestJet Airlines Ltd. ("WestJet") is Canada’s third largest airline based on fleet size and number of routes operated. CanJet Airlines discontinued its scheduled passenger services on September 10, 2006. CanJet Airlines had previously provided scheduled passenger services to a number of domestic destinations, with a particular focus on Eastern Canada. During the period from January 1, 2006 to August 31, 2006, CanJet Airlines provided approximately 3% of the Canadian airline industry’s overall domestic scheduled capacity, as measured by the total number of seats available for passengers multiplied by the miles flown ("Available Seat Miles" or "ASMs"). CanJet Airlines cited high fuel costs, rising landing fees and increases in competitive capacity on its primary routes as the primary reasons for its decision to discontinue its scheduled passenger services.

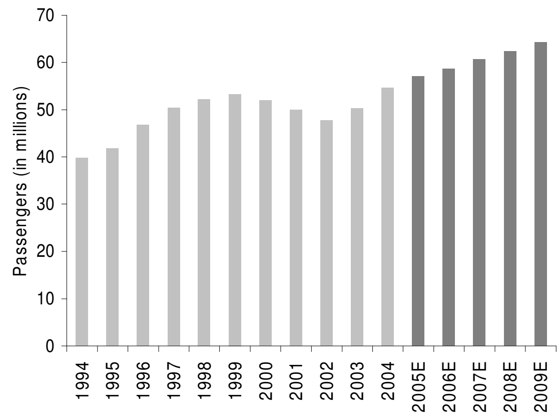
Air Canada is the largest provider of scheduled passenger services in the Canadian market. Based on Official Airline Guide ("OAG") data, during the period from January 1, 2006 to December 31, 2006, Air Canada led the Canadian airline industry's domestic scheduled capacity with an estimated market share of approximately 60% based on ASMs.

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

Estimated Domestic Scheduled Capacity Market Share(1)



Historical and Projected Domestic Revenue Passengers(2)



(1) Source: OAG data, based on Available Seat Miles during the period from January 1, 2006 to December 31, 2006. The estimated share of the overall domestic scheduled capacity of Air Canada includes the domestic scheduled capacity of Jazz. CanJet Airlines discontinued its scheduled passenger services on September 10, 2006.

(2) Source: Transport Canada, Aviation Forecast, July 2006. Represents enplaned and deplaned domestic revenue passengers

Transborder Market

As of December 31, 2006, there were 1,055 daily scheduled transborder flights operated between Canada and the United States. Toronto Lester B. Pearson International Airport ("Toronto Pearson Airport"), Air Canada's largest hub, is the world's largest originator of flights into the United States.

According to Transport Canada, transborder revenue passengers grew at a compound annual rate of 3.4% from 1994 to 2004 and are expected to grow at a compound annual rate of 4.3% from 2005 to 2009.

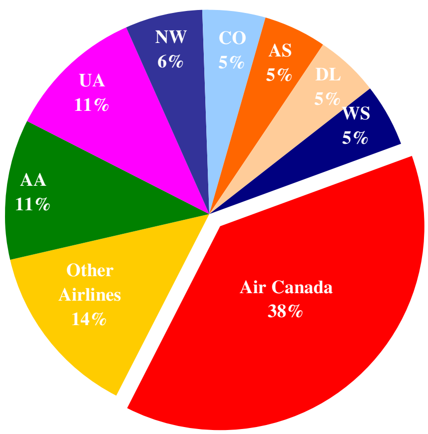
Air Canada, together with Jazz, carries more passengers, serves more non-stop destinations and provides more flights in the transborder market than any other airline. Competition in the transborder market is primarily from U.S. network carriers and their regional affiliates, which tend to operate flights between the United States and Canada via their hubs for connecting flights. U.S. network carriers with transborder operations include Alaska Airlines, American Airlines, Continental Airlines, Delta Airlines, Northwest Airlines, United Airlines and U.S. Airways. As of December 31, 2006, Air Canada, together with Jazz, serviced 46 U.S. destinations (including six seasonal destinations) from Canada, while U.S. carriers serviced 31 U.S. destinations from Canada. In addition, one U.S. low cost carrier, Frontier Airlines, operates service from Denver to Calgary.

Canadian low-cost carriers also operate transborder services and have expressed an intention to expand these operations in the future. WestJet currently provides transborder services to 11 destinations in the United States.

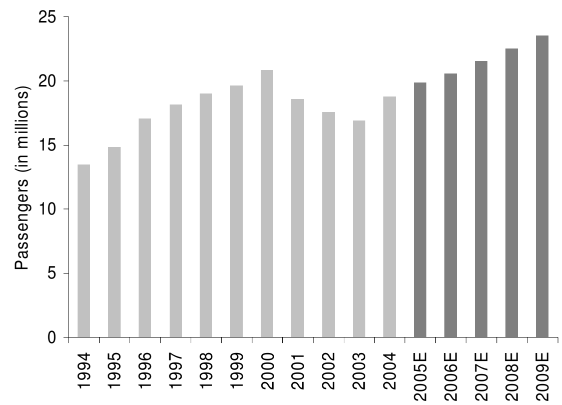
Air Canada is the largest provider of scheduled passenger services in the transborder market. Based on OAG data, during the period from January 1, 2006 to December 31, 2006, Air Canada provided more transborder scheduled capacity than any other airline with an estimated market share of approximately 38% based on ASMs.

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

Estimated Transborder Scheduled Capacity Market Share(1)



Historical and Projected Transborder Revenue Passengers(2)



(1) Source: OAG data, based on Available Seat Miles during the period from January 1, 2006 to December 31, 2006. The estimated share of the overall transborder scheduled capacity of Air Canada includes the transborder scheduled capacity of Jazz. The estimated share of the overall transborder scheduled capacity of the other carriers presented also includes the transborder scheduled capacity of their respective affiliated or contracted regional carrier(s), when applicable. AA: American Airlines; UA: UAL Corporation; NW: Northwest Airlines; CO: Continental Airlines; AS: Alaska Air Group; DL: Delta Air Lines; WS: WestJet Airlines.

(2) Source: Transport Canada, Aviation Forecast, July 2006. Represents enplaned and deplaned transborder revenue passengers.

International Market

Canadian airlines principally service the international market from three strategically-positioned airports. Toronto Pearson Airport, Canada's largest, is located in Canada's largest city and offers regular non-stop flights to numerous destinations in Europe, Central America/Caribbean and, more recently, to Asian destinations via polar routes. Toronto Pearson Airport offers over 495 daily departures, of which 10% are to international destinations. Montreal's Pierre Elliott Trudeau International Airport ("Montreal Trudeau Airport") is located in Canada's second largest city, and offers regular non-stop service to several European destinations and certain Central American/Caribbean and South American destinations. Montreal Trudeau Airport offers 210 daily departures, of which 9% 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 over 300 daily departures, of which 7% are to international destinations.

According to Transport Canada, international revenue passengers in the international market to and from Canada grew at a compound annual rate of 5.2% from 1994 to 2004 and are expected to grow at a compound annual rate of 5.2% from 2005 to 2009. According to The Conference Board of Canada, a strong Canadian dollar, growth in the Canadian economy, an interest by Canadians to visit more distant destinations, an aging Canadian population and an increase in international air capacity are key factors that will contribute to stronger growth in outbound travel spending.

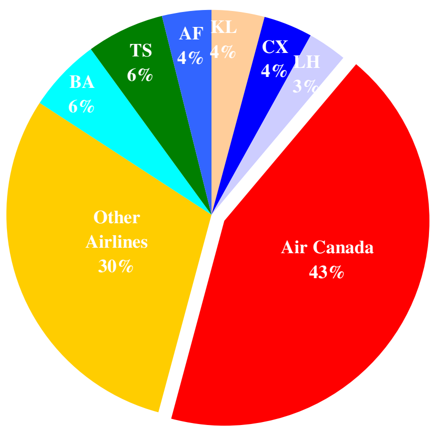
Air Canada is Canada's largest scheduled international carrier and has a broad portfolio of international route rights. Air Canada is currently the only Canadian scheduled carrier with routes from Canada to Asia, although a number of Asian carriers service Canadian destinations. Air Canada is also the sole Canadian scheduled carrier offering flights to South America and no South American scheduled network carrier currently provides service to Canada.

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

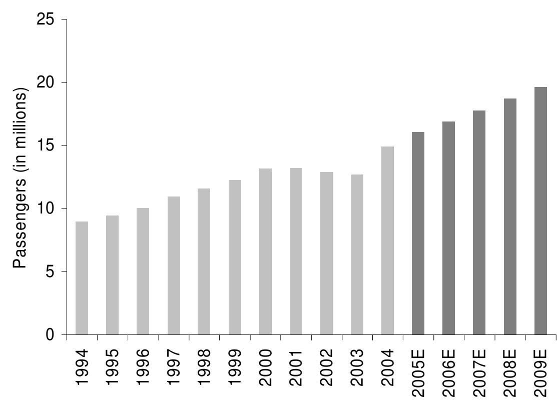
Air Canada is the largest provider of scheduled passenger services in the international market to and from Canada. Based on OAG data, during the period from January 1, 2006 to December 31, 2006, Air Canada provided more international scheduled capacity in the international market to and from Canada than any other airline with an estimated market share of approximately 43% based on ASMs.

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

Estimated International Scheduled Capacity Market Share(1)



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



(1) Source: OAG data, based on Available Seat Miles during the period from January 1, 2006 to December 31, 2006. BA: British Airways; TS: Air Transat; AF: Air France; KL: KLM Royal Dutch Airlines; CX: Cathay Pacific Airways; LH: Deutsche Lufthansa.

(2) Source: Transport Canada, Aviation Forecast, July 2006. Represents enplaned and deplaned international revenue passengers (excluding Canada-U.S. transborder revenue passengers).

THREE-YEAR SUMMARY: EVOLUTION OF BUSINESS

The Plan

On April 1, 2003 Air Canada obtained an initial order from the Ontario Superior Court of Justice providing creditor protection under the CCAA. The initial order was further amended by the Ontario Superior Court throughout the CCAA proceedings based on motions from Air Canada, its creditors and other interested parties. On April 1, 2003, Air Canada, through Ernst &Young Inc., its Ontario Superior Court-appointed monitor, also made a concurrent petition for recognition and ancillary relief under Section 304 of the U.S. Bankruptcy Code. The CCAA and U.S. proceedings covered Air Canada and the following of its then wholly-owned subsidiaries: Jazz Air Inc., ZIP Air Inc., 3838722 Canada Inc., Air Canada Capital Ltd., Manoir International Finance Inc., Simco Leasing Ltd., and Wingco Leasing Inc. (collectively, the "Applicants"). Aeroplan, Touram Inc. and Destina.ca were not included in the CCAA filing. These three subsidiaries continued to deal with their creditors on a normal basis, unaffected by the CCAA and U.S. proceedings.

On September 30, 2004, Air Canada and the other Applicants emerged from creditor protection under the CCAA and implemented the Plan. The purpose of the Plan, together with Air Canada's new business strategy, was to restructure the capitalization, operations and cost structure of Air Canada. The Plan and the new business strategy were designed to:

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

The implementation of the Plan reduced Air Canada's debt (net of cash and cash equivalents) and lease obligations (on a present value basis) to approximately $4 billion as at December 31, 2004 compared to $12 billion as at December 31, 2002, prior to Air Canada's filing for protection under the CCAA. Also, as part of the implementation of the Plan, all the preferred shares of Air Canada were cancelled and all of the holders of common shares and Class A non-voting shares of Air Canada exchanged their shares for voting shares and variable voting shares of ACE. Pursuant to such exchange, the former holders of common shares and Class A non-voting shares of Air Canada received 0.01% of the fully diluted equity of ACE upon emergence from the CCAA proceedings.

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

Rights Offering

As part of the Plan, ACE offered rights to Air Canada's creditors with proven claims to subscribe for up to $850 million of voting shares and/or variable voting shares of ACE. Pursuant to its standby purchase agreement with Air Canada, Deutsche Bank Securities Inc. ("Deutsche Bank") agreed to act as the exclusive standby purchaser in respect of the rights offering. Deutsche Bank and the participants in its syndicate subscribed for all the voting shares and/or variable voting shares of ACE not otherwise subscribed for by the creditors.

GECC Lease Restructuring and Financing

In 2003 and 2004, agreements were signed between General Electric Capital Corporation ("GECC") and Air Canada which provided for:

- the restructuring of existing arrangements for 106 aircraft which included lease rate reductions on 47 aircraft, termination of obligations with respect to 20 parked aircraft, the cancellation of four future aircraft lease commitments and the restructuring of the overall obligations of six aircraft;
- exit financing totaling approximately US$681 million in three tranches for use upon emergence from the CCAA proceedings. The loan was repaid in full prior to maturity on April 6, 2005;
- a financing commitment of up to US$950 million to be used for acquisitions of new regional jet aircraft. On exit from CCAA, the parties agreed to reduce the commitment to US$500 million; and
- the purchase from GECC by Air Canada on September 30, 2004 of two Boeing 747-400 Combi aircraft

(which Air Canada was leasing at the time) for an aggregate amount of $353 million. The purchase price was paid for with $290 million in cash and the issuance of a limited-recourse loan in the amount of US$50 million. The two Boeing 747-400 Combi aircraft were sold in December 2004 and January 2005 and the proceeds from such sale were used to repay the US$50 million loan from GECC.

Pension Plan Arrangements

The solvency position of Air Canada's defined benefit registered pension plans deteriorated significantly in 2002 as a result of various macroeconomic developments, triggering a series of valuation and funding directions to Air Canada by OSFI, the federal pension regulator, in March 2003. On September 30, 2004, after negotiations with OSFI and representatives of the pension plan stakeholders, the Air Canada Pension Plan Solvency Deficiency Funding Regulations came into effect. The regulations extended the usual five-year amortization period for solvency deficits to ten years, and provided for the making of variable annual amortization payments according to an agreed schedule rather than the usual equal annual payments. Air Canada also issued a series of subordinated secured promissory notes in the aggregate initial amount of approximately $347 million in favour of the pension plan trustees, of which approximately $185 million are outstanding as at January 31, 2007. The promissory notes are secured by a second priority charge over assets of Air Canada and certain of its affiliates and will be reduced by the capital portion of the solvency deficit amortization payments made by Air Canada to the pension plans in accordance with the agreed schedule. See "Risk Factors — Risks Relating to the Corporation — Pension Plans".

Arrangements with Unions

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

These collective agreements provide that no strikes or lock-outs may lawfully occur during the term of the collective agreements. In 2006, Air Canada concluded wage re-opener agreements, mediations or arbitrations under the collective agreements with all its union groups. It is still awaiting the arbitrator's decision in respect of its flight attendants, who are represented by CUPE. The CUPE arbitration award decision is expected during the second quarter of 2007. The wage increases awarded or agreed upon range up to 2.6% per year until 2009.

In March 2007, Air Canada concluded an agreement with both the TGWU and the Amicus, which represent Air Canada's ground handling employees in the United Kingdom, allowing Air Canada to keep certain ground handling activities at London Heathrow airport in-house. The agreement provides for a number of changes to working practices for current employees as well as structural changes for the future. Under the agreement, the existing defined benefit pension plan will be closed for newly hired employees, which will be covered by a new defined contribution pension plan.

Contract Renegotiation/Repudiation during CCAA

During the restructuring period, Air Canada reviewed all of its real estate facilities, resulting in the elimination of unused or under-utilized facilities and the consolidation of its operations to further reduce operating costs. In addition, Air Canada evaluated all of its contracts for goods and services to identify opportunities to consolidate its supply base, to better leverage its buying power, and to take advantage of the opportunity represented by the restructuring process to repudiate contracts that were unfavourable.

In addition, Air Canada conducted extensive negotiations with its aircraft lessors and financiers to restructure its aircraft ownership and leasing costs. Through these efforts, Air Canada, together with Jazz, achieved: (i) reduced ownership and leasing costs more consistent with then current market conditions, (ii) modified lease expiry dates based on planned new aircraft acquisitions and scheduled heavy maintenance requirements, and (iii) satisfactory aircraft return conditions consistent with modified lease expiry dates.

Embraer Purchase Agreement

In 2004, Air Canada signed a definitive purchase agreement with EMBRAER — Empresa Brasileira de Aeronautica S.A. ("Embraer") covering firm orders for 45 Embraer ERJ-190 aircraft as well as 15 Embraer ERJ-175 aircraft. See "Business of Air Canada – Aircraft Fleet – Narrowbody and Regional Jet Aircraft Fleet – Embraer Orders and Financing Terms".

Aircraft Purchase Agreement between The Boeing Company and Air Canada

On November 4, 2005, the Corporation concluded agreements with The Boeing Company ("Boeing") for the acquisition of up to 36 Boeing 777 aircraft and up to 60 Boeing 787 aircraft. The agreements include firm orders for 18 Boeing 777 aircraft, plus purchase rights for an additional 18 aircraft, in a yet-to-be determined mix of the 777 family's newest models. Deliveries of the Boeing 777 aircraft are scheduled to commence in March 2007. Seven of the firm orders for Boeing 777 aircraft are expected to be delivered in 2007, nine in 2008, and two in 2009. The agreements also include firm orders for 14 Boeing 787 aircraft, plus options and purchase rights for an additional 46 aircraft. Air Canada's first Boeing 787 aircraft is scheduled for delivery in 2010.

Initial Public Offering of Air Canada

On November 24, 2006, Air Canada and ACE completed the initial public offering and secondary offering of an aggregate 25 million Variable Voting Shares and Voting Shares at $21 per Share for gross proceeds of $525 million. The Shares trade on the 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 a secondary offering, ACE sold an aggregate of 15,476,190 Variable Voting Shares and Voting Shares for gross proceeds of $325 million.

OVERVIEW OF THE BUSINESS

Air Canada is Canada's largest domestic and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market and in the international market to and from Canada.

In 2006, Air Canada, together with Jazz, operated an average of approximately 1,300 scheduled flights each day and carried over 32 million passengers. Air Canada, together with Jazz, provided direct passenger service to 161 destinations and, through commercial agreements with other unaffiliated regional airlines, to an additional 15 destinations, for a total of 176 direct destinations on five continents.

Air Canada enhances its network through a capacity purchase agreement with Jazz pursuant to which Air Canada purchases substantially all of Jazz's fleet capacity based on predetermined rates and determines the routes and schedule operated by Jazz. 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 and also in higher density markets at off-peak times throughout Canada and the United States.

Air Canada is a founding member of the Star Alliance® network, the world’s largest airline alliance group. As of February 2007, the Star Alliance® network included 17 member airlines and three regional member airlines. Through its membership in the Star Alliance® network, Air Canada is able to offer its customers access to over 855 destinations in 155 countries, as well as reciprocal participation in frequent flyer programs and use of airport lounges.

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

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

Air Canada’s Business Strategy

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

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

Leverage its Innovative Customer Driven Revenue Model

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

Air Canada is an industry leader in offering transparent pricing and simplified branded fares in an industry which has been characterized by multi-tiered fare structures with complex rules and restrictions. Air Canada believes this strategy has contributed to its achieving both record passenger load factors and yield improvements. During 2006, Air Canada enjoyed record passenger load factors in all months except August and September, ending a record 27 consecutive months of record passenger load factors. Air Canada believes that these two months fell to levels of the previous year primarily as a result of the August 10, 2006 terrorist threat in the United Kingdom and resultant additional security measures. Air Canada’s transparent and simplified branded fare structure has given its customers the ability to pay for higher branded fares and enjoy the attributes which come with it or purchase a lower branded fare and then purchase selected attributes which typically are attached only to higher branded fares. This has allowed Air Canada to match the lowest fare in the markets in which it operates and maintain revenue premiums from customers who are willingly purchasing higher fares. For 2006, 46% of Air Canada’s domestic customers picked a branded fare higher than Air Canada’s most competitive Tango product, a 31% improvement over 2005. The simplified pricing concept has been in place in the North American market since 2003 and certain features of the simplified pricing concept have been phased into most European markets during 2006.

New Developments in its Innovative Strategy

In the drive to provide new and unique products that customers can only find at Air Canada, work continues to expand the offering of "passes", "subscriptions" and "à la carte" pricing options tailored to different segments of the marketplace. "Passes" provide Air Canada customers with the ability to lock-in their cost of travel through advance purchase of multiple segments within a defined geographic area. This product is gaining popularity with large corporations as well as with small businesses and families who value the set price and more importantly the flexibility and ease of use. "Subscriptions" to travel are another Air Canada innovation, which allows unlimited travel within a geographic area, subject to certain conditions, for a set flat fee. "Subscriptions" provide flexibility and ease of use. Both the pass and subscription products have also provided cost savings to Air Canada through reduced sales and servicing costs while providing a product that has been readily accepted by the market. Pass sales increased 148% in 2006. "À la carte" options provide customers with the ability to customize their purchase by selecting the items for which they would like to pay, or not. Examples of "à la carte" options include, checked baggage, advance seat assignment, Aeroplan miles, Maple Leaf lounge access, among others. Air Canada is the only major international carrier that allows this degree of customization and Air Canada is planning to continue to introduce new and innovative attributes on its "à la carte" menu. Since its inception on October 28, 2006, 13% of customers purchasing through the Air Canada website took advantage of the "à la carte" offerings. The "à la carte" options generate higher incidental revenues and higher customer satisfaction resulting in brand preference.

High Degree of Web-Penetration

All three offerings, "passes", "subscription" and "à la carte" options, are available on Air Canada websites. This strategy has generated a higher level of web-penetration. During 2006, Air Canada enjoyed an average system-wide web-penetration of 26% while web penetration in Canada reached 52%. Domestic web penetration for the fourth quarter of 2006 was 57% and the year was capped with a 61% domestic web penetration figure for the month of December 2006. Air Canada domestic direct sales (www.aircanada.com and call centres) for the fourth quarter of 2006 was 69%. Transborder web penetration for the fourth quarter of 2006 was 30%, an increase of six percentage points from the fourth quarter of 2005. Air Canada believes that the growth in direct sales is due in part to the fact that these new and unique products that Air Canada's customers desire can only be found through Air Canada's websites and call centres. Air Canada maintains two websites, one for non-travel agent customers and the other for travel agencies. Both websites offer the same unique products. The growth in web penetration continues to allow Air Canada to reduce its distribution costs.

In addition, Air Canada's customers continue to benefit from the ability to check into Air Canada flights departing from any Canadian city and from select U.S. and international cities to Canada 24 hours prior to departure by using the web check-in facility provided on the Air Canada website. Air Canada believes this additional feature results in improved customer satisfaction and generates cost savings for Air Canada.

Potential for International Route Expansion

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

Multi-hub Strategy and Seamless Transfers at Toronto

Air Canada uses three main hubs (Toronto, Montreal and Vancouver) across Canada for its domestic, transborder and international routes. Being geographically well positioned, Air Canada believes that all three hubs provide natural advantages to serve customers traveling to or from the U.S to Asia and Europe. Since the opening on January 30, 2007 of the latest development at Toronto Pearson Airport, Air Canada operates all its transborder flights from Terminal 1. This provides Air Canada with the ability to more seamlessly transfer passengers to and from the U.S. to Europe and Asia. This is a major improvement from the prior challenges of checking out of Terminal 2 and checking into Terminal 1 or vice-versa. Air Canada’s Toronto operations are now consolidated in one terminal, in one of North America’s newest and most convenient facilities from which to travel internationally.

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

Within North America, Air Canada adopted a demand-based network strategy. This resulted in offering improved frequencies on key routes, maintaining competitive frequencies on other routes and introducing new non-stop routes thus serving its customers to destinations where such demand was expected. Air Canada is achieving its network redesign in the North American market through the increased use of large regional jet aircraft which have lower trip costs than conventional narrow-body aircraft. In order to support the expansion of its international operations and deliver a superior aircraft product in the international market to and from Canada, Air Canada expects to start receiving 19 Boeing 777 aircraft, beginning in March 2007, and 14 Boeing 787 aircraft, beginning in 2010. The new aircraft will be used to modernize and re-size the fleet, improve passenger load factors and yields, reduce operating costs through fuel efficiencies and are expected to provide Air Canada with the ability to serve new markets that could not be previously served in an efficient manner.

Air Canada recognizes the need to continually stay competitive by offering customers an enhanced flight experience. In addition to acquiring new aircraft, Air Canada commenced a major refurbishment of the interior of its existing aircraft in 2006. All existing aircraft, except for the Airbus A340 aircraft, will have refurbished interiors, including new seats and personal in-flight entertainment systems and in-seat power outlets at every seat in Economy Class and Executive Class. For aircraft that will be flying international routes, seats in the Executive Class cabin will also convert into lie-flat beds. As of March 27, 2007, Air Canada has completed the refurbishment of 23 Airbus A320 aircraft, five Boeing 767-300 aircraft and two Airbus A319 aircraft. The new Embraer and Boeing 777 aircraft are being delivered with the new seats and entertainment systems already installed. The aircraft refurbishment process is scheduled to be completed by the middle of 2008.

Leveraging Technology for Enhanced Customer Service and Cost Containment

In order to support the rapid and efficient implementation of Air Canada's revenue model and to reduce transaction and distribution costs, Air Canada is developing a new web-enabled computer system to replace Air Canada's legacy systems for passenger reservation and airport customer service. Named POLARIS, this state-of-the-art new system is expected to be deployed in a phased manner commencing from late 2007 and running through a major part of 2008. The new technology is expected to be innovative, flexible and cost effective and will allow Air Canada to facilitate and streamline the reservation and travel processes for both its customers and employees. Air Canada's objective is to allow all travel transactions to be completed via Air Canada's websites, kiosks, personal handheld devices or other web-enabled platforms. The principal design focus is to create a platform that allows customers to complete any transaction required at any moment of their travel experience.

Continue to Improve its Cost Structure

Air Canada's business strategy is focused on continuously evaluating and improving its cost structure to remain highly competitive. Air Canada's fleet renewal program will provide cost efficiencies; the Embraer ERJ-190 aircraft generates 18% lower trip costs as compared to the Airbus 319 aircraft. Improved technology used by Boeing in its 777 and 787 aircraft is expected to generate lower fuel-burn rates for airlines. Air Canada expects the Boeing 777-300 to be 26% more efficient on a unit cost basis as compared to the Airbus 340-500 while the Boeing 787-8 is expected to be 30% more efficient on a unit cost basis for fuel and maintenance than the Boeing 767-300. At the same time, POLARIS is expected to improve efficiencies in call centers, airport check-in and revenue accounting.

Maintaining Positive Employee and Labour Relations

As part of its focus on employee relations, Air Canada is committed to communicating with its employees in an open and transparent manner and to providing them with the tools they need to do their jobs. Air Canada is acting on this commitment by training managers to help them create and promote meaningful and positive employee relations and by providing its employees with increased opportunities for dialogue and feedback. As part of this commitment, in January 2007, Air Canada launched a leadership and employee relationship training initiative for all management employees entitled "Relationship Matters".

Air Canada is focused on maintaining a cooperative relationship with its unions. Air Canada and some of its unions have also introduced new grievance procedures that provide for expedited resolution of grievances and are designed to facilitate the labour-management relationship and increase accountability on both sides.

BUSINESS OF AIR CANADA

Air Canada has two reportable operating segments: Air Canada Services and Jazz. The table below sets forth the relative financial result of each business activity for the year ended December 31, 2006:

(in millions)	AIR CANADA YEAR ENDED DECEMBER 31, 2006 Air Canada Services	Jazz[(1)]	Inter-Segment Elimination	Consolidated Total
Operating Revenue				
Passenger Revenue	$8,887	-	-	$8,887
Cargo Revenue	629	-	-	629
Other Revenue[(2)]	644	$7	-	651
External Revenue	10,160	7	-	10,167
Inter-segment Revenue	79	1,374	$(1,453)	-
	10,239	1,381	(1,453)	10,167
Special Charge for Aeroplan Miles[(3)]	(102)	-	-	(102)
Total Revenue	10,137	1,381	(1,453)	10,065
Operating Expenses[(4)]	10,023	1,237	(1,454)	9,806
Operating Income	$ 114	$ 144	$ 1	$ 259

(1) Includes Jazz's operations under the capacity purchase agreement with Air Canada. Jazz is consolidated within Air Canada's financial statements under Accounting Guideline 15 — Consolidation of Variable Interest Entities. Air Canada consolidates Jazz as Air Canada has certain contractual interest in Jazz through the Jazz CPA which may require Air Canada to absorb certain variability in the operations of Jazz and make certain payments to Jazz. Air Canada does not hold any ownership interest in Jazz as at December 31, 2006. See "Presentation of Segment Information".

(2) Other revenue includes revenues from the sale of the ground portion of vacation packages, ground handling services and other airline related services, including maintenance services provided by Jazz.

(3) Total revenue includes a special charge of $102 million in connection with Air Canada's obligation for the redemption of pre-2002 Aeroplan miles. For further details, refer to Note 20 of Air Canada's combined consolidated financial statements for the year ended December 31, 2006, which Note 20 is incorporated herein by reference. Air Canada's combined consolidated financial statements for the year ended December 31, 2006 are available on SEDAR at www.sedar.com.

(4) Other expenses include a special charge for labor restructuring of $20 million.

The table below sets forth the proportions of passenger revenues derived from domestic, transborder and international services of Air Canada Services for the years ended December 31, 2006 and December 31, 2005.

	Air Canada Services Passenger Revenues (%) for the years ended December 31 2006	2005
Domestic	41	42
Transborder	21	19
International	38	39
Total	100%	100%

Air Canada is Canada's largest domestic and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market and in the international market to and from Canada.

Jazz is Air Canada's regional affiliate. Air Canada has entered into a capacity purchase agreement with Jazz pursuant to which Air Canada purchases substantially all of Jazz's fleet capacity based on predetermined rates and determines the routes and schedule operated by Jazz. During the years ended December 31, 2006 and 2005, Jazz derived substantially all of its revenues (over 99%) from the purchase by Air Canada of Jazz's fleet capacity. 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 and also in higher density markets at off-peak times throughout Canada and to certain destinations in the United States.

Routes and Schedules

Air Canada

Air Canada (excluding Jazz) operates, on average, approximately 580 average daily departures to 15 destinations in Canada, 31 destinations in the United States and 56 destinations in the Canada-Europe, Canada-Pacific, Canada-Caribbean/Central America and Canada/South America markets. Domestic, transborder and international departures account for 50%, 33% and 17%, respectively, of the approximately 580 average daily departures. Air Canada's current route network extends to 40 countries and territories.

Air Canada, together with Jazz, operates on average approximately 1,300 scheduled flights each day and carries over 32 million passengers annually in the domestic, transborder and international markets. Air Canada, together with Jazz, provides direct passenger service to 161 destinations and, through commercial agreements with other unaffiliated regional airlines, to an additional 15 destinations, for a total of 176 direct destinations on five continents.

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

Toronto Pearson Airport is the largest hub in Canada and a significant airline origin and destination market in North America. For the year ended December 31, 2006, Air Canada operated on average 182 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, 2006, Air Canada operated on average 65 daily departures from Vancouver. Montreal Trudeau Airport is the third most important hub in Air Canada's network. For the year ended December 31, 2006, Air Canada operated on average 58 daily departures from Montreal. Calgary International Airport is Air Canada's fourth largest hub. For the year ended December 31, 2006, Air Canada operated on average 39 daily departures from Calgary.

Domestic Services

As of December 31, 2006, Air Canada, together with Jazz, provides 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. Air Canada, together with Jazz, operates several short-haul commuter routes, including Rapidair routes, linking Toronto, Montreal and Ottawa. Air Canada also offers frequent service linking major centres within Western Canada, and operates numerous flights between Calgary and Vancouver and between Calgary and Edmonton. In addition to transcontinental and commuter routes, Air Canada, together with Jazz, provides service between and within Central Canada, the Prairies and the Atlantic Provinces.

Unaffiliated regional carriers replace Jazz in markets not sufficiently large enough to be served directly. As of December 31, 2006, these airlines operate flights under Air Canada's designator code and provide service to an additional eight domestic destinations under commercial agreements with Air Canada. Air Canada does not own equity interests in any of these carriers.

Following CanJet Airlines' announcement to discontinue its scheduled passenger services on September 10, 2006, Air Canada, together with Jazz, added flights and larger aircraft to serve Eastern Canada on an as-needed basis in September 2006 and increased capacity, as measured by ASMs, by 16% in Eastern Canada during the period starting from October 1, 2006 to December 31, 2006.

Transborder Services

With the most non-stop destinations and flights from Canada to the United States, Air Canada, together with Jazz, carries more passengers between Canada and the United States than any other airline. Air Canada, together with Jazz, directly serves 46 U.S. destinations (including six seasonal destinations) as of December 31, 2006. Air Canada's network reach is also increased by its extensive connections to, and code-sharing flights with, United Airlines, one of its Star Alliance® partners.

During March 2007, Air Canada significantly increased the number of its flights from Canada to leisure destinations such as Florida, California and Las Vegas. Air Canada added 31 more non-stop flights per week to Florida for a total of 184 weekly flights. In addition, Air Canada flew 10 more non-stop flights per week to California for a total of 143 weekly flights. Air Canada also added eight more non-stop flights per week to Las Vegas for a total of 52 weekly flights. This total increase in flights represents a 15 % increase in the number of seats offered by Air Canada on routes between Canada and these leisure destinations compared to last winter.

International Services

Air Canada is uniquely positioned as Canada's largest scheduled international airline. As at December 31, 2006, Air Canada provided scheduled service directly to 56 destinations in Europe, the Middle East, Asia, Australia, the Caribbean/Central America and South America.

Air Canada offers year-round trans-Atlantic services to the United Kingdom, Germany, France, Italy, Switzerland and Israel, and seasonal services to Ireland. In the summer of 2007, Air Canada is planning to operate 15 daily flights to London Heathrow, five daily flights to Frankfurt, one daily flight to Munich, three daily flights to Paris and two daily flights to Rome.

Air Canada also offers services to the Asia-Pacific market via its Vancouver and Toronto hubs. Air Canada operates daily non-stop flights to Japan (Vancouver and Toronto to Tokyo and Vancouver to Osaka), China (Vancouver and Toronto to Beijing and Shanghai), Hong Kong (out of Vancouver and Toronto) and Korea (Vancouver and Toronto to Seoul). In the summer of 2007, a key area of capacity growth for the Corporation is expected to be China. Air Canada is planning to increase capacity by 50% to China, based on ASMs. Air Canada is planning to increase its non-stop flights from Vancouver to Beijing from one daily flight to two daily flights. In addition, Air Canada is planning to increase its non-stop flights from Toronto to Shanghai. During the peak summer period, Air Canada is planning to operate five daily non-stop flights between Canada and China.

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

Air Canada has also expanded its services to South America, Australia and Central America/Caribbean. Air Canada currently provides service directly to six destinations in South America, one in Australia, seven in Central America and 23 in the Caribbean. For its March 2007 schedule, Air Canada added 22 more non-stop flights per week from Canada to Mexico for a total of 59 weekly flights and introduced five more non-stop flights from Canada to the Caribbean for a total of 104 weekly flights.

Jazz

Jazz is an integral part of Air Canada's North American strategy. Jazz operates both domestic and transborder services for Air Canada under a capacity purchase agreement. See "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship Between Air Canada and Jazz — Capacity Purchase Agreement with Jazz". Jazz operates scheduled passenger service on behalf of Air Canada with approximately 720 average daily departures to 59 destinations in Canada and 31 destinations in the United States. Domestic and transborder departures account for 79% and 21%, respectively, of the 720 average daily departures. Approximately 34% of Jazz's traffic connects to Air Canada's mainline network.

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

Aircraft Fleet

Fleet Structure Simplification and Fleet Renewal

The fleet structure simplification which began in October 2004 includes the elimination of older, less efficient aircraft which are not economically viable in the new market environment and the increased utilization in North America of new large Embraer and Bombardier regional jet aircraft which have lower trip costs and are well suited for point-to-point flying. Air Canada's fleet renewal program will provide cost efficiencies; the Embraer ERJ-190 aircraft generates 18% lower trip costs as compared to the Airbus 319 aircraft. These new aircraft are integral to Air Canada's North American strategy, which involves offering high flight frequency on key domestic and transborder routes, while maintaining competitive frequency on other domestic and transborder routes. The use of regional jet aircraft also allows Air Canada to better match capacity with demand by reducing the average seating capacity per departure, and supports the more efficient use of Air Canada's network and hubs. This initiative will result in Air Canada, together with Jazz, having added 90 new regional jet aircraft to their fleet by January 2008.

In order to support its business strategy and deliver a superior aircraft product in its international markets, Air Canada is scheduled to start receiving 19 Boeing 777 aircraft beginning in March 2007 and 14 Boeing 787 aircraft beginning in 2010. All of the new aircraft will be used to modernize and re-size the fleet, improve passenger load factors and yields, and reduce operating costs through fuel efficiencies. The Boeing aircraft offer superior comfort and operating economics through greater fuel efficiency and maintenance cost savings. Air Canada estimates that the fuel usage and maintenance costs of the Boeing 787 aircraft will be approximately 30% less than that of the Boeing 767-300 aircraft. The Boeing 787 aircraft also feature better operational performance in terms of speed and flight range and provide Air Canada with the ability to serve new markets that could not be previously served in an efficient manner. The fleet structure simplification is also focused on reducing the number of aircraft types in order to reduce the costs related to maintenance and pilot training.

Refurbishment of Existing Aircraft

In addition to acquiring new aircraft, Air Canada commenced a major refurbishment of the interior of its existing aircraft in 2006. All existing aircraft, except for the Airbus A340 aircraft, will have refurbished interiors, including new seats and personal in-flight entertainment systems and in-seat power outlets at every seat in Economy Class and Executive Class. For aircraft that will be flying international routes, seats in the Executive Class cabin will also convert into lie-flat beds. The new Boeing and Embraer aircraft are being delivered with the new seats and in-flight entertainment systems already installed. As of March 27, 2007, Air Canada has completed the refurbishment of 23 Airbus A320 aircraft, five Boeing 767-300 aircraft and two Airbus A319 aircraft. The aircraft refurbishment process is scheduled to be completed by the middle of 2008.

Widebody Aircraft Fleet

Current Fleet of Widebody Aircraft

As at December 31, 2006, Air Canada's operating widebody fleet was comprised of 64 aircraft, each configured in two classes of service: Executive First or Executive Class, and Economy Class. The Airbus A340-300 is a four-engine 286-seat aircraft that serves Air Canada's trans-Pacific and trans-Atlantic routes. The Airbus A330-300 aircraft, with 274 seats, is a twin-engine variant of the Airbus A340-300 aircraft that Air Canada operates mainly on trans-Atlantic routes. The Boeing 767-300 ER is a long-range 203-222-seat aircraft used mainly on international routes. The Boeing 767-200 is a 207-seat aircraft used on domestic and international routes.

Boeing Orders and Financing Terms

In November 2005, Air Canada concluded agreements with Boeing for the acquisition of up to 36 Boeing 777 aircraft and up to 60 Boeing 787 aircraft. The agreements include firm orders for 18 Boeing 777 aircraft and 14 Boeing 787 aircraft and options and purchase rights for an additional 18 Boeing 777 aircraft and 46 Boeing 787 aircraft. In addition, Air Canada has entered into a 10-year lease agreement with International Lease Finance Corporation ("ILFC") for one Boeing 777-300ER aircraft, which is scheduled to be delivered in May 2007.

As a result, Air Canada is scheduled to start receiving 19 Boeing 777 aircraft, beginning in March 2007, and 14 Boeing 787 aircraft, beginning in 2010. Air Canada plans to take delivery of five Boeing 777-300ERs and three Boeing 777-200LRs in 2007 and six Boeing 777-300ERs and three Boeing 777-200LRs in 2008. The two Boeing 777-200F aircraft scheduled to be delivered in 2009 have been converted into two Boeing 777 passenger aircraft, the models of which have yet to be confirmed. The 14 Boeing 787 aircraft are scheduled to be delivered during 2010 and 2011.

The operating costs of the Boeing 777 and 787 aircraft will be significantly lower than the operating costs of the aircraft they will be replacing. A Boeing 777-200LR aircraft uses on average 11% less fuel than an Airbus A340-500 aircraft. Maintenance costs for the Boeing 777 aircraft are also lower than the Airbus A340 aircraft as the Boeing 777 aircraft has two engines to maintain while the Airbus A340 has four engines. Air Canada estimates that the fuel usage and maintenance costs of the Boeing 787 aircraft will be approximately 30% less than that of the Boeing 767-300 aircraft they will be replacing. The Boeing 787 aircraft also feature better operational performance with respect to speed and flight range and will provide Air Canada with the ability to serve new markets that cannot currently be served in an efficient manner. As a result of the new committed Boeing 777 and 787 aircraft, Air Canada expects to eventually remove from operation 10 Airbus A340 aircraft as well as most of its Boeing 767-200 aircraft.

Air Canada has received financing commitments from Boeing and the engine manufacturer covering all firm aircraft orders for approximately 90% of the capital expenditure, with the remainder to be funded from internally available resources. Air Canada is evaluating financing arrangements for the first seven Boeing 777 aircraft deliveries in 2007.

Narrowbody and Regional Jet Aircraft Fleet

Current Fleet of Narrowbody and Regional Jet Aircraft

As at December 31, 2006, Air Canada operated 135 narrowbody aircraft, including 102 Airbus narrowbody aircraft. These aircraft are configured in two classes of service: Executive Class and Economy Class. The Airbus A320 aircraft is a 140-seat, twin-engine aircraft. The twin-engine Airbus A319 offers 120 seats and is essentially a shortened version of the Airbus A320 aircraft, with the same engines, operating systems and flight deck. The twin-engine Airbus A321 is the largest narrowbody aircraft in the Airbus family, with 166 seats. The Embraer ERJ-190 and ERJ-175 aircraft are 93-seat and 73-seat twin-engine aircraft, respectively. These large regional jets have lower trip operating costs than conventional narrowbody aircraft. All of these narrowbody aircraft types primarily serve Air Canada’s domestic and transborder routes.

Embraer Orders and Financing Terms

In 2004, Air Canada signed a definitive purchase agreement with Embraer covering firm orders for 45 Embraer ERJ-190 aircraft as well as 15 Embraer ERJ-175 aircraft. As of March 13, 2007, Air Canada has taken delivery of all 15 Embraer ERJ-175 aircraft and 20 Embraer ERJ-190 aircraft. An additional 25 Embraer ERJ-190 aircraft are currently scheduled to be delivered by January 2008, for a total Embraer fleet of 60 aircraft. The Embraer aircraft are introduced in Air Canada’s fleet both for growth and replacement of a portion of Air Canada’s older Airbus A319 and A320 aircraft. As of the date hereof, Air Canada has rights to exercise options for up to 43 additional Embraer ERJ-190 aircraft. The purchase agreement also allows Air Canada to convert its orders to other Embraer models.

Air Canada received loans from a syndicate of banks and the manufacturer covering approximately 80% of the capital expenditure of the first 18 firm Embraer ERJ-190 aircraft, all of which were delivered as at December 31, 2006. Air Canada has also received loan commitments from a third party and from a syndicate of banks covering approximately 80% of the capital expenditure of the remaining 27 firm Embraer ERJ-190 aircraft deliveries. The remainder of the capital expenditures is expected to be funded from internally available resources.

Jazz’s Regional Jet and Turboprop Aircraft Fleet

Pursuant to the Jazz CPA, Air Canada purchases capacity from Jazz on Jazz’s aircraft which are subject to the Jazz CPA (the "Covered Aircraft") in consideration for the payment of certain fees by Air Canada to Jazz. All Bombardier regional jet aircraft in Jazz’s fleet are leased by Air Canada or Air Canada Capital Ltd., a wholly owned subsidiary of Air Canada, and subleased to Jazz which operates them. See "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship Between Air Canada and Jazz".

At December 31, 2006, as part of the Jazz CPA, Jazz operated on behalf of Air Canada 73 Bombardier regional jet aircraft. In 2004, Air Canada entered into an agreement with Bombardier Inc. ("Bombardier") covering firm orders for 15 Bombardier CRJ-705 and 15 Bombardier CRJ-200 aircraft, all of which were delivered between 2004 and the end of 2005.

The 50-seat Bombardier CRJ-100/200 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 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 is configured into 10 Executive Class seats and 65 Economy Class seats and is considered to be an economical aircraft due to its operational efficiencies and lower trip costs. These aircraft are used in selected "point-to-point" markets, transborder markets, and to develop selected domestic markets.

In addition, as at December 31, 2006, Jazz operated 60 Bombardier Dash-8 aircraft as Covered Aircraft under the Jazz CPA. The Dash 8-100 is a twin engine turboprop medium range aircraft with seating capacity of 37 passengers. The 50-seat Bombardier Dash 8-300 has advanced turboprop characteristics that approach those of a jet aircraft.

Turboprop aircraft continue to serve certain segments of the Canadian domestic market more efficiently than regional or larger jet aircraft. On short-haul routes with lower traffic volumes, turboprops often present the most economical and efficient way to serve these markets. Compared to larger jet aircraft, the turboprop is more profitable to operate on shorter routes with low levels of passenger demand due to its generally lower break-even load requirements.

Current and Planned Operating Fleet

Air Canada's operating fleet as at December 31, 2006 and the planned operating fleets for 2007 to 2008 are shown below:

	Number of Operating Aircraft as at December 31, 2006	**Planned Operating Aircraft as at December 31, 2007**	**Planned Operating Aircraft as at December 31, 2008**	**Planned Operating Aircraft based on Future Committed Aircraft net of Projected Aircraft Removals(5)**
Widebody Aircraft				
Airbus A340-300	10	5	0	—
Airbus A340-500	2	2	2	2
Airbus A330-300	8	8	8	8
Boeing 767-300 ER	33	32	29	25
Boeing 767-200/200ER	11	9	8	2
Boeing 777-200LR(1)	0	3	6	6
Boeing 777-300ER(1) (2)	0	5	11	13
Boeing 787(1)	0	0	0	14
Total Widebody Aircraft	64	64	64	70
Narrowbody Aircraft				
Airbus A321	10	10	10	10
Airbus A320	47	42	42	42
Airbus A319	45	35	35	35
Embraer ERJ-190(3)	18	43	45	45
Embraer ERJ-175	15	15	15	15
Total Narrowbody Aircraft	135	135	147	147
Total Operating Aircraft(4)	199	209	211	217

(1) The following aircraft are scheduled to be delivered after 2008: two Boeing 777 are scheduled to be delivered in 2009 and 14 Boeing 787 are scheduled to be delivered in 2010 and 2011. In December 2006 and February 2007, Air Canada exercised its conversion rights to convert two Boeing 777-200F aircraft into two Boeing 777 passenger aircraft, the model of which have yet to be confirmed.

(2) Air Canada has entered into a 10-year lease agreement with ILFC for one Boeing 777-300ER aircraft, which is scheduled to be delivered in May 2007.

(3) The deliveries of 45 Embraer ERJ-190 aircraft are scheduled to be completed by January 2008.

(4) In addition to operating aircraft, as at December 31, 2006, Air Canada had 11 widebody aircraft and 20 narrowbody aircraft that were parked.

(5) These aircraft changes are expected to be completed by 2011.

The fleet of Covered Aircraft operated as at December 31, 2006 by Jazz on behalf of Air Canada pursuant to the Jazz CPA is shown below:

	Number of Covered Aircraft under the Jazz CPA as at December 31, 2006
Bombardier CRJ Aircraft	
Bombardier CRJ-100	25
Bombardier CRJ-200	33
Bombardier CRJ-705	15
Total Bombardier CRJ Aircraft	73
Bombardier Dash-8 Aircraft:	
Bombardier Dash 8-300	26
Bombardier Dash 8-100	34
Total Turboprop Aircraft	60
Total Covered Aircraft	133

Fuel

Aircraft fuel is a major expense in the airline industry. During the period from January 1, 2006 to December 31, 2006, the price of Western Texas Intermediate ("WTI") crude oil ranged from a low of US$55.86 to a high of US$76.95. Fuel prices continue to be susceptible to factors such as political unrest in various parts of the world, Organization of Petroleum Exporting Countries (OPEC) policy, the level of demand from emerging economies such as China, the level of inventory carried by the industry, the level of fuel reserves maintained by governments, disruptions to production and refining facilities, alternative fuels and the weather. Based on 2006 volumes and US exchange rates, Management estimated that a US$1 per barrel movement in the price of WTI crude oil or in the refining spread between WTI and jet fuel impacted 2006 fuel expense by approximately C$27 million or US$24 million (excluding the impact of fuel surcharges and fuel hedging).

In order to manage the airline's exposure to the volatility of jet fuel prices, the Corporation has hedged a portion of its 2007 anticipated jet fuel requirements using mostly swap and collar option structures. The swap structure allows the Corporation to fix jet fuel price at a specific level, whereas the collar option structure creates a ceiling and a floor price, allowing the Corporation to protect itself against prices above the ceiling but exposing the Corporation to the floor if the price falls below the floor. As at December 31, 2006, the Corporation had 39% of its fuel requirement for 2007 hedged at prices that can fluctuate between an average of US$74 to US$85 per barrel for its heating oil-based contracts, an average of US$58 to US$69 per barrel for its WTI crude oil-based contracts and an average of US$81 to US$85 for jet-fuel based contracts. Since December 31, 2006, the Corporation has entered into new hedging positions, using collar option structures, which have added 5% coverage to 2007 increasing the total hedged volume for 2007 to 44%, as well as an additional 1% coverage to 2008. As at March 27, 2007, for 2007, the Corporation has hedged its projected fuel requirements as follows: 57% for the first quarter of 2007, 44% for the second quarter of 2007, 36% for the third quarter of 2007 and 39% for the fourth quarter of 2007.

Star Alliance®

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

Since its inception in 1997, the Star Alliance® network has grown to include as of February 2007 the following 17 airlines: Air Canada, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, bmi, LOT Polish Airlines, Lufthansa, SAS, Singapore Airlines, South African Airways, Spanair, Swiss International Airlines, Thai Airways, US Airways, United Airlines and TAP Portugal. The Star Alliance® network also includes three regional members: Adria Airways, Blue 1 and Croatia Airlines.

As of February 2007, through Air Canada's strategic and commercial arrangements with Star Alliance® members and several other airlines, Air Canada's customers have access to over 855 destinations in 155 countries, with reciprocal participation in frequent flyer programs and use of airport lounges. The Star Alliance® facilitates code-sharing and passenger connections and transfers by providing a higher level of service between network connection points (which may include one stop check-in). The airlines have implemented initiatives, such as common utilization of facilities, and are focusing on capturing potential synergies in additional areas. Air Canada code-shares with all Star Alliance® members, except US Airways, TAP Portugal, South African Airways and the three regional members. In August 2005, the Star Alliance® implemented an electronic interline ticketing service which enables customers to travel across the entire Star Alliance® network using a single electronic ticket.

Other Services

Cargo Services

The Corporation is Canada's largest provider of air cargo services as measured by cargo capacity. The Corporation offers cargo services on domestic, transborder and international routes, using the cargo capacity on aircraft operated by Air Canada and Jazz. The Corporation also uses two chartered all freighter aircraft for Canada-Europe and Canada-Asia services.

The Corporation's primary customers for cargo services are large freight forwarding companies and businesses whose products are most effectively marketed by using air cargo services. Cargo services offered by the Corporation include services for high priority shipments (AC Expedair and AC Priority) and air freight services (AC Air Freight) to Air Canada destinations worldwide and Jazz destinations in North America. The Corporation provides direct cargo services to over 150 Canadian and international destinations and has sales representation in over 50 countries. The Corporation is one of the largest suppliers of air cargo services to Canada Post Corporation. The principal routes on which the Corporation offers cargo services are Canada-Germany, Canada-China, Canada-United Kingdom and Canada-Japan. The new Boeing 777 aircraft ordered by Air Canada will provide further opportunities for growth of the cargo services on international routes as these new aircraft offer more cargo capacity than the Airbus aircraft they will be replacing.

Air Canada's cargo terminal at Toronto Pearson Airport is equipped with modern cargo handling technology to ensure efficient cargo handling and meet the needs of customers. Air Canada's freight management system, AC Lynx, offers a number of services including on-line tracking of cargo shipments from initial booking to delivery. Air Canada, United Airlines and Northwest Airlines, in co-operation with Unisys, are the founding members of the Cargo Portal Service introduced in 2003. Endorsed by key freight forwarders globally and their industry associations, this portal represents a one-stop-shop web tool for air cargo shipping requirements by offering a large number of services on a growing number of major air carriers.

Air Canada Ground Handling

The Corporation provides ground handling services to numerous airlines, including major foreign airlines at Canadian and international airports. These services include passenger check-in, gate management, baggage and cargo handling and processing, as well as aircraft ramp services.

Air Canada Vacations

Air Canada owns a 51% interest in Air Canada Vacations, a tour operator which also conducts business under the trade name Touram. Air Canada Vacations is the fourth largest Canadian tour operator, offering a variety of leisure vacation package options which include air transportation supplied by Air Canada and its Star Alliance® partners, hotel accommodation, cruises, Aeroplan miles and airport transfer/car rentals to popular destinations for Canadians in the Caribbean, Asia, Central and South America and the United States, including Las Vegas, Florida and Hawaii. Air Canada Vacations also sells surplus seat inventory to travel agencies. This part of the business is conducted through its national consolidator division, Netair®.

Approximately 77% of vacation packages currently sold by Air Canada Vacations are from Canada to destinations in the Caribbean and Mexico. Air Canada Vacations has recently introduced new packages from Canada to Europe. It also plans on introducing inbound vacation programs from Europe and Asia to North America with the intent of eventually offering packages for vacations to and from most of Air Canada's foreign destinations.

Facilities

Air Canada owns or leases facilities in major airports consisting of offices, hangar space, aircraft maintenance and ground handling facilities. The following describes the principal properties owned or leased by Air Canada as of December 31, 2006:

Principal Properties	Description	Approx. Square Footage	Nature of Title
Montreal — Air Canada Centre Air Canada Headquarters	Head office and training facilities	272,000	Owned facilities on leased land
Montreal Trudeau Airport Maintenance Base	Offices, computer centre, aircraft maintenance, hangars, workshops and training facilities	1,858,000	Owned facilities on leased land
Toronto Pearson Airport	Counters, offices, passenger and baggage handling facilities and commuter terminal	266,000	Leased
Toronto Pearson Airport Maintenance Base	Offices, simulator, hangars and workshops	1,106,207	Owned facilities on leased land
Toronto — Cargo Facility	Offices, cargo and equipment maintenance facilities	426,000	Leased
Vancouver — Technical Operations Centre	Offices, hangars, shops and simulator	1,076,000	Owned facilities on leased land
Vancouver — South Hangar	Offices, hangars, shops, stores	250,000	Owned facilities on leased land
Calgary International Airport	Hangar, commissary, ground support equipment and warehouse	234,000	Owned facilities on leased land
Winnipeg — Air Canada Building	Offices and computer centre	392,000	Leased facilities on owned land
Winnipeg Airport Maintenance Base	Offices, aircraft maintenance hangars and workshops	300,000	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. Most of the hangar space and aircraft maintenance facilities in Montreal, Vancouver, Winnipeg and Toronto are leased or subleased by Air Canada to ACTS at market terms.

Safety and Security

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

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

On October 27, 2006, Transport Canada announced the details of a new Passenger Protect Program and draft regulations pursuant to which the Government of Canada will create a list of specified persons who will be deemed to pose an immediate threat to aviation security should they attempt to board a flight. Air carriers will be expected to screen passengers against the specified persons list through a secure online system. The Government of Canada has also proposed new identity screening regulations which will require air passengers to present government-issued identification showing name, date of birth and gender prior to boarding an aircraft. These measures will come into force for international flights as of June 4, 2007. Air Canada had proactively implemented similar procedures since the events of September 11, 2001.

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

- Air Canada is the first carrier in Canada to provide Transport Canada with a security management system. The security management system includes an oversight cycle that promotes compliance and conformity. It is also linked to a performance plan based on resilience and loss prevention.

- Air Canada is fully prepared to implement the new measures imposed by Transport Canada under the Passenger Protect Program as Air Canada already complies with similar requirements imposed by the Transport Security Agency ("TSA"), a U.S. government agency, for its "No Fly" and "Selectee" lists. Accordingly, the coming into force of the identity screening regulation is expected to have minimal, if any, impact on the operations of Air Canada as Air Canada had proactively implemented these procedures since the events of September 11, 2001.

- Air Canada is also working with the Canadian Air Transport Security Agency ("CATSA") and other agencies to continuously improve security measures and to ensure that any innovation adopted by Air Canada maintains the highest degree of security.

Debt Financing

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

At the closing of the Initial Public Offering, a $400 million senior secured revolving credit facility (the "Amended Credit Facility") was established in favour of Air Canada pursuant to the Amended and Restated Credit Agreement for working capital and general corporate purposes, of which up to $100 million may be used for the issuance of letters of credit provided exclusively by the Agent and of which up to $20 million may be used as a swingline facility provided exclusively by the Agent for cash management and working capital purposes. As at March 27, 2007, there was no amount drawn under the Amended Credit Facility. The total amount available for borrowing under the Amended Credit Facility is subject to a borrowing base restriction based on certain percentages of the values of eligible accounts receivable and eligible real estate. The accounts receivable of Air Canada Cargo are also eligible for inclusion in the borrowing base if Air Canada Cargo provides the Agent and the Lenders with a guarantee of Air Canada's obligations under the Amended Credit Facility together with a first priority security interest over its present and after-acquired personal property, subject to certain exclusions and permitted liens, as security for its guarantee obligations.

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

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

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

Trademarks

Air Canada believes that its trademarks are important to its competitive position. Air Canada is Air Canada's trade name and trademark. Other trademarks include Air Canada Jetz®, Air Canada Jazz®, Jazz™, Air Canada Vacations®, Vacances Air Canada®, Executive First®, Executive Class®, Expedair®, AC Expedair™, AC Priority™, AC Air Freight™, AC Lynx™, Hospitality Service®, Service Hospitalité®, Rapidair®, Maple Leaf™, Feuille d'Érable™, AC WEBSAVER™, Super Elite™ and Super Élite™. Air Canada has granted Aeroplan LP a license to use Air Canada® and Air Canada Roundel® trademarks around the world solely in association with the Aeroplan program. See "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship Between Air Canada and Aeroplan — Aeroplan and Air Canada Trademark License Agreements". 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. See "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship Between Air Canada and Jazz — Jazz Trademark Agreements". Air Canada protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions and confidentiality procedures. Employees, service providers and partners are contractually bound to protect Air Canada's proprietary information in order to control access to and the distribution of any such information.

EMPLOYEES

As at December 31, 2006, the Corporation had 27,384(3) full-time equivalent ("FTE") employees (Air Canada Services – 23,101; Jazz – 4,283). The following table provides a breakdown of the Corporation's average FTE employees for the fourth quarter of 2006 and 2005 and for the full year 2006 and 2005 together with the unions that represent them.

Employee Group	Union(1)	Fourth quarter 2006	Fourth quarter 2005	2006	2005
Management and Administrative Support(3)	N/A(2)	3,017	3,504	3,191	3,410
Pilots	ACPA	2,708	2,541	2,625	2,546
Flight Attendants	CUPE	5,985	6,011	6,062	6,167
Customer Sales and Service Agents(3)	CAW/IBT	3,650	3,975	3,767	3,962
Technical Services, Ramp and Cargo(3)	IAMAW	6,812	6,924	6,812	6,766
United Kingdom Unionized Employees	Amicus/TGWU	697	682	691	704
Other Unionized		478	479	482	488
Air Canada Services		23,347	24,116	23,630	24,043
Jazz		4,272	3,801	4,144	3,582
Total Consolidated		27,619	27,917	27,774	27,625

(1) ACPA: Air Canada Pilots Association; CUPE: Canadian Union of Public Employees; CAW: National Automobile, Aerospace, Transportation and General Workers Union of Canada; IBT: International Brotherhood of Teamsters; IAMAW: International Association of Machinists and Aerospace Workers; and TGWU: Transport and General Workers Union.

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

(3) In addition to the numbers presented in the table above, pursuant to the Aeroplan GSA (as defined herein), Aeroplan has agreed to reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of call centre employees who are mainly represented by the CAW currently working for Aeroplan's benefit. Such group represented 853 FTE employees as at December 31, 2006 and 852 FTE employees as at December 31, 2005. These employees are not included in the numbers presented above. See "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship Between Air Canada and Aeroplan — Aeroplan GSA". In addition to the numbers presented in the above table, pursuant to the ACTS GSAs (as defined herein), ACTS has agreed to reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of unionized and a group of non-unionized employees currently working for the benefit of ACTS. Such groups represented 3,923 FTE employees as at December 31, 2006 and 4,063 FTE employees as at December 31, 2005. These employees are not included in the numbers presented above. On March 6, 2007, ACTS announced that it would permanently reduce 700 jobs at its Vancouver facility because of the early termination of its contract with Delta Air Lines for maintenance of the Delta Air Lines' Boeing 767 aircraft. See "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS — General Services Agreements".

Air Canada has long-term collective bargaining agreements with its pilots, flight attendants, maintenance personnel, certain clerical and finance personnel, customer service agents, ramp and cargo employees, dispatchers and crew schedulers which were concluded in 2003 and 2004 and which expire in 2009. No strikes or lock-outs may lawfully occur during the term of the collective agreements. In 2006, Air Canada concluded wage re-opener agreements, mediations or arbitrations under the collective agreements with all its union groups. It is still awaiting the arbitrator's decision in respect of its flight attendants, who are represented by CUPE. The CUPE arbitration award decision is expected during the second quarter of 2007. The wage increases awarded or agreed upon range up to 2.6% per year until 2009.

Jazz has completed negotiation, mediation and arbitration with all of its unions with the exception of the CALDA, the union representing Jazz's dispatchers. The wage increases awarded range from 1% to 1.75% per year until 2009. The wage re-opener negotiations with CALDA are continuing.

In 2006, Air Canada continued to reduce its workforce of non-unionized employees. As part of a decision to proceed with the reduction of non-unionized staffing levels by 20% in order to further enhance efficiencies and in view of the difficult fuel cost environment, Air Canada has implemented a workforce reduction program for this employee group. As of March 27, 2007, approximately 78% of the planned non-unionized workforce reductions had been completed.

RISK FACTORS

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

Risks Relating to the Corporation

Financial Results

In the recent past, the Corporation has sustained significant operating losses and may sustain significant losses in the future. On September 30, 2004, the Corporation and certain of its subsidiaries emerged from protection under the CCAA and implemented a plan of arrangement. For the years ended December 31, 2003, 2002 and 2001, Air Canada incurred operating losses before reorganization and restructuring items and non-recurring labour expenses of $684 million, $192 million and $731 million, respectively, and incurred net losses of $1,867 million, $828 million and $1,315 million, respectively. For the nine-month period ended September 30, 2004, Air Canada realized operating income before reorganization and restructuring items of $120 million and, for the three-month period ended December 31, 2004, the Corporation incurred an operating loss of $59 million. For the years ended December 31, 2006 and 2005, the Corporation realized operating income of $259 million and $318 million, respectively, and incurred net losses of $74 million and $20 million, respectively. Prior to September 30, 2004, the operations or Air Canada included the operations of various entities included in the Air Canada Services segment, as well as those of Jazz, Aeroplan and ACTS and, as such, those prior results may not be comparable. Despite Air Canada's emergence from creditor protection under the CCAA, the resulting and ongoing business initiatives and efforts at cost reductions and its recent results, the Corporation may not be able to successfully achieve planned business initiatives and cost reductions, including those which seek to offset significant fuel and other expenses or restore positive net profitability and may sustain significant losses in the future.

Leverage and Liquidity

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

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

Need for Additional Capital

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

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

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

Limitations Due to Restrictive Covenants

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

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

Fuel Costs

Fuel costs constituted the largest percentage of the total operating costs of the Corporation in 2006. 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 2004, 2005 and 2006, fuel prices increased and fluctuated near or at historically high levels. Should fuel prices continue at, or continue to increase above, such high levels, fuel costs could have a material adverse effect on the Corporation's business, results from operations and financial condition. Due to the competitive nature of the airline industry, the Corporation may not be able to pass on increases in fuel prices to its customers by increasing its fares. Based on 2006 volumes, Management estimates that a US$1 per barrel movement in the average price of West Texas Intermediate crude oil would have resulted in an approximate C$27 million change in 2006 fuel expense for the Corporation (excluding any impact of fuel surcharges and fuel hedging), assuming flying capacity remained unchanged and that refining spreads between West Texas Intermediate crude oil and jet fuel as well as foreign exchange rates remained constant.

Labour Costs and Labour Relations

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

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

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

Airport User Fees and Air Navigation Fees

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

Competition

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

Canadian low-cost carriers have entered or announced their intention to compete in many of the Corporation's key domestic markets and have also entered the U.S. transborder market. U.S. carriers currently operate routes in the Corporation's transborder market. The Corporation is also facing increasing competition in international markets as carriers increase their international capacity, both by expansion and by shifting existing domestic capacity to international operations to avoid low-cost domestic competition.

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

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

Internet travel websites have enabled consumers to more efficiently find lower fare alternatives by providing them with access to more pricing information. The increased price awareness of both business and leisure travelers as well as the growth in new distribution channels have further motivated airlines to price aggressively to gain fare and market share advantages.

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

Strategic, Business, Technology and Other Important Initiatives

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

For instance, a key component of the Corporation's business plan is the restructuring of its aircraft fleet, including the elimination and replacement of older, less efficient aircraft, the introduction of new regional jet aircraft, and the modernization of its international wide-body fleet through the acquisition of new and more efficient aircraft. A delay or failure in the completion of the Corporation's fleet restructuring, including a delay by the manufacturers in the delivery of the regional jet or 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 the Corporation's business plan which may, in turn, have a material adverse effect on the Corporation's business, results from operations and financial condition.

Another important component of the Corporation's business plan is the replacement of its legacy systems for passenger reservation and airport customer service with a newly developed web-enabled system in order to support the rapid and efficient implementation of the Corporation's revenue model. The new system is expected to be deployed in a phased manner commencing from late 2007 and running through a major part of 2008. A delay or failure in the implementation of the Corporation's new system could adversely affect the implementation of the Corporation's business plan which may, in turn, have a material adverse effect on the Corporation's business, results from operations and financial condition.

Dependence on Technology

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

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

Key Supplies and Suppliers

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

Aeroplan

Through its relationship with Aeroplan, the Corporation is able to offer its customers who are Aeroplan members the opportunity to earn Aeroplan miles. Based on customer surveys, Management believes that rewarding customers with Aeroplan miles is a significant factor in customers' decision to travel with Air Canada and Jazz and contributes to building customer loyalty. The failure by Aeroplan to adequately fulfill its obligations towards the Corporation under an Amended and Restated Commercial Participation and Services Agreement dated June 9, 2004, as amended, including by the agreements dated May 13, 2005 and October 13, 2006 (the "Aeroplan CPSA") and in connection with the Aeroplan program, or other unexpected interruptions of Aeroplan services which are beyond the Corporation's control could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Jazz

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

Pension Plans

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

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

In May 2004, Air Canada and the Office of the Superintendent of Financial Institutions agreed on a protocol pursuant to which the solvency funding requirements for the Corporation's registered pension plans provided for in the then existing regulations were amended retroactive to January 1, 2004. The Corporation is required to make substantial annual cash contributions, and the level of those contributions will increase in the event of poor pension fund investment performance and/or further declines in long-term Government of Canada bond rates. Underfunded pension plans or a failure or inability by the Corporation to make required cash contributions to its registered pension plans could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Equal Pay Litigation

CUPE, which represents the Corporation's flight attendants, has two complaints 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 complaints date from 1991 and 1992 but have not been investigated on the merits because of a legal dispute over whether the three groups work in the same "establishment" within the meaning of the Canadian Human Rights Act. On January 26, 2006, the Supreme Court of Canada ruled that they do work in the same "establishment" and sent the case back to the Canadian Human Rights Commission, which may now proceed to assess the merits of CUPE's complaints. On March 16, 2007, the Canadian Human Rights Commission referred the complaint for investigation.

As part of the restructuring under the CCAA, it was agreed that any resolution of the complaints would have no retroactive financial impact prior to September 30, 2004. It is the view of Air Canada that any investigation will show that Air Canada has complied and continues to comply with the equal pay provisions of the Canadian Human Rights Act. Nonetheless, should these complaints succeed, the accrued liability and future costs could be very significant and Air Canada's business, results from operations and financial condition could be materially adversely affected.

Star Alliance®

The strategic and commercial arrangements with Star Alliance® members provide the Corporation 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, the Corporation's business, results from operations and financial condition could be materially adversely affected.

Interruptions or Disruptions in Service

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

Foreign Exchange

The Corporation's financial results are sensitive to the changing value of the Canadian dollar. In particular, the Corporation has a significant annual net outflow of U.S. dollars and is affected by fluctuations in the Canada/U.S. dollar exchange rate. Management estimates that during 2006, a $0.01 increase in the Canada/U.S. dollar exchange rate (i.e., $1.13 to $1.14 per U.S. dollar) would have had an estimated $16 million unfavourable impact on operating income and an estimated $48 million unfavourable impact on pre-tax income. Conversely, an opposite change in the exchange rate would have had the opposite effect on operating income. The Corporation incurs significant expenses in U.S. dollars for such items as fuel, aircraft rental charges, interest payments, debt servicing and computerized reservations system fees, while a substantial portion of its revenues are generated in Canadian dollars. A significant deterioration of the Canadian dollar relative to the U.S. dollar would increase the costs of the Corporation relative to its U.S. competitors and could have a material adverse effect on the Corporation's business, results from operations and financial condition. In addition, the Corporation may be unable to appropriately hedge the risks associated with fluctuations in exchange rates.

Current Legal Proceedings

The European Commission, the United States Department of Justice and the Competition Bureau in Canada, among other competition authorities, are investigating alleged anti-competitive cargo pricing activities, including the levying of certain fuel surcharges, of a number of airlines and cargo operators, including the Corporation. Competition authorities have sought or requested information from the Corporation as part of their investigations. The Corporation is cooperating fully with these investigations. The Corporation is also named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada in connection with these allegations. It is not possible at this time to predict with any degree of certainty the outcome of these proceedings. It is the Corporation's policy to conduct its business in full compliance with all applicable competition laws.

In October 2006, ACPA commenced proceedings before the Ontario Superior Court of Justice against Air Canada, ACE and certain members of the board of directors of Air Canada alleging that certain past and future actions are oppressive to them. A variety of remedies were sought against the parties including an injunction to impose, among other things, limits on corporate distributions including those contemplated under the ACE plan of arrangement which became effective on October 10, 2006. Following a hearing in December, 2006, Mr. Justice Cumming of the Ontario Superior Court of Justice dismissed ACPA's application for an injunction and granted Air Canada's motion to dismiss ACPA's claim. ACPA has not appealed the dismissal of the injunction application but has appealed the order dismissing its claim. No date has yet been set for the hearing.

In addition, see above risk factor entitled "Equal Pay Litigation".

Key Personnel

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

Risks Relating to the Industry

Airline Reorganizations

Since September 11, 2001, a number of U.S. air carriers have sought to reorganize under Chapter 11 of the United States Bankruptcy Code or outside the scope of formal reorganization proceedings. Successful completion of such reorganizations could present the Corporation with competitors having reduced levels of indebtedness and significantly lower operating costs derived from labour, supply and financing contracts renegotiated under the protections of the United States Bankruptcy Code or outside the scope of formal reorganization proceedings. In addition, certain air carriers, including those involved in reorganizations, may undertake substantial fare discounting in order to maintain cash flows and to enhance continued customer loyalty. Such fare discounting could result in lower yields for the Corporation which, in turn, could have a material adverse effect on the Corporation's 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 the demand for air transportation. Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. The Corporation is not able to predict with certainty market conditions and the fares that the Corporation may be able to charge. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. A downturn in economic growth in North America, as well as geopolitical instability in various areas of the world, could have the effect of reducing demand for air travel in Canada and abroad and, together with the other factors discussed herein, could materially adversely impact the Corporation's profitability. Any prolonged or significant weakness of the Canadian or world economies could have a material adverse effect on the Corporation's business, results from operations and financial condition, especially given the Corporation's substantial fixed cost structure.

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

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

Terrorist Attacks and Security Measures

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

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

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

Casualty Losses

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

Seasonal Nature of the Business, Other Factors and Prior Performance

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

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

Regulatory Matters

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

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

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

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

In addition, on November 2, 2004, the Minister of Industry tabled amendments to the Competition Act in Bill C-19 which, if enacted, would have removed the airline-specific "abuse of dominance" provisions from the Competition Act. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-19 was terminated. Management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons.

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

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

Increased Insurance Costs

Since September 11, 2001 the aviation insurance industry has been continually reevaluating the terrorism risks that it covers and this activity may adversely affect some of the Corporation's existing insurance carriers or the Corporation's ability to obtain future insurance coverage. To the extent that the Corporation's existing insurance carriers are unable or unwilling to provide it with insurance coverage, and in the absence of measures by the Government of Canada to provide the required coverage, the Corporation's insurance costs may increase further and may result in the Corporation being in breach of regulatory requirements or contractual arrangements requiring that specific insurance be maintained, which may have a material adverse effect on the Corporation's business, results from operations and financial condition.

Third Party War Risk Insurance

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

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

Risks Related to the Corporation's Relationship with ACE

Control of the Corporation and Related Party Relationship

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

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

Future Sales of Shares by or for ACE

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

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

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

Relationship Between Air Canada and Jazz

Jazz is an affiliate of Air Canada. On February 2, 2006, Jazz Air Income Fund completed its initial public offering and listed its units on the TSX under the symbol JAZ.UN. Jazz Air Income Fund currently has 75,638,223 units issued and outstanding and holds a 61.6% interest in Jazz LP. ACE currently holds a 38.4% direct interest in Jazz LP and holds 25,000,000 units of Jazz Air Income Fund, representing 33.1% of units issued and outstanding. In total, ACE currently holds a 58.8% interest in Jazz. Air Canada does not own any equity interest in Jazz.

Air Canada and Jazz have entered into the Jazz CPA which is substantially similar to capacity purchase agreements entered into by a number of North American regional carriers. Jazz provided Air Canada with substantially all of its regional airline capacity based on ASMs for the period from January to December 2006. Jazz and Air Canada have linked their regional and mainline networks in order to serve connecting passengers more efficiently and to provide valuable traffic feed to Air Canada's mainline routes. Jazz's operations also complement Air Canada's operations by allowing more frequent service in lower density markets and higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States than could be economically provided with conventional large jet aircraft.

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

Capacity Purchase Agreement with Jazz

Pursuant to the Jazz CPA, Air Canada purchases capacity from Jazz representing substantially all of the capacity of the Covered Aircraft. Of the 135 aircraft in Jazz's operating fleet as of December 31, 2006, 133 aircraft are Covered Aircraft under the Jazz CPA.

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

Under the Jazz CPA, Air Canada reimburses Jazz, without mark-up, for pass-through costs (as defined in the Jazz CPA) incurred directly by Jazz, such as fuel, navigation, landing and terminal fees. Jazz is also paid fees by Air Canada for a variety of different metrics based on an estimate of all costs and expenses to be incurred and paid by Jazz for the applicable period with respect to Scheduled Flights and other services to aircraft, other than Jazz's pass-through costs, marked up by a specified percentage. The fees payable by Air Canada to Jazz on a monthly basis are broken down into a number of categories. The payment categories fall into two broad groups: fees that are variable depending on the Covered Aircraft utilization and fees that are not variable regardless of how often or where or with what load factors the Covered Aircraft are utilized.

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

Until the expiry of the Jazz CPA in December 2015, Air Canada has agreed to pay Jazz for certain daily minimum levels of block hours for each Covered Aircraft other than aircraft being modified, undergoing schedule maintenance or being painted. This minimum daily average utilization guarantee ensures that Air Canada must make certain minimum payments to Jazz regardless of the revenue generated by Jazz.

The Jazz CPA will expire on December 31, 2015, subject to renewal on terms to be negotiated for two additional five-year periods unless either party gives written notice of non-renewal to the other not less than one year prior to the end of the initial term or the first renewal term. Either party is entitled to terminate the Jazz CPA at any time upon the occurrence of an event of default (as determined in accordance with the terms of the Jazz CPA).

Jazz MSA

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

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

Jazz Trademark Agreements

Pursuant to the Jazz Trademark License Agreement, Air Canada has granted Jazz a royalty-free, non-exclusive, non-sublicensable, non-assignable right to use certain trademarks owned or registered by Air Canada around the world including Jazz and those which incorporate the Air Canada name, and/or Air Canada's roundel design, solely in association with the Jazz business. The Jazz Trademark License Agreement can be terminated in the event the Jazz CPA is terminated. However, Air Canada and Jazz have also entered into the Jazz Special Trademark Agreement which would grant all of Air Canada's rights to the Jazz trademark to Jazz (and preclude Air Canada from using the

Jazz trademark or licensing the Jazz trademark to third parties) upon the occurrence of certain events involving: (i) the expiration or termination of the Jazz CPA if, at such time, Jazz is no longer an affiliate of Air Canada; (ii) the occurrence of a change of control pursuant to which Jazz ceases to be an affiliate of Air Canada if, at or prior to such time, the Jazz CPA has expired or has been terminated; or (iii) the sale or transfer of all or substantially all of the assets or business of Jazz to a third party that is not an affiliate of Air Canada if, at or prior to such time, the Jazz CPA has expired or has been terminated.

Jazz's Fleet

Of the 58 CRJ-100s/200s in Jazz's fleet, 35 are subleased from Air Canada and 23 are subleased from Air Canada Capital Ltd., a subsidiary of Air Canada, with such subleases expiring between 2007 and 2024. All Bombardier CRJ-705 aircraft currently in Jazz's fleet are subleased from Air Canada Capital Ltd., with such subleases expiring in 2022 and 2024. Of the 26 Dash 8-300s in Jazz's fleet, 19 are owned by Jazz and seven are leased from third parties, with such leases scheduled to expire in 2007. Of the 36 Dash 8-100 aircraft in Jazz's fleet, 34 are Covered Aircraft and two are aircraft operated independently by Jazz to provide charter services. Of such 36 aircraft, 29 are owned by Jazz and seven are leased from Air Canada Capital Ltd., with such leases expiring between 2007 and 2008.

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

Scope Clauses

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

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

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

- Jazz may maintain a fleet of 58 CRJ-100s/200s and 15 CRJ-705s made up as follows: (i) 33 CRJ-200s and 15 CRJ-705s and (ii) 25 CRJ-100s originally operated by Air Canada, all of which have been transferred to Jazz by way of sublease.

- If either Air Canada or Jazz seeks to increase the fleet beyond what is outlined above, they must notify ACPA and ALPA in writing of the proposed increase and then meet with ACPA and ALPA to discuss and, if possible, agree on the increase and any terms in connection therewith. Where no agreement is reached, the matter is referred to a mediator, and, should the mediation fail, an arbitrator who will then make a decision, taking into account the business case put forward by the respective parties and the impact of the matter at hand on the respective pilot groups.

- Jazz may not operate the CRJ-705 aircraft if configured in excess of 75 seats, inclusive of all classes.

- As was previously the case, Air Canada must ensure that a minimum of ASMs is flown by Air Canada compared to the ASMs flown by Jazz.

Relationship Between Air Canada and Aeroplan

Aeroplan is an affiliate of Air Canada. On June 29, 2005, Aeroplan Income Fund completed its initial public offering. Aeroplan Income Fund's units trade on the TSX under the symbol AER.UN. Aeroplan Income Fund currently has 200,000,000 units issued and outstanding and indirectly holds all outstanding units of Aeroplan LP. ACE currently holds 80,285,585 units of Aeroplan Income Fund, representing a 40.1% indirect ownership interest in Aeroplan LP, and is currently entitled to appoint the majority of the board of directors of Aeroplan Holding GP Inc. ("Aeroplan GP") pursuant to a securityholders' agreement dated June 29, 2005 among Aeroplan Income Fund, Aeroplan Trust, ACE, Aeroplan LP and Aeroplan GP, as amended by an agreement dated March 14, 2007 (the "Aeroplan Securityholders' Agreement"). Air Canada does not own any equity interest in Aeroplan.

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

Air Canada has entered into long-term agreements with Aeroplan to sell seat capacity to Aeroplan. In 2006, approximately 90% of rewards claimed by Aeroplan members were air travel rewards from Air Canada, Jazz and Star Alliance® members.

Air Canada is a party to the following five major agreements with Aeroplan: (i) the Aeroplan CPSA; (ii) a Database Agreement dated May 13, 2005, effective January 1, 2002 (the "Aeroplan Database Agreement"); (iii) an Amended and Restated Master Services Agreement dated May 13, 2005, effective January 1, 2005 (the "Aeroplan MSA"); (iv) a General Services Agreement dated May 13, 2005, effective January 1, 2005 (the "Aeroplan GSA"); and (v) Trademark License Agreements dated May 13, 2005 and November 23, 2006 (the "Aeroplan Trademark License Agreements"). A brief description of these agreements is provided below.

Aeroplan CPSA

Pursuant to the Aeroplan CPSA, last amended on October 13, 2006, Air Canada continues to allocate 8% of the seat capacity to Aeroplan on the flights operated by Air Canada and Jazz and certain other air carriers under the "AC" code (collectively, the "AC Flights") at a fixed redemption cost. In addition, Aeroplan can purchase an unlimited number of available seats based on published fares with a variable discount depending on the fare product. Any adjustment to this variable discount is based on an identified set of parameters. The Aeroplan CPSA also provides that Aeroplan will be charged the lowest fares charged to any other loyalty program taking into account Aeroplan's volume purchase of Air Canada's seat inventory. The rates charged for the allocated 8% of the seat capacity on AC Flights are fixed through the end of 2007. Thereafter, any upward or downward adjustments to such rates must maintain aggregate discounts at least as favourable to Aeroplan as those set out in the current rates.

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

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

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

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

Under the Aeroplan CPSA, Air Canada retained responsibility for the miles to be redeemed from accumulations up to December 31, 2001. Aeroplan LP assumed responsibility for all miles issued beginning January 1, 2002. With the assistance of independent experts, management has re-estimated the number of miles expected to be redeemed. Management now expects that 112 billion miles will be redeemed compared to the original estimate of 103 billion. Effective October 13, 2006, by amendment, Air Canada has assumed responsibility for the redemption of up to 112 billion miles and, as a result, recorded a special charge of $102 million for the incremental 9 billion miles. For further details, refer to Note 20 of Air Canada's combined consolidated financial statements for the year ended December 31, 2006, which Note 20 is incorporated herein by reference. Air Canada's combined consolidated financial statements for the year ended December 31, 2006 are available on SEDAR at www.sedar.com.

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

Aeroplan Database Agreement

Pursuant to the Aeroplan Database Agreement, Aeroplan manages Air Canada's passenger information database. The Aeroplan Database Agreement also allows Aeroplan to access and use the Air Canada database information for statistical purposes, and, for a fee, for revenue generating and general marketing purposes by using such information to conduct market research for other Aeroplan partners who are not in direct competition with Air Canada. Air Canada is entitled to access and use the Aeroplan database information for certain purposes, including pre-approved targeted marketing activities. The access and usage by each of Aeroplan and Air Canada is subject to adherence to any applicable confidentiality and privacy restrictions and is subject to pre-established fees based on the information access or use, which fees, if any, are invoiced on a quarterly basis and are subject to revision annually.

The Aeroplan Database Agreement expires on June 29, 2020. In addition, the Aeroplan Database Agreement automatically terminates in the event that the Aeroplan CPSA is terminated.

Aeroplan MSA

Pursuant to the Aeroplan MSA, Air Canada has agreed to provide certain services to Aeroplan in return for a fee based on Air Canada's fully allocated cost of providing such services to Aeroplan plus a mark-up to reflect overhead and administrative costs. Pursuant to the Aeroplan MSA, Air Canada provides Aeroplan with infrastructure support consisting principally of administrative services in relation to information technology, human resources, finance and accounting, and legal services. Aeroplan benefits from the information technology available to Air Canada from third parties and from Air Canada's internal information technology resources.

Aeroplan may elect to terminate any services under the Aeroplan MSA (without terminating the whole Aeroplan MSA) or the entire Aeroplan MSA upon six months' prior written notice. Air Canada may elect to terminate any services under the Aeroplan MSA (without terminating the whole Aeroplan MSA) or the entire Aeroplan MSA upon 18 months' prior written notice. These termination rights do not exist with regard to the information technology services provided pursuant to the Aeroplan MSA as those services shall only be terminated contemporaneously with the termination of the agreements between Air Canada and its third party service providers.

Aeroplan GSA

Pursuant to the Aeroplan GSA, Aeroplan must reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of call centre employees who work for the benefit of Aeroplan. With regard to the shortfall in the pension plan maintained by Air Canada which covers, among others, these call centre employees, Aeroplan has agreed to pay an amount not to exceed $13.1 million over the next seven years to compensate

Air Canada for call centre employees' share of the unfunded Air Canada pension liability. The Aeroplan GSA has an indefinite term but it can be terminated, subject to certain conditions, by either party upon six months' prior written notice.

Aeroplan and Air Canada Trademark License Agreements

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

Relationship between Air Canada and ACTS

ACTS is an indirect wholly-owned subsidiary of ACE. ACTS is a full-service aircraft maintenance, repair and overhaul ("MRO") organization that competes on a global basis. ACTS provides MRO services for Air Canada and other airline customers worldwide.

The major maintenance facilities for ACTS are located in Montreal, Vancouver, Winnipeg and Toronto.

Pursuant to a General Terms Agreement between ACTS and Air Canada which provides several contractual terms applicable to the service agreements, ACTS and Air Canada have entered into maintenance service agreements effective as of October 1, 2006, in respect of aircraft maintenance and related services including the following: (i) aircraft heavy maintenance services, (ii) engine maintenance services, (iii) component maintenance services, (iv) supply chain and material asset management services, and (v) auxiliary power unit maintenance services (collectively, the "ACTS Maintenance Agreements").

ACTS is also a party to the following agreements with Air Canada: (i) an amended and restated master services agreement effective as of January 1, 2007 (the "ACTS MSA"); (ii) a trademark license agreement dated September 24, 2004 (the "ACTS Trademark License Agreement"), (iii) a general services agreement dated September 24, 2004 with respect to certain unionized employees employed by Air Canada (the "ACTS GSA for Unionized Employees"); and (iv) a general services agreement dated September 24, 2004 with respect to certain non-unionized employees employed by Air Canada (the "ACTS GSA for Non-Unionized Employees", and together with the ACTS GSA for Unionized Employees, the "ACTS GSAs"). A brief description of these agreements is provided below.

ACTS Maintenance Agreements

Pursuant to the ACTS Maintenance Agreements, ACTS has agreed to provide the following services to Air Canada with respect to certain of Air Canada's aircraft, engines and other aircraft equipment: aircraft heavy maintenance services (excluding line and cabin maintenance services which are primarily provided by Air Canada), engine maintenance services, component maintenance services, supply chain and asset management services, auxiliary power unit maintenance services, aircraft paint services and related services. ACTS serves as Air Canada's exclusive repair agency in respect of aircraft heavy maintenance, engine maintenance, auxiliary power unit maintenance services as well as for maintenance services relating to certain components. ACTS serves as Air Canada's non-exclusive repair agency in respect of other services provided.

Each of the ACTS Maintenance Agreements referred to above, except for the agreements relating to aircraft heavy maintenance services, aircraft paint services and supply chain and asset management services, continues in force until October 2013, after which they continue in force unless either party provides to the other written notice of termination, subject to the applicable minimum notice periods provided in such agreements. The aircraft heavy maintenance and paint services agreements continue in force until October 2009, after which they continue in force unless either party provides to the other written notice of termination, subject to the applicable minimum notice periods provided in such agreements. The supply chain and asset management services agreement continues in force until October 2013, after which it continues in force unless either party provides to the other written notice of termination, subject to the applicable minimum notice period provided in such agreement. Notwithstanding the foregoing, the supply chain and asset management services agreement may be terminated at any time during its term by either party upon a 180 days' prior written notice.

ACTS MSA

Pursuant to the ACTS MSA, Air Canada has agreed to provide ACTS with services including infrastructure support, consisting principally of administrative services in relation to information technology, human resources, finance and accounting, and legal services in return for fees to be paid by ACTS to Air Canada. The ACTS MSA was amended and restated with effect as of January 1, 2007. The primary purpose of these amendments was to refine the scope of services to be provided by Air Canada to ACTS and establish the pricing for such services.

ACTS may elect to terminate any services under the ACTS MSA or the entire ACTS MSA upon six months' prior written notice, with the exception of services relating to information technology which ACTS cannot terminate prior to the expiry of the ACTS MSA. Air Canada may elect to terminate any services under the ACTS MSA or the entire ACTS MSA upon 18 months' prior written notice.

ACTS Trademark License Agreement

Air Canada has granted ACTS a royalty-free, non-exclusive, non-assignable right to use certain Air Canada trademarks which incorporate the Air Canada name, and/or Air Canada's roundel design, solely in association with the provision of heavy maintenance, component maintenance and supply chain business services in Canada and the United States. The ACTS Trademark License Agreement can be terminated in the event the ACTS Maintenance Agreements are terminated.

The initial term of the ACTS Trademark License Agreement expires in 2014 and it is renewable for additional terms of 10 years upon written notice by ACTS within 90 days of the end of each term, provided that the ACTS Trademark License Agreement will terminate in the event of the termination or non-renewal of the General Terms Agreement between ACTS and Air Canada referred to above. Air Canada may terminate the ACTS Trademark License Agreement in the event ACTS is no longer an affiliate of Air Canada.

General Services Agreements

Pursuant to the ACTS GSAs, ACTS must reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of unionized and a group of non-unionized employees who work for the benefit of ACTS. The ACTS GSAs may be terminated by either party at any time and without cause upon a 30 days' prior written notice.

RELATIONSHIP BETWEEN AIR CANADA AND ACE

General

As part of the implementation of the Plan on September 30, 2004, Air Canada reorganized its corporate structure. Pursuant to such corporate reorganization, APLN Limited Partnership (the predecessor to Aeroplan LP), Jazz Air Inc. (the predecessor to Jazz Air Limited Partnership and Jazz LP) and Touram Inc. (the predecessor to Air Canada Vacations), which were already established as stand-alone entities under Air Canada, became stand-alone entities under ACE, while ACTS, Air Canada Cargo and Air Canada Ground Handling were established as stand-alone limited partnerships under ACE. As a result, ACE became the parent holding company of Air Canada, Aeroplan, Jazz, ACTS, Air Canada Cargo, Air Canada Ground Handling and Air Canada Vacations. See "Three-Year Summary: Evolution of Business — The Plan".

Aeroplan Income Fund currently has 200,000,000 units issued and outstanding and indirectly holds all outstanding units of Aeroplan LP. ACE currently holds 80,285,585 units of Aeroplan Income Fund, representing a 40.1% indirect ownership interest in Aeroplan LP, and is currently entitled to appoint the majority of the board of directors of Aeroplan GP pursuant to the Aeroplan Securityholders' Agreement. Air Canada does not own any equity interest in Aeroplan.

Jazz Air Income Fund currently has 75,638,223 units issued and outstanding and holds a 61.6% interest in Jazz LP. ACE currently holds a 38.4% direct interest in Jazz LP and holds 25,000,000 units of Jazz Air Income Fund, representing 33.1% of units issued and outstanding. In total, ACE currently holds a 58.8% interest in Jazz. Air Canada does not own any equity interest in Jazz.

Initial Public Offering Transactions

On the closing of the Initial Public Offering, ACE indirectly transferred to Air Canada (i) all of its interest in Air Canada Ground Handling and all of its interest in Air Canada Ground Handling's general partner, and (ii) a 51% interest in Air Canada Vacations and a 51% interest in Air Canada Vacations' general partner. On the closing of the Initial Public Offering, ACE also transferred to Air Canada all of the shares of the general partner of Air Canada Cargo. Air Canada owns all of the limited partnership units of Air Canada Cargo and, as a result of such transfer, also owns all of the shares of the general partner of Air Canada Cargo. In addition, on the closing of the Initial Public Offering, ACE purchased from Air Canada the preferred limited partnership units of ACTS Holdco Limited Partnership held by Air Canada. For further details in respect of certain transactions entered into by Air Canada, ACE, ACTS and other affiliated entities with respect to the restructuring of the ACE group of entities in connection with Air Canada's Initial Public Offering, refer to subsection A entitled "Initial Public Offering" under Note 1 of Air Canada's combined consolidated financial statements for the year ended December 31, 2006, which subsection A of Note 1 is incorporated herein by reference. Air Canada's combined consolidated financial statements for the year ended December 31, 2006 are available on SEDAR at www.sedar.com.

Structure Following the Initial Public Offering

Prior to the closing of the Initial Public Offering, ACE held, directly or indirectly, a 100% interest in Air Canada. Following the closing of the Initial Public Offering, ACE owns, directly or indirectly, of record and beneficially 75% of Air Canada's outstanding Shares.

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

Independent Review Process

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

Master Services Agreement

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

Registration Rights Agreement

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

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

MARKET FOR SECURITIES

The Variable Voting Shares and the Voting Shares are traded on the TSX under the trading symbols "AC.A" and "AC.B", respectively. The following table sets forth the price range and trading volume of the Variable Voting Shares and the Voting Shares as reported by the TSX for the months of November to, and including, December 2006:

	Variable Voting Shares[1]				Voting Shares[1]			
2006	**High**	**Low**	**Average Daily Trading Volume**	**Total Monthly Volume**	**High**	**Low**	**Average Daily Trading Volume**	**Total Monthly Volume**
November	$21.00	$15.65	2,324,670	23,246,703	$21.00	$15.63	634,778	6,347,776
December......	$18.15	$16.25	306,018	5,814,336	$18.09	$16.20	138,366	2,628,962

(1) The Variable Voting Shares and the Voting Shares began trading on the TSX on November 24, 2006.

TRANSFER AGENT AND REGISTRAR

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

DIVIDEND RECORD

The Corporation has not declared or paid dividends on its Voting Shares and Variable Voting Shares for the year ended December 31, 2006.

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

DESCRIPTION OF CAPITAL STRUCTURE

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

Variable Voting Shares

Voting

The holders of the Variable Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of Air Canada, except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA.

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

Shares as a class do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of Air Canada and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% of the votes that may be cast at such meeting.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of Air Canada properly applicable to the payment of dividends, any dividends declared and payable by Air Canada on the Variable Voting Shares and the Variable Voting Shares shall rank equally as to dividends on a share-for-share basis with the Voting Shares participating on an as-converted basis. All dividends declared in any fiscal year of Air Canada shall be declared in equal or equivalent amounts per share on all Variable Voting Shares, and Voting Shares participating on an as-converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Variable Voting Shares or the Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada ranking prior to the Variable Voting Shares, upon liquidation, dissolution or winding up of Air Canada or other distribution of Air Canada's assets among its shareholders for the purpose of winding up its affairs, the holders of the Variable Voting Shares and Voting Shares shall be entitled to receive the remaining property of Air Canada and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Each issued and outstanding Variable Voting Share shall be converted into one Voting Share, automatically and without any further act of Air Canada or of the holder, if (i) such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian; or (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

In the event that an offer is made to purchase Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, be made to all or substantially all the holders of the Voting Shares in a province of Canada to which the requirement applies, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share that shall be subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares in response to the offer and the transfer agent shall deposit the resulting Voting Shares on behalf of the shareholder.

If the Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Voting Shares resulting from the conversion shall be reconverted automatically and without further act from Air Canada or the holder, into Variable Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the Air Canada articles of incorporation.

Constraints on Ownership of Shares

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

Voting Shares

Voting

The holders of the Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of Air Canada (except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA), and each Voting Share shall confer the right to one vote in person or by proxy at all meetings of shareholders of Air Canada.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada of any other class ranking senior to the Voting Shares, the holders of the Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of Air Canada properly applicable to the payment of dividends, any dividends declared and payable by Air Canada on the Voting Shares and the Voting Shares shall rank equally as to dividends on a share-for-share basis with the Variable Voting Shares participating on an as-converted basis and all dividends declared in any fiscal year of Air Canada shall be declared in equal or equivalent amounts per share on all Voting Shares and Variable Voting Shares on an as-converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Voting Shares or the Variable Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada ranking senior to the Voting Shares, upon liquidation, dissolution or winding up of Air Canada or other distribution of Air Canada's assets among its shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable Voting Shares shall be entitled to receive the remaining property of Air Canada and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Unless the foreign ownership restrictions of the CTA are repealed and not replaced with other similar restrictions, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of Air Canada or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Qualified Canadian.

In the event that an offer is made to purchase Variable Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed, be made to all or substantially all the holders of the Variable Voting Shares, each Voting Share shall become convertible at the option of the holder into one Variable Voting Share that shall be subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Voting Shares for the purpose of depositing the resulting Variable Voting Shares in response to the offer and the transfer agent shall deposit the resulting Variable Voting Shares on behalf of the shareholder.

If the Variable Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Variable Voting Shares resulting from the conversion shall be reconverted automatically and without further act from Air Canada or the holder, into Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the Air Canada articles of incorporation.

Constraints on Ownership of Shares

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

Residency Declaration

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

Repurchase of Shares

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

Information and Reports

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

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

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

Officers

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

DIRECTORS AND OFFICERS

Directors

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

Name and Municipality of Residence	Principal Occupation	Director Since
Bernard Attali[(1)(3)(5)] .... Paris, France	Senior Advisor, Texas Pacific Group, France	November 15, 2006
Montie R. Brewer...................... Hudson, Québec	President and Chief Executive Officer, Air Canada	March 8, 2005
Brian Dunne .... Westmount, Québec	Executive Vice President and Chief Financial Officer, ACE	November 15, 2006
Pierre Marc Johnson[(1)(3)(4)] .... Montreal, Québec	Senior Counsel, Heenan Blaikie LLP	November 15, 2006[(6)]
Richard H. McCoy[(1)(2)(5)] .... Toronto, Ontario	Corporate Director	November 15, 2006
John T. McLennan[(1)(2)(5)] .... Mahone Bay, Nova Scotia	Corporate Director	November 15, 2006
Robert A. Milton[(1)].................... Westmount, Québec	Chairman, President and Chief Executive Officer, ACE and Chairman, Air Canada	August 6, 1999
Arthur T. Porter[(2)(4)(5)]............... Montreal, Québec	Director General and Chief Executive Officer, McGill University Health Center	November 15, 2006
David I. Richardson[(1)(2)(3)] .... Grafton, Ontario	Corporate Director	September 30, 2004
Vagn Sørensen[(3)(4)] .... Holte, Denmark	Corporate Director	November 15, 2006
Marvin Yontef[(1)(3)].................... Toronto, Ontario	Senior Partner, Stikeman Elliott LLP	September 30, 2004

(1) Is currently also a director of ACE.
(2) Member of the Audit, Finance and Risk Committee.
(3) Member of the Governance and Corporate Matters Committee.
(4) Member of the Human Resources and Compensation Committee.
(5) Member of the Nominating Committee.
(6) Mr. Johnson was also a director of Air Canada from May 2000 to September 2004.

Unless otherwise indicated below, each of the directors has held the occupation listed above for more than five years. Mr. Brewer was Executive Vice President, Commercial, Air Canada from 2002 to 2004. Mr. Dunne was Chief Financial Officer and Director of Aer Lingus Group Plc from 2002 to 2005. Mr. McLennan was Vice Chairman and Chief Executive Officer of AT&T Canada (which was renamed Allstream Inc.) from 2000 to 2004. Mr. Porter was President and Chief Executive Officer of the Detroit Medical Center from 1999 to 2003. Mr. Richardson was Chairman, Ernst & Young Inc. and Senior Partner, Ernst & Young LLP (Canada) from 1987 to 2002. Mr. Sørensen was President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006.

Officers

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

Name and Municipality of Residence	Position with Air Canada	Principal Occupation	Executive Officer Since
Montie R. Brewer.................... Hudson, Québec	President and Chief Executive Officer	President and Chief Executive Officer, Air Canada	April 1, 2002
Robert (Rob) Reid................... Oakville, Ontario	Executive Vice President and Chief Operating Officer	Executive Vice President and Chief Operating Officer, Air Canada	October 9, 2000
Sean Menke............................. Baie D'Urfe, Québec	Executive Vice President and Chief Commercial Officer	Executive Vice President and Chief Commercial Officer, Air Canada	July 11 2005
Joshua Koshy .... Richmond Hill, Ontario	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer, Air Canada	August 1, 2005
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
Marc Rosenberg .... Toronto, Ontario	Vice President, Sales and Product Distribution	Vice President, Sales and Product Distribution, Air Canada	November 6, 1996
Alan Butterfield .... Lachine, Québec	Vice President, Air Canada Maintenance and Engineering	Vice President, Air Canada Maintenance and Engineering, Air Canada	February 19, 2007
Yves Dufresne......................... Montreal, Québec	Vice President, International, Alliances and Regulatory Affairs	Vice President, International, Alliances and Regulatory Affairs, Air Canada	April 26, 2004
Carolyn M. Hadrovic .... Beaconsfield, Québec	Corporate Secretary	Corporate Secretary, ACE and Air Canada	February 16, 2006
Kevin Howlett......................... Delta, British Columbia	Senior Vice President, Employee Relations	Senior Vice President, Employee Relations, Air Canada	March 18, 2002
Chris Isford .... Winnipeg, Manitoba	Controller	Controller, Air Canada	November 1, 2006

Name and Municipality of Residence	Position with Air Canada	Principal Occupation	Executive Officer Since
Julie Laviolette........................ Beaconsfield, Québec	Vice President, Procurement and Corporate Real Estate	Vice President, Procurement and Corporate Real Estate, Air Canada	May 10, 2006
David Legge............................ Mississauga, Ontario	Vice President, Flight Operations	Vice President, Flight Operations, Air Canada	March 1, 2006
Charles D. McKee, Jr.............. Toronto, Ontario	Vice President, Marketing	Vice President, Marketing, Air Canada	August 10, 2006
Robert A. Milton..................... Westmount, Québec	Chairman	Chairman, President and Chief Executive Officer, ACE and Chairman, Air Canada	May 25, 1994
Scott Morey............................. Oakville, Ontario	Vice President, Labour Relations	Vice President, Labour Relations, Air Canada	January 15, 2007
David J. Shapiro...................... Côte Saint-Luc, Québec	Vice President and General Counsel	Vice President and General Counsel, Air Canada	November 12, 2004
Daniel Shurz............................ Montreal, Québec	Vice President, Network Planning	Vice President, Network Planning, Air Canada	August 10, 2006
Susan Welscheid .... Town of Mont Royal, Québec	Vice President, Customer Service — In-Flight and Call Centres	Vice President, Customer Service — In-Flight and Call Centres, Air Canada	December 13, 1999
Chantal Baril .... Pointe-Claire, Québec	President and Chief Executive Officer, Air Canada Ground Handling	President and Chief Executive Officer, Air Canada Ground Handling	May 12, 2005
Claude Morin .... Montreal, Québec	President and Chief Executive Officer, Air Canada Cargo	President and Chief Executive Officer, Air Canada Cargo	March 2, 2000
Benjamin M. Smith................. Toronto, Ontario	President and Chief Executive Officer, Air Canada Vacations	President and Chief Executive Officer, Air Canada Vacations	April 26, 2004

Unless otherwise indicated below, each of the officers has held a position with Air Canada similar to that listed above for more than five years. Mr. Brewer was Executive Vice President, Commercial, Air Canada from 2002 to 2004. Mr. Reid was Senior Vice President, Operations, Air Canada from 2004 to 2005, President and Chief Executive Officer, ACTS from 2003 to 2004 and Vice President, Systems Operation Control, from 2000 to 2003. Sean Menke was Senior Vice President and Chief Operating Officer at Frontier Airlines from 1999 to 2005. Joshua Koshy was Senior Vice President, Information Technology with the Emirates Group from 2003 to 2005 and Senior Vice President, Finance with the Emirates Group from 1995 to 2003. Alan Butterfield was Vice President, Line and Airframe Maintenance at United Airlines from 2004 to 2007. Yves Dufresne was Senior Director, Bilaterals and International Regulatory Affairs, Air Canada from 1999 to 2004. Carolyn Hadrovic was Deputy Secretary of ACE before being appointed Corporate Secretary in December 2005 and previously, Senior Counsel, Regulatory and International Law, with Air Canada. Chris Isford was Manager, Financial Reporting, Air Canada from 2001 to 2004, Director, Financial Reporting, Air Canada from 2004 to 2005 and Senior Director, Financial Reporting, Air Canada from 2005 and 2006. Charles D. McKee, Jr. was Senior Director, Strategic Marketing, Air Canada prior to his appointment as Vice President, Marketing, Air Canada in August 2006. Scott Morey was Director, Labour and Employee Relations, Coca Cola Bottling Company from 2004 to 2007. David Shapiro was Assistant General Counsel, Air Canada from 2000 to 2004. Daniel Shurz was General Manager, Bus Operations, Archer Garage for the Chicago Transit Authority from 2003 to 2005, Director, Business Development Airports, Air Canada, from 2005 to 2006 and Senior Director, Airports, Air Canada in 2006. Susan Welscheid was Vice President, In-Flight Services, Air Canada from 2004 to 2007 and Vice President, People, Air Canada from 1999 to 2004. Chantal Baril was General Manager, Customer Service-Airports, Air Canada from 2003 to 2005. Benjamin Smith was Vice President, Network Planning, Air Canada before being appointed President and Chief Executive Officer, Air Canada Vacations in January 2006 on an interim basis and in September 2006 on a permanent basis.

As at March 16, 2007, the directors and officers mentioned above as a group owned, directly or indirectly, or had control or direction over 66,700 Voting Shares representing approximately 0.08% of the outstanding Voting Shares and 9,300 Variable Voting Shares representing approximately 0.05% of the outstanding Variable Voting Shares.

Corporate Cease Trade Orders or Bankruptcies

To the knowledge of Air Canada, in the last ten years, no director or executive officer of Air Canada is or has been a director or executive officer of any company that, while that person was acting in that capacity, (a) was the subject of a cease trade order or similar order, or an order that denied the relevant company access to any exemptions under securities legislation, for a period of more than 30 consecutive days, (b) was the subject of an event that resulted, after that person ceased to be a director or executive officer, in the company being the subject of a cease trade order or similar order or an order that denied the relevant company access to an exemption under securities legislation, for a period of more than 30 consecutive days or (c) 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 except for the following:

(i) Montie R. Brewer was Senior Vice President, Planning for United Airlines until March 31, 2002. UAL Corp., the parent company of United Airlines, filed for protection under Chapter 11 of the US Bankruptcy Code on December 9, 2002. Montie R. Brewer was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003.

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

(iii) John T. McLennan was the Chief Executive Officer of AT&T Canada when it filed for protection under the CCAA on October 15, 2002;

(iv) Following the acquisition of Canadian Airlines International Ltd. ("CAIL") by Air Canada in 2000, Robert A. Milton became a director of CAIL. Thereafter, 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. Robert A. Milton was President and Chief Executive Officer and a director of Air Canada when it filed for protection under the CCAA on April 1, 2003;

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

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

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

(viii) Alan Butterfield was appointed Vice-President, Line and Airframe Maintenance at United Airlines in March 2004 while United Airlines was operating under bankruptcy protection under Chapter 11 of the US Bankruptcy Code;

(ix) Kevin Howlett was an executive officer when CAIL restructured under the CCAA pursuant to a plan of compromise which became effective on July 5, 2000. CAIL's common shares and non-voting shares were suspended from trading by the TSX on June 27, 2000 and delisted on July 6, 2000. Kevin Howlett was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;

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

(xi) Claude Morin was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003.

Penalties or Sanctions

To the knowledge of Air Canada, no director or executive officer 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.

Personal Bankruptcies

To the knowledge of Air Canada, in the last ten years, no director or executive officer has become 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 the assets of the director or executive officer.

AUDIT COMMITTEE

Audit Committee Charter

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

Composition of Audit Committee

The Audit Committee of Air Canada consists of David I. Richardson (chairman), John T. McLennan, Richard H. McCoy and Arthur T. Porter. Each member of the Audit Committee is independent and financially literate as defined under Multilateral Instrument 52-110 – *Audit Committees*.

Relevant Education and Experience of Audit Committee Members

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

(i) David I. Richardson is a corporate director. Mr. Richardson is a director of ACE, Jazz Air Holding GP Inc. and a trustee of Aeroplan Income Fund. Mr. Richardson is the former Chairman of Ernst &

Young Inc. (Canada) and a former Executive Partner of Ernst & Young LLP. Mr. Richardson joined its predecessor Clarkson, Gordon & Co. in 1963 and was appointed President of The Clarkson Company Limited in 1982. Mr. Richardson was also a member of the Management and Executive Committees of Ernst & Young LLP, national managing partner of the firm's Corporate Finance practice and the senior partner in the Corporate Recovery and Restructuring practice until his retirement from the partnership in 2002. Mr. Richardson holds a Bachelor of Commerce Degree from the University of Toronto and is a member and a Fellow of the Institute of Chartered Accountants of Ontario.

(ii) John T. McLennan is a corporate director. Mr. McLennan is a director of ACE, Amdocs Ltd., Emera, Manitoba Telephone Systems (Vice-Chairman), Medisys Health Services and Jazz Air Holding GP Inc. Mr. McLennan is also a trustee of Aeroplan Income Fund. Mr. McLennan was recently Vice-Chairman and Chief Executive Officer of Allstream. Prior to that position, he served as AT&T Canada's Vice Chairman and Chief Executive Officer. He was also the founding President of Jenmark Consulting Inc., President and Chief Executive Officer of Bell Canada, President of Bell Ontario as well as Chairman, President and Chief Executive Officer of BCE Mobile Communications Inc. Mr. McLennan has also served as President and Chief Executive Officer of Cantel Wireless and Executive Vice President of Mitel Communications Inc. Mr. McLennan holds a BSc and a MSc in Industrial Management from Clarkson University.

(iii) Richard H. McCoy is a corporate director. Mr. McCoy is a director of ACE, Rothmans Inc., Aberdeen Asia-Pacific Income Fund Ltd., MDS Inc., Uranium Participation Corporation, Pizza Pizza Royalty Income Fund and Gerdau Ameristeel Inc. He is also a trustee of Jazz Air Income Fund. Mr. McCoy has over 35 years experience in the investment industry. From May 1997 to October 31, 2003, Mr. McCoy was Vice-Chairman, Investment Banking at TD Securities. Prior to joining TD Securities in 1997, Mr. McCoy was deputy Chairman of CIBC Wood Gundy Securities. Mr. McCoy holds an MBA from the Richard Ivey School of Business Administration, University of Western Ontario.

(iv) Arthur T. Porter has been the Director General and Chief Executive Officer of the McGill University Health Center since January 2004. Dr. Porter is also a Professor of Oncology at McGill University and was the President and Chief Executive Officer of the Detroit Medical Center from 1999 to 2003. Dr. Porter has extensive clinical, research and administrative experience in a university teaching hospital environment. Dr. Porter has also acted as consultant for several major companies in the airline and energy sectors with respect to healthcare and logistical challenges. Dr. Porter is a director of Adherex, a publicly traded biotechnology company and a director and member of the audit committee of the Munder Funds. Dr. Porter holds a Medical Degree from the Cambridge School of Clinical Medicine, a Master of Business Administration from the University of Tennessee and Certificates in Medical Management from Harvard University and the University of Toronto.

Pre-approval Policies and Procedures

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

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

Auditors' Fees

PricewaterhouseCoopers LLP has served as the Corporation's auditing firm since April 26, 1990. Fees payable for the years ended December 31, 2006 and December 31, 2005 to PricewaterhouseCoopers LLP and its affiliates are $2,215,397 and $1,705,088, respectively. Fees payable to PricewaterhouseCoopers LLP and its affiliates in 2006 and 2005 are detailed below.

	Year ended December 31, 2006	Year ended December 31, 2005
Audit fees	$1,794,807	$1,443,593
Audit-related fees	$390,590	$239,745
Tax fees	$30,000	$21,750
All other fees	Nil	Nil
	$2,215,397	$1,705,088

The nature of each category of fees is described below.

Audit fees

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

Audit-related fees

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

Tax fees

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

Internal Control and Procedures over Financial Reporting Requirements

For the year ended December 31, 2006, PricewaterhouseCoopers LLP provided services to ACE in connection with ACE's compliance with the internal control and procedures over financial reporting requirements under section 404 of the *Sarbanes-Oxley Act of 2002* (United States). Section 404 requires a company's auditor to attest to, and report on management's assessment of the effectiveness of a company's internal controls and procedures for financial reporting in accordance with standards established by the Public Company Accounting Oversight Board. As part of such services, PricewaterhouseCoopers LLP reviewed the internal controls of ACE and its material subsidiaries, including Air Canada. In consideration for the benefits derived from such review, Air Canada has reimbursed ACE an amount of $1,061,000 in respect of the total fees of $2,250,000 billed by PricewaterhouseCoopers LLP to ACE for such services.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set out below or described elsewhere in this Initial Annual Information Form, none of the directors or senior officers, as applicable, of (i) Air Canada, (ii) ACE, or (iii) any associate or affiliate of the persons referred to in (i) and (ii), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or will materially affect Air Canada, ACE or any of their subsidiaries.

Air Canada is a party to the following material agreements with ACE or other affiliates of ACE:

(i) the ACE-AC MSA;

(ii) the Registration Rights Agreement;

(iii) the Jazz CPA;

(iv) the Jazz MSA;

(v) the Jazz Special Trademark Agreement;

(vi) the Jazz Trademark License Agreement;

(vii) the Aeroplan CPSA;

(viii) the Aeroplan Database Agreement;

(ix) the Aeroplan MSA;

(x) the Aeroplan GSA;

(xi) the Aeroplan Trademark License Agreements;

(xii) the ACTS GSA for Non-Unionized Employees;

(xiii) the ACTS GSA for Unionized Employees;

(xiv) the ACTS Maintenance Agreements;

(xv) the ACTS MSA; and

(xvi) the ACTS Trademark License Agreement.

For a description of such agreements, see "Relationship between Air Canada and ACE" and "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS".

TRANSFER AGENT AND REGISTRAR

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

LEGAL PROCEEDINGS

A description of certain legal proceedings to which Air Canada is a party appears under the heading "Contingencies, Guarantees and Indemnities" in Note 17 to Air Canada's combined consolidated financial statements for the year ended December 31, 2006, which Note 17 is incorporated in this Initial Annual Information Form by reference. Air Canada's combined consolidated financial statements for the year ended December 31, 2006 are available on SEDAR at www.sedar.com.

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2006 or before such year but which are still in effect, other than those contracts entered in the ordinary course of business, are as follows:

(i) the Registration Rights Agreement described under "Relationship between Air Canada and ACE — Registration Rights Agreement";

(ii) the Aeroplan GSA, described under "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship Between Air Canada and Aeroplan — Aeroplan GSA";

(iii) the Aeroplan MSA, described under "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship Between Air Canada and Aeroplan — Aeroplan MSA";

(iv) the Jazz CPA, described under "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship Between Air Canada and Jazz — Capacity Purchase Agreement with Jazz";

(v) the Jazz MSA, described under "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship Between Air Canada and Jazz — Jazz MSA";

(vi) the ACTS GSAs, described under "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS — General Services Agreements";

(vii) the ACTS MSA, described under "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS — ACTS MSA";

(viii) the Amended and Restated Credit Agreement, described under "Overview of the Business — Debt Financing";

(ix) the underwriting agreement dated November 16, 2006 among ACE, Air Canada and RBC Dominion Securities Inc., Citigroup Global Markets Canada Inc., TD Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Canaccord Capital Corporation, Research Capital Corporation, Salman Partners Inc., Versant Partners Inc. and Westwind Partners Inc. entered into in connection with the Initial Public Offering of Air Canada; and

(x) the Aircraft General Terms Agreement AGTA-ACN and related agreements between The Boeing Company and Air Canada dated November 4, 2005, described under "Overview of the Business — Aircraft Fleet — Widebody Aircraft Fleet — Boeing Orders and Financing Terms".

EXPERTS

The Corporation's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditor's report dated February 13, 2007 in respect of the Corporation's consolidated financial statements with accompanying notes as at and for the years ended December 31, 2006 and December 31, 2005. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Corporation within the meaning of the Code of Ethics of the Ordre des comptables agréés du Québec.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Air Canada's securities and securities authorized for issuance under equity compensation plans are contained in Air Canada's management proxy circular for its 2007 annual and special meeting of shareholders. Additional financial information is provided in Air Canada's financial statements and management's discussion and analysis for the year ended December 31, 2006. The above information and additional information relating to Air Canada are available on SEDAR at www.sedar.com.

The following documents can be obtained by sending your request to the Corporate Secretary of Air Canada, at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2:

(i) this Initial Annual Information Form, together with any document incorporated herein by reference;

(ii) the Combined Consolidated Financial Statements of Air Canada as at and for the year ended December 31, 2006, including the auditor's report and notes related thereto, the Management's Discussion and Analysis of results of Operations and Financial Conditions of Air Canada for the year ended December 31, 2006 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 security holders of Air Canada, requesting copies of these documents.

GLOSSARY OF TERMS

"1995 Canada-U.S. Air Services Agreement" means the air services agreement between Canada and the United States implemented in February 2005;

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

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

"ACE-AC MSA" means the amended master services agreement effective as of January 1, 2007 between Air Canada and ACE;

"ACPA" means Air Canada Pilots Association;

"ACTS" means ACTS LP, a limited partnership established under the laws of the Province of Québec, and its predecessors;

"ACTS GSA for Non-Unionized Employees" shall have the meaning ascribed thereto under "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS";

"ACTS GSA for Unionized Employees" shall have the meaning ascribed thereto under "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS";

"ACTS GSAs" shall have the meaning ascribed thereto under "Relationships and Related Party Transactions Between Air Canada and Jazz, Aeroplan and ACTS — Relationship between Air Canada and ACTS";

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

"ACTS MSA" means the amended and restated master services agreement effective as of January 1, 2007;

"ACTS Trademark License Agreement" means the trademark license agreement dated September 24, 2004 between Air Canada and ACTS;

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

"Aeroplan CPSA" means the Amended and Restated Commercial Participation and Services Agreement dated June 9, 2004, as amended, including by the agreements dated May 13, 2005 and October 13, 2006, between Air Canada and Aeroplan;

"Aeroplan Database Agreement" means the database agreement dated May 13, 2005, effective January 1, 2002 between Air Canada and Aeroplan;

"Aeroplan GP" means Aeroplan Holding GP Inc., a corporation incorporated under the CBCA on June 16, 2005 to act as the general partner of Aeroplan LP;

"Aeroplan GSA" means the General Services Agreement dated May 13, 2005, effective January 1, 2005 between Air Canada and Aeroplan;

"Aeroplan LP" means Aeroplan Limited Partnership, a limited partnership established under the laws of the

Province of Québec on June 21, 2005;

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

"Aeroplan MSA" means the Amended and Restated Master Services Agreement dated May 13, 2005, effective January 1, 2005 between Air Canada and Aeroplan;

"Aeroplan Securityholders' Agreement" means the securityholders' agreement dated June 29, 2005 among Aeroplan Income Fund, Aeroplan Trust, ACE, Aeroplan LP and Aeroplan GP, as amended by an agreement dated March 14, 2007;

"**Aeroplan Trademark License Agreements**" means the trademark license agreements dated May 13, 2005 and November 23, 2006 between Air Canada and Aeroplan;

"Agent" shall have the meaning ascribed thereto under "Overview of the Business — Debt Financing";

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

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

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

"Air Canada Public Participation Act" means the *Air Canada Public Participation Act* (Canada), as amended;

"Air Canada Services" shall have the meaning ascribed thereto under "Presentation of Segment Information";

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

"ALPA" means the Air Line Pilots Association;

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

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

"Applicants" shall have the meaning ascribe thereto under "Three-Year Summary: Evolution of Business — The Plan";

"Available Seat Miles" or **"ASMs"** means the total number of seats available for passengers multiplied by the miles flown;

"Bill C-6" means *An Act to amend the Aeronautics Act and to make consequential amendments to other acts* (Canada);

"Bill C-29" means *An Act to amend the Air Canada Participation Act* (Canada);

"Bill C-47" means *An Act to amend the Air Canada Public Participation Act* (Canada);

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

"Boeing" means The Boeing Company;

"Bombardier" means Bombardier Inc.;

"Canadian Airlines" means Canadian Airlines International Ltd.;

"Canadian GAAP" means generally accepted accounting principles in Canada including those set out in the Handbook of the Canadian Institute of Chartered Accountants;

"CATSA" means the Canadian Air Transport Security Agency;

"CAW" means the National Automobile, Aerospace, Transportation and General Workers Union of Canada;

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

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

"Corporation" shall have the meaning ascribed thereto under "Explanatory Notes";

"Covered Aircraft" means Jazz's aircraft subject to the Jazz CPA;

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

"CUPE" means the Canadian Union of Public Employees;

"Deutsche Bank" means Deutsche Bank Securities Inc.;

"EBITDAR" shall have the meaning ascribed thereto under "Definition of EBITDAR";

"Embraer" means EMBRAER — Empresa Brasileira de Aeronautica S.A.;

"**FTE**" shall have the meaning ascribed thereto under "Employees";

"GECC" means General Electric Capital Corporation;

"IAMAW" means the International Association of Machinists and Aerospace Workers;

"**IATA**" means the International Air Transport Association;

"IBT" means the International Brotherhood of Teamsters;

"**ICAO**" means the International Civil Aviation Organization;

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

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

"Jazz" means Jazz LP, together with its general partner, Jazz Air Holding GP Inc., and their respective subsidiaries and predecessors;

"Jazz LP" means Jazz Air LP, a limited partnership established under the laws of the Province of Québec on

September 12, 2005;

"Jazz CPA" means the amended and restated capacity purchase agreement effective January 1, 2006 between Air Canada and Jazz;

"Jazz MSA" means the master services agreement dated September 24, 2004 between Air Canada and Jazz;

"Jazz Special Trademark Agreement" means the special trademark agreement on September 30, 2004 between Air Canada and Jazz;

"Jazz Trademark License Agreement" means the trademark license agreement dated September 30, 2004 between Air Canada and Jazz;

"Lenders" shall have the meaning ascribed thereto under "Overview of the Business — Debt Financing";

"Management" means management of Air Canada;

"Montreal Trudeau Airport" means Montreal's Pierre Elliott Trudeau International Airport;

"MRO" means maintenance, repair and overhaul;

"OAG" means Official Airline Guide;

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

"OSFI" means the Office of the Superintendent of Financial Institutions;

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

"passenger load factor" means Revenue Passenger Miles as a percentage of Available Seat Miles;

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

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

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

"RASM" means average passenger revenue per ASM;

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

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

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

"Shares" means both Variable Voting Shares and Voting Shares;

"Small Jets Settlement Agreement" means the arrangement reached between Air Canada, Jazz, ACPA and the

ALPA;

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

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

"TGWU" means the Transport and General Workers Union;

"Toronto Pearson Airport" means Toronto Lester B. Pearson International Airport;

"TSA" means the Transport Security Agency;

"TSX" means the Toronto Stock Exchange;

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

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

"WestJet" means WestJet Airlines Ltd.; and

"yield" means average passenger revenue per Revenue Passenger Mile.

SCHEDULE A

CHARTER OF THE

AUDIT, FINANCE AND RISK COMMITTEE
(the "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 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 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 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 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 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. 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 Committee, including all recommendations to be made by the Committee to the Board and shall be distributed to 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 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 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 maybe, 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;

(v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Corporation including their disclosure or lack thereof in the applicable quarterly or annual financial statements;

(vi) a review of the external auditor's suggestions for improvements to the Corporation's operations and internal controls;

(vii) a review of the nature and size of unadjusted errors of a non-trivial amount;

(viii) a review to ascertain that various covenants are complied with; and

(ix) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes.

(b) Determine, based on its review and discussion, whether to recommend the approval by the Board of such financial statements and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.

(c) Review with management, the internal auditor and the external auditor and, if considered appropriate, approve the release of the Corporation's quarterly financial statements and related MD&A.

(d) Review with management, the external auditor and legal counsel, the Corporation's procedures to ensure compliance 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.

(e) Meet with the Corporation's external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department.

(f) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Audit Committee. The Corporation shall ensure that funding is available to the Audit Committee for payment of compensation to the external auditor.

(g) Review

(i) and approve, or delegate to a member of the Audit Committee the responsibility to review and approve and subsequently report to the Audit Committee, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporations' external auditor prior to the commencement of such work. In this regard the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period;

(ii) and implement from time to time a process in connection with non-audit services performed by the external auditor.

(h) Review a report from the external auditor of all relationships between the external auditor and its related entities and the Corporation and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming, or otherwise, that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations. As well, at least once a year the Audit Committee will carry out a review of the credentials of the members of the firm including without limitation the biographies of the members, whether there has been any enforcement actions, issues related to the firm and law suits, if any. A formal written report will be obtained from the external auditor outlining: the auditing firm's internal quality control procedures; any material issues raised within the preceding five years by the auditing firm's internal quality control review, peer reviews or any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm. The Committee will also review steps taken by the auditing firm to address any findings in any of the forgoing reviews.

(i) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to ensure that such matters are adequately guarded against.

(j) At least once each year:

(i) Meet privately with management to assess the performance of the external auditor.

(ii) Meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.

(k) Evaluate the performance of the external auditor, and if so determined, recommend that the Board either take steps to replace the external auditor or provide for the reappointment of the external auditor by the shareholders.

(l) Regarding the services provided by the internal audit department, the Audit Committee will:

(i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work;

(ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit group;

(iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff and approve the appointment, dismissal or replacement of the head of the internal audit department;

(iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;

(v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and

(vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.

(m) Obtain from both the internal audit department and the Corporation's external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.

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

(o) Review 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 controls and internal or external auditing matters. The Audit Committee should be satisfied that sufficient controls are in place to ensure 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 to ensure that all such complaints, regardless of significance, are presented to the Audit Committee.

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

(q) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.

(r) Review with management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.

(s) Review and approve all related party transactions as such term is defined from time to time in Policy Statement Q-27 of the Quebec Securities Commission and Rule 61-501 issued by the Ontario Securities Commission, as may be amended from time to time.

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

(u) Whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Audit Committee as the Audit Committee may consider appropriate. The Corporation shall ensure that funding is available to the Audit Committee in respect of the aforementioned activities.

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

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

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

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

(z) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner.

(aa) Set policies for the hiring of employees or former employees of the Corporation's external auditors.

OTHER

(a) **Pension Plans**

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

(i) On the recommendation of the Chief Financial Officer, approve the investment structure for the plans, any applicable Statement of Investment Policies and Objectives ("SIP&O"), Statement of Investment Principles and Beliefs ("SIP&B") and other investment policies for the plans;

(ii) With the assistance of the Chief Financial Officer, periodically review for appropriateness of the pension funds mission, funding policy, SIP&O, SIP&B, other investment policies and investment structure, and monitor overall pension funds operation, in particular plans funded status, compliance of funding practices with funding policy, compliance of investments with the SIP&O and as applicable, the compliance of SIP&O with the investment principles and beliefs as set out in the SIP&B;

(iii) With the assistance of the Chief Financial Officer, periodically review and monitor the total and asset class return for the defined benefit pension plans, and the investment matters relating to the defined contribution plans;

(iv) Recommend to the Board for its approval the mission for the pension funds, the funding policy, the level of annual contributions, the appointment of the external auditor and the custodians of the assets of the pension plans;

(v) Approve the actuary and consultant recommended by management;

(vi) On the recommendation of management, accept the actuarial assumptions and actuarial valuation reports for the pension plans; and

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

(b) **Public Disclosure**

The Audit Committee shall:

(i) Review and approve the Corporation's Public Disclosure Policy and any changes related thereto and ensure consistency with current developments and best practices;

(ii) Where practicable, management will review with the Audit Committee or the Chairman of the Audit Committee draft news releases to be disseminated to the public related to earnings warnings or financial results forecasting by the Corporation which are expected by management to be material in relation to the market price of any of the Corporation's securities.

(c) **Risk Identification and Management**

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

(d) **Contingent Liabilities**

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

(e) **Corporate Authorizations Policies**

The Audit Committee shall:

(i) Periodically review and approve policies relative to the financial control, conduct, regulation and administration of subsidiary companies;

(ii) Periodically review any administrative resolutions adopted from time to time pursuant to the Corporation's By-laws pertaining to the establishment of procedures relative to commitment and transaction authorizations, the determination of the officers or other persons by whom any instrument in writing or document is to be executed and the manner of execution thereof;

(iii) Review, monitor and approve the Corporate Donations Policy and any changes thereto and the annual Corporate Donations Budget; and

(iv) Review, monitor and approve any other financial expenditure policies that would affect the Corporation's and its subsidiaries' financial condition or reputation.

(f) **Performance to Budget**

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

(g) **Responsibilities**

Nothing contained in the above mandate is intended to assign to the Audit Committee the Board of Directors' responsibility to ensure 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.

November 15, 2006