

AIR CANADA 

2008 Annual Information Form



MARCH 28, 2009

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EXPLANATORY NOTES

The information in this Annual Information Form (“AIF”) is stated as at December 31, 2008, unless otherwise indicated.

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

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

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

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

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

Forward-looking statements — Air Canada’s public communications may include written or oral forward looking statements within the meaning of applicable securities laws. Such statements are included in this AIF and may be included in other filings with regulatory authorities and securities regulators. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions. These forward-looking statements are identified by the use of terms and phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, “would”, and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this AIF and, in particular, those identified in the “Risk Factors” section of this AIF. The forward-looking statements contained in this AIF represent the Corporation’s expectations as of the date of this AIF and are subject to change after such date. However, the Corporation disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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”) (the “Initial Public Offering”). The Shares trade on the Toronto Stock Exchange (“TSX”) under the symbol AC.A for the Variable Voting Shares and the symbol AC.B for the Voting Shares.

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

Prior to the closing of the Initial Public Offering, ACE proceeded with a reorganization of its corporate structure. Pursuant to such reorganization, the partnership interests, as well as the interests in the general partners of ACGHS Limited Partnership (“Air Canada Ground Handling Services”) and AC Cargo Limited Partnership (“Air Canada Cargo”) not held by Air Canada, were transferred to Air Canada and ACE transferred a 51% partnership interest, as well as a 51% interest in the general partner of Touram Limited Partnership (“Air Canada Vacations”) to Air Canada. As part of the reorganization, Air Canada completed a corporate amalgamation with ACGHS Holdings GP Inc. effective November 24, 2006 with the amalgamated entity retaining the name Air Canada. In 2007, Air Canada purchased from ACE its remaining 49% interest in Air Canada Vacations causing Air Canada Vacations to be 100% owned by Air Canada. As at December 31, 2008 and the date of this AIF, ACE held a 75% ownership interest in Air Canada.

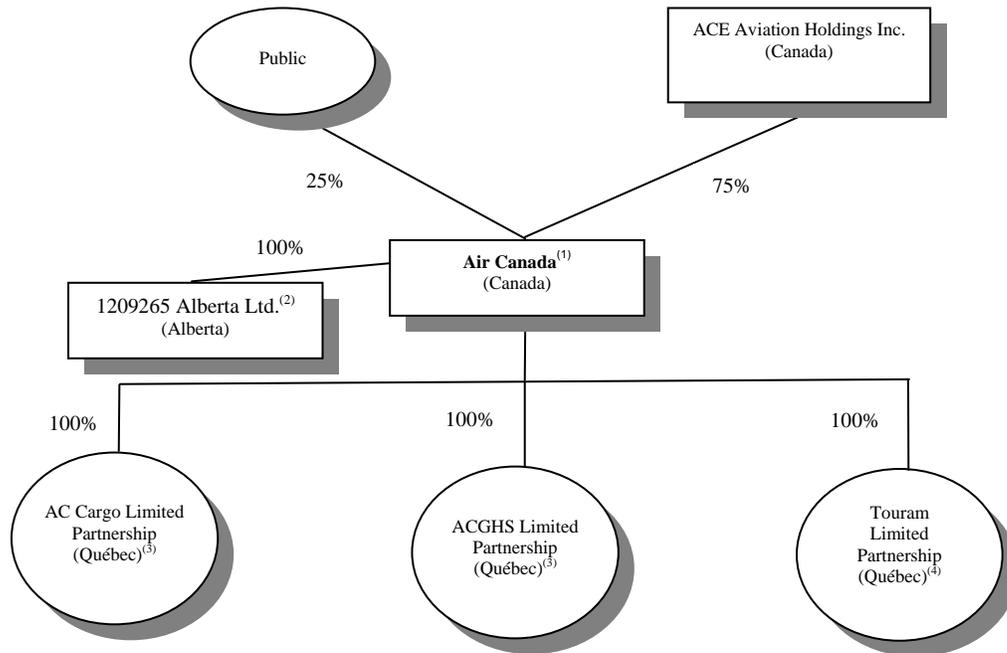
On December 10, 2008, ACE announced its intention to seek court and shareholder approvals for a plan of arrangement, pursuant to which it will proceed with a liquidation and its net assets, including its shares in Air Canada, will be distributed, in an orderly fashion, after providing for outstanding liabilities and costs of the transaction. On January 21, 2009, ACE announced that, subject to court and regulatory approvals, the special meeting of shareholders of ACE, initially scheduled for February 27, 2009, had been postponed to April 7, 2009. On March 2, 2009, ACE announced that it was continuing to engage with its shareholders and, in light of current market conditions, it was appropriate to further postpone the special meeting of shareholders scheduled for April 7, 2009. As at March 27, 2009, the revised date of this special meeting had not yet been determined.

The head office of Air Canada is located at 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec, H4S 1Z3. Air Canada’s website address is www.aircanada.com.

Additional information is provided in Air Canada’s consolidated financial statements for the year ended December 31, 2008 and Air Canada’s 2008 Management’s Discussion and Analysis of Results of Operations and Financial Condition (“MD&A”) dated February 13, 2009, both of which are available on SEDAR at www.sedar.com.

Intercorporate Relationship

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



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

Certain subsidiaries, each of which represents not more than 10% of the consolidated assets and not more than 10% of the consolidated sales and operating revenues of the Corporation, and all of which, in the aggregate, represent not more than 20% of the total consolidated assets and the total consolidated sales and operating revenues of the Corporation at December 31, 2008, have been omitted.

REGULATORY ENVIRONMENT

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

Domestic Services

On June 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, but the legislative process was terminated on September 7, 2008 when the 39th Parliament was dissolved. Bill C-20 provided 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 introduced 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 be re-introduced in the House of Commons or, if re-introduced, if or when such proposed legislation will come into force.

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

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

On February 10, 2009, Bill C-310, *An Act to Provide Certain Rights to Air Passengers*, was tabled for first reading in the House of Commons. Bill C-310, provides for, among other things, obligations on air carriers to disclose certain information to passengers and to provide compensation and other assistance to passengers in certain cases when a flight has been cancelled or delayed, when boarding has been denied, and when an aircraft has remained on the ground for a period of more than an hour at an airport. Management cannot predict if or when such proposed legislation will come into force.

Transborder Services

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

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

International Services

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

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

On November 27, 2006, the Minister of Transport released a new international air transportation policy called Blue Sky that includes a more liberalized approach to Canada's bilateral air transportation negotiations. The Government of Canada indicated that, under the new policy, when in Canada's overall interest, it would proactively pursue opportunities to negotiate more liberalized agreements for international scheduled air transportation that will provide maximum opportunity for passenger and all-cargo services to be added according to market conditions. On December 9, 2008, the Minister of Transport announced that Canada had successfully concluded negotiations with the European Union on a comprehensive air transport agreement. Such agreement includes, among other things, unrestricted direct air services between Canada and European Union member states, flexible pricing arrangements, increased flexibility on codesharing and improved flexibility on cargo. It is expected that the new agreement will come into force later in 2009.

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 Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities.

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

Carbon Emissions

There is heightened focus on carbon emissions emanating from the aviation industry. In December 2006, the European Commission proposed legislation to add aviation into the existing European Emission Trading Scheme (“EU ETS”), which caps carbon dioxide (“CO₂”) emissions from covered industries while allowing trading of CO₂ permits among those entities. The European Parliament supported the proposal in November 2007 and directive 2008/101/EC was passed on November 19, 2008. The legislation calls for all flights arriving or departing from a European Union airport to be covered by the EU ETS as of 2012.

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

In 2005, Canada reached a voluntary agreement on the reduction of GHG emissions with its aviation industry (the “Voluntary Agreement”). This Voluntary Agreement between the Government of Canada and the members of the Air Transport Association of Canada (“ATAC”) sets out a GHG emission reduction goal on a per unit basis. ATAC members are committed to a fuel efficiency improvement target of 24% from 1990 levels by 2012 (measured in litres of jet fuel per revenue tonne kilometre). Although it is no longer a member of ATAC, Air Canada is signatory to this Voluntary Agreement and has already surpassed the fuel efficiency improvement target set out therein. In 2006, Air Canada set its own new target to further limit the environmental impact of its fleet by seeking to improve the fuel efficiency of its fleet operations by a further 25% from 2006 to 2020.

Official Languages Act

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

In September 2004, as a result of the emergence of Air Canada from protection under the *Companies' Creditors Arrangement Act* (“CCAA”), several former internal divisions and former subsidiaries of Air Canada were spun off into separate entities 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 are not currently subject to official language obligations, except that pursuant to the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language.

On May 2, 2005, Bill C-47, *An Act to Amend the Air Canada Public Participation Act* (Canada), was tabled in the House of Commons. On November 3, 2005, Bill C-47 passed second reading and was referred to the Standing Committee on Transport. Bill C-47 sought to amend existing legislation to ensure that Air Canada's successor entities are subject to official language requirements. However, on November 29, 2005, the 38th Parliament of Canada was dissolved. As a result, the legislative process relating to the adoption of Bill C-47 was terminated. On December 10, 2007, Bill C-36, *An Act to Amend the Air Canada Public Participation Act* (Canada) was tabled in the House of Commons. Bill C-36 proposes provisions on official languages similar to those contained in Bill C-47, but the legislative process was terminated on September 7, 2008 when the 39th Parliament was dissolved. Management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons or, if re-introduced, if or when such proposed legislation will come into force.

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.

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

was introduced on April 1, 2002. The charges have been revised in subsequent federal budgets. Since April 1, 2005, the maximum charge is \$10 for domestic travel and \$17 for transborder and international travel.

In October 2002, the Canadian government implemented its Advance Passenger Information initiative to help identify potentially high risk individuals and address other border security issues. In March 2003, it also established a Passenger Name Record program. Canadian and foreign carriers are now required by regulation to provide the Canada Border Services Agency 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.

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

The Passenger Protect Program and Identity Screening Regulations came into effect in June 2007. Passengers aged 18 or over are required to have in their possession government-issued identification which includes their name, date of birth and gender. The passenger can present one piece of photo identification or two pieces of non-photo identification. The identification may be required at check-in and must be presented at the boarding gate. All immigration documentation requirements still apply on international flights.

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

- Air Canada was the first carrier in Canada to provide Transport Canada with a security management system. The security management system 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 has implemented 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;
- 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; and
- The TSA has implemented new cargo screening regulations for flights coming into or out of the United States. Air Canada has implemented these new measures and is working with both the Canadian and U.S. governments on further developments of these regulations.

Safety

On June 15, 2005, the Minister of Transport announced regulatory amendments to further improve the safety performance of Canadian air operators and increase accountability in the aviation sector through the implementation of safety management systems. The goals of safety management systems are to increase industry accountability, to instill a consistent and positive safety culture, and to help improve the safety performance of air operators. Amendments to the Canadian Aviation Regulations require air operators to implement safety management systems in their organizations and appoint executives who are accountable for safety. These amendments came into force on May 31,

2005 and Air Canada has put in place its safety management systems in accordance with such regulations. On April 27, 2006, Bill C-6, *An Act to Amend the Aeronautics Act and to Make Consequential Amendments to Other Acts* (Canada), was tabled for first reading in the House of Commons. Bill C-6 seeks, among other things, to address integrated management systems and to authorize the establishment of voluntary reporting programs under which information relating to aviation safety and security may be reported. On October 29, 2007, Bill C-7, which represents the same version of Bill C-6 as adopted by the House of Commons at Report Stage, was tabled for first reading in the House of Commons, but the legislative process was terminated on September 7, 2008 when the 39th Parliament was dissolved. Management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons or, if re-introduced, if or when such proposed legislation will come into force.

Privacy

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

INDUSTRY OVERVIEW AND COMPETITIVE ENVIRONMENT

General

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

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

In order to become more competitive with low-cost carriers and as a result of the succession of challenging factors impacting the airline industry such as the terrorist attacks of September 11, 2001, the SARS crisis in the spring of 2004 and high fuel prices, many North American network carriers, including Air Canada, restructured in the last few years. The degree of restructuring and the changes implemented varied from carrier to carrier. Network carriers reduced their 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 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 enabled the network carriers to increase their competitive advantages in the global marketplace.

Along with many airline carriers globally, Air Canada faced a number of significant challenges in 2008, including as a result of volatile fuel prices and foreign exchange, liquidity requirements and the weakening demand for air travel. During 2008, as further detailed in this AIF, Air Canada undertook various initiatives and developed a plan to manage the Corporation’s operating and liquidity risks, taking into account the prevailing economic conditions. These initiatives included reducing capacity to better match passenger demand; implementing cost containment initiatives, including staffing level reductions, a company-wide fuel efficiency program, a supplier concession program and other cost reduction initiatives; entering into hedging programs to help manage its exposure to jet fuel prices and help mitigate volatility in operating cash flows; continuing its capital expenditure program to acquire more fuel efficient aircraft; and entering into new financial arrangements. Refer to the “Liquidity” section of this AIF for information on Air Canada’s new financial arrangements and certain repayments made in the first quarter of 2009.

Domestic Market

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

According to Transport Canada, domestic revenue passengers grew at an average annual rate of 3.6% from 2000 to 2008.

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, 2008 to December 31, 2008, Air Canada led the Canadian airline industry’s domestic scheduled capacity with an estimated market share of approximately 57% based on Available Seat Miles (“ASMs”).

Air Canada is Canada’s largest domestic airline. Jazz is the largest regional airline in Canada and operates regional service for Air Canada under the Jazz CPA. Air Canada, together with Jazz, carries more passengers, serves more non-stop destinations and provides more flights in the domestic market than any other airline. Competition in the domestic

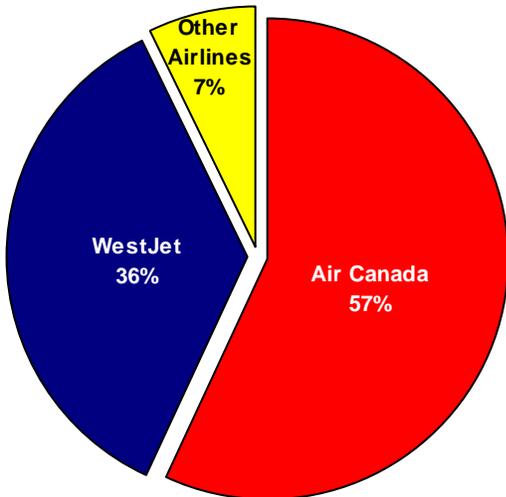
market is primarily from WestJet. As at December 31, 2008, Air Canada, together with Jazz, serviced 56 domestic destinations within Canada, while WestJet serviced 28 domestic destinations.

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

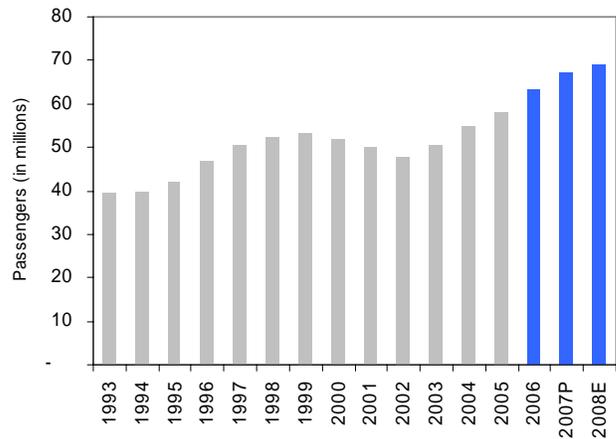
Porter Airlines Inc. is a regional passenger carrier based at Toronto City Centre Airport. The airline serves primarily short-haul business markets such as Ottawa, Montreal, New York (Newark) and Chicago (Midway) from Toronto, operating with a fleet of nine 70-seat Bombardier Q400 aircraft.

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 Domestic Revenue Passengers ⁽²⁾



(1) Source: OAG data, based on ASMs during the period from January 1, 2008 to December 31, 2008. The estimated share of the overall domestic scheduled capacity of Air Canada includes the domestic scheduled capacity of Jazz.

(2) Source: Transport Canada, Assumptions Report 2008-2022, December 11, 2008. Represents enplaned and deplaned domestic revenue passengers.

Transborder Market

As at December 31, 2008, there were 1,117 daily scheduled transborder flights operated between Canada and the United States across the industry. Toronto Lester B. Pearson International Airport (“Toronto Pearson Airport”), Air Canada’s largest hub, is the world’s largest originator of flights into the United States.

According to Transport Canada, transborder revenue passengers grew at an average annual rate of 0.6% from 2000 to 2008. Between 2000 and 2003 transborder passenger traffic experienced a record drop of approximately 19%. In the 2004-2006 period, passenger traffic recovered to the level of passengers recorded in 2000, the previous peak in this market. The situation deteriorated somewhat during 2007 as the strength of the Canadian dollar against the U.S. dollar, the rising oil prices and higher fares and continued confusion over passport requirements at the border adversely impacted demand for transborder services. Passenger demand in 2007 increased by only 2.8% over 2006 levels. According to Transport Canada, in 2008, passenger demand is estimated to have increased by 2.2% over 2007.

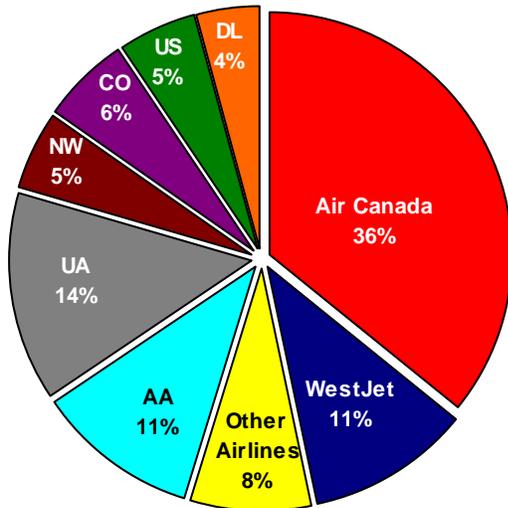
Air Canada is the largest provider of scheduled passenger services in the transborder market. Based on OAG data, during the period from January 1, 2008 to December 31, 2008, Air Canada provided more transborder scheduled capacity than any other airline with an estimated market share of approximately 36% based on ASMs.

Air Canada, together with Jazz, carries more passengers, serves more non-stop destinations and provides more flights in the transborder market than any other airline. Competition in the transborder market is primarily from U.S. network carriers and their regional affiliates, which tend to operate flights between the United States and Canada via their hubs for connecting flights. U.S. network carriers with transborder operations include Alaska Airlines, American Airlines, Continental Airlines, Delta Airlines, Northwest Airlines, United Airlines and U.S. Airways. In 2008, Air Canada, together with Jazz, serviced 48 U.S. destinations (including five seasonal destinations) from Canada, while U.S. carriers serviced 25 U.S. destinations from Canada.

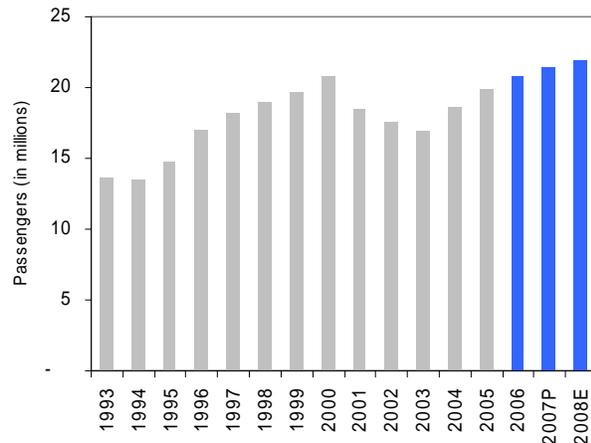
Canadian low-cost carriers also operate transborder services and have expressed an intention to expand these operations in the future. As at December 31, 2008, WestJet provided transborder services to 12 destinations in the United States.

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

Estimated Transborder Scheduled Capacity Market Share ⁽¹⁾



Historical Transborder Revenue Passengers ⁽²⁾



- (1) Source: OAG data, based on ASMs during the period from January 1, 2008 to December 31, 2008. 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.
- (2) Source: Transport Canada, Assumptions Report 2008-2022, December 11, 2008. 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 airport, is located in Canada's largest city and offers regular non-stop flights to numerous destinations in Europe, Central America/Caribbean/South America and, more recently, to Asian destinations. Toronto Pearson Airport offers over 520 daily departures, of which 11% 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 around 230 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 320 daily departures, of which 7% are to international destinations.

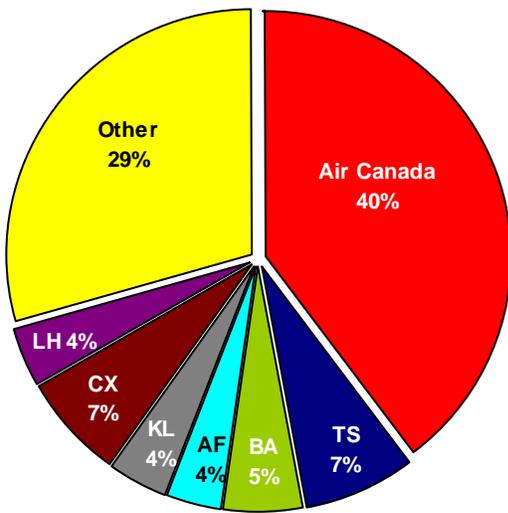
According to Transport Canada, international revenue passengers in the international market to and from Canada grew at an average annual rate of 5.0% from 2000 to 2008.

Air Canada is Canada's largest provider of scheduled passenger services in the international market to and from Canada and has a broad portfolio of international route rights. Based on OAG data, during the period from January 1, 2008 to December 31, 2008, 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 40% based on ASMs. Air Canada is currently the only Canadian scheduled carrier with routes from Canada to Asia, although a number of Asian carriers service Canadian destinations. Air Canada is also the sole Canadian scheduled carrier offering flights to South America and no South American scheduled network carrier currently provides non-stop service to Canada with the exception of LAN which flies into Toronto Pearson Airport via New York.

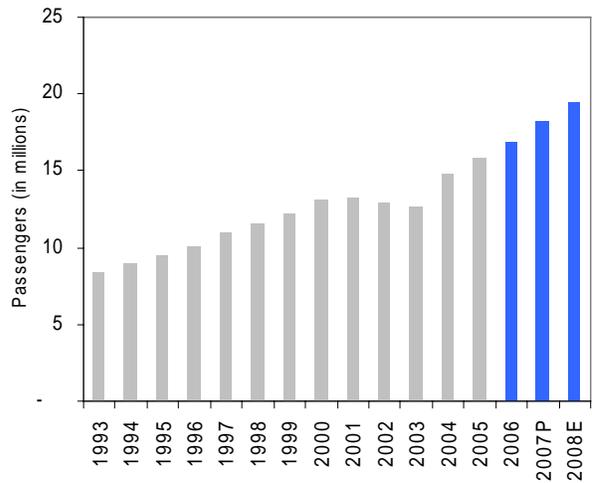
The expansion of major airline alliances, such as Star Alliance®, oneworld® and SkyTeam® has led to more efficient operations in the trans-Atlantic and trans-Pacific markets. In such markets, Air Canada competes primarily with foreign network carriers and, to a lesser extent, with charter carriers on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

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

Estimated International Scheduled Capacity Market Share ⁽¹⁾



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



(1) Source: OAG data, based on ASMs during the period from January 1, 2008 to December 31, 2008. 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, Assumptions Report 2008-2022, December 11, 2008. Represents enplaned and deplaned international revenue passengers (excluding U.S. transborder revenue passengers).

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 2008, Air Canada, together with Jazz, operated an average of approximately 1,374 scheduled flights daily and carried approximately 33 million passengers and provided direct passenger service to 160 destinations and, through commercial agreements with other unaffiliated regional airlines, to an additional 11 destinations, for a total of 171 direct destinations on five continents.

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

Air Canada is a founding member of the Star Alliance® network. The Star Alliance® network currently includes 21 member airlines and three regional member airlines. Through its membership in the Star Alliance® network, Air Canada is able to offer its customers access to approximately 916 destinations in 160 countries, as well as reciprocal participation in frequent flyer programs and use of airport lounges.

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

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

Air Canada's Business Strategy

Air Canada's business model allows it to compete more effectively on multiple levels against the low-pricing structures offered by low-cost carriers and the extensive services and networks of leading international full service carriers.

Effectively managing Air Canada through an uncertain economic environment is the top priority in 2009. Managing Air Canada's liquidity was a key focus in 2008 and remains a key focus going forward. In addition to improving its liquidity, Air Canada's plans include:

- Leveraging its innovative customer driven revenue model;
- Further developing its innovative revenue strategy to generate additional revenues;
- Continuing to focus on costs;
- Continuing to focus on sound capacity management;
- Maintaining a high degree of web penetration and further increasing direct distribution;
- Further enhancing its product offering through a redesigned network and a renewed fleet;
- Further leveraging its technology for enhanced customer service and cost containment; and
- Maintaining positive employee and labour relations.

Leveraging its Innovative Customer Driven Revenue Model

The cornerstone of Air Canada's strategy is to leverage its innovative revenue model. Air Canada is an industry leader in offering transparent pricing and simplified branded fares in an industry which has been characterized by multi-tiered fare structures with complex rules and restrictions. Air Canada believes this strategy has contributed to its achieving both record passenger load factors and RASM improvements.

Air Canada's transparent and simplified branded fare structure provides customers with the ability to pay for higher branded fares and enjoy the attributes which come with these fares. Also, it provides customers with the ability to purchase lower branded fares and then purchase selected attributes which typically are attached only to higher branded fares. Choices of branded fares are: Tango, Tango Plus, Latitude, Executive Lowest and Executive Flexible for customers traveling from and to North American destinations and Tango, Tango Plus, Latitude, Executive First Lowest and Executive First Flexible for customers traveling to international destinations, including the Caribbean and Mexico. Air Canada's revenue model has allowed it to match the lowest fare in the markets in which it operates and maintain revenue premiums from customers who are willingly purchasing higher fares with additional attributes. In 2008, 47% of Air Canada's domestic consumers chose a branded fare higher than Tango, Air Canada's lowest fare (46% in 2007).

Further Developing its Innovative Revenue Strategy to Generate Additional Revenues

In the drive to provide new and unique products that customers can only find at Air Canada, work continues to expand the offering of Flight Pass™ products, "subscriptions" and "à la carte" pricing options tailored to different segments of the marketplace. In order to provide its customers with more travel options, geographical reach and purchase flexibility, in early 2008, Air Canada began to offer its customers a new Flight Pass™ shopping environment on www.aircanada.com.

Flight Pass™ products provide Air Canada customers with the ability to lock-in their cost of travel through advance purchase of multiple segments within a defined geographic area. This product is gaining popularity with large corporations as well as with small businesses and families who value the set price and more importantly the flexibility and ease of use. "Subscriptions" to travel are another Air Canada innovation, which allow unlimited travel within a geographic area, subject to certain conditions, for a set flat fee. "Subscriptions" provide flexibility and ease of use. Both the Flight Pass™ and "subscription" products have also provided cost savings to Air Canada through reduced sales and servicing costs.

In 2008, Air Canada continued to expand the offering of Flight Pass™ products and "subscriptions" payment options for fixed credit Flight Pass™ products and unlimited travel, respectively. In 2008, Air Canada introduced Spring Getaway and New York Weekender passes, an Executive Class Pass® and Ontario and Quebec passes for unlimited flying in the summer. Air Canada offers its customers a choice of different flight passes tailored for consumers, small to medium-sized businesses and large corporations. In 2008, revenues from Air Canada's Flight Pass™ products increased 52% over 2007, and represented 5.2% of North American revenues.

"À la carte" options provide customers with the ability to customize their purchase by selecting the items for which they would like to pay. The "à la carte" options generate higher incidental revenues and higher customer satisfaction resulting in brand preference. Examples of "à la carte" options include, checked baggage, advance seat assignment, Aeroplan® miles and Maple Leaf™ lounge access, among others.

In 2008, Air Canada launched the On My Way™ program which was uniquely designed to provide customers with a seamless, stress-free travel experience. In the case of unexpected flight delays and disruptions, customers are rebooked on the flight of their choosing, offered complimentary meal allowance, hotel accommodation or ground transportation and have priority access to a specially-trained Air Canada agent who is available around the clock to assist them with all their unexpected travel needs. The On My Way™ program can only be purchased through Air Canada's website. In addition, Air Canada has also launched a new service feature which allows customers to pre-purchase online their additional baggage allowance either at time of booking or up to 24 hours prior to departure and receive a 20% discount over the applicable fee when checking in with an agent at the airport.

Continuing to Focus on Costs

Air Canada's business strategy is focused on continuously evaluating and improving its cost structure to remain highly competitive and overcome the challenges facing the Corporation. Air Canada's fleet renewal program is providing cost efficiencies through fuel and maintenance savings driven by more efficient aircraft being brought into

the fleet. For example, the Boeing 777-300 aircraft has generated a 15% cost saving per seat as compared to the Airbus 340-300 aircraft. In addition, at the same time as new aircraft are being added to its fleet, Air Canada is removing older less efficient aircraft.

Air Canada's plans include the following initiatives:

- The continued implementation of a cost reduction program which monitors key initiatives and projects that are focused on generating revenues and reducing costs. In 2008, through its company-wide initiatives, Air Canada achieved improvements in excess of \$90 million under this program. Air Canada's cost savings target for 2009 is approximately \$100 million.
- The continued implementation of a company-wide fuel efficiency program. Air Canada has been seeking means to reduce its fuel expense by negotiating competitive fuel rates from its suppliers and by implementing fuel saving initiatives throughout its operations. Examples of its fuel efficiency initiatives include weight reduction on and off aircraft, aircraft and engine washes, and optimization of fuel consumption. In 2008, this program provided Air Canada with savings of approximately \$20 million. Air Canada's target for 2009 is an additional \$15 million.
- A supplier concession program with targeted annual savings of \$20 to \$40 million.

Continuing to Focus on Sound Capacity Management

On June 17, 2008, in response to historically high fuel prices, Air Canada announced capacity and staff reductions for the fall and winter schedule. In the second half of 2008, Air Canada reduced its capacity by 5.4% compared to the second half of 2007. The traffic decrease of 3.6% was less than the capacity reduction of 5.4%, resulting in a 1.6 percentage point improvement in passenger load factor compared to the second half of 2007.

ASM capacity for the full year 2008 decreased 1.2% from the full year 2007. In 2008, the traffic decrease of 0.2% was less than the capacity reduction of 1.2%, resulting in a 0.8 percentage point improvement in passenger load factor compared to 2007.

With the slowing economy continuing to impact both leisure and business customers, one of Air Canada's challenges in 2009 will be to maintain high passenger load factors through continued aggressive capacity management. Yields are under pressure by greater fare discounting to compete within a shrinking market. In addition, reduced business travel, driven by changes to corporate travel policies, is also putting pressure on yields. Fuel surcharges are being monitored and adjusted on international routes, taking into account the cost of fuel.

Maintaining a High Degree of Web Penetration and Further Increasing Direct Distribution

Air Canada's transparent pricing strategy and its user friendly web platform have contributed to a high level of web penetration which in turn has allowed Air Canada to reduce its sales and distribution costs. Air Canada maintains two websites, one for consumers and the other for travel agencies. Both websites offer the same unique products.

Customers continue to benefit from the ability to check into Air Canada flights departing from any Canadian city and from most U.S. and international cities to Canada up to 24 hours prior to departure by using the web check-in facility provided on the Air Canada website. This has allowed Air Canada to generate cost savings while increasing its customer satisfaction. Web penetration for domestic Canada sales in 2008 was 66%, an increase of 3 percentage points from 2007 (63% in 2007). Web penetration for combined Canada and U.S. transborder sales was 54%, an increase of 4 percentage points from 2007. In 2008, 74% of domestic Canada sales, or 64% when combined with U.S. sales, were made directly with Air Canada, either online or through call centres (compared to 73% of domestic Canada sales, or 61% when combined with U.S. sales, in 2007).

Further Enhancing its Product Offering through a Redesigned Network and a Renewed Fleet

Within North America, Air Canada adopted a demand-based network strategy through the use of small jet aircraft which have lower trip costs than conventional narrow-body aircraft. Starting in 2005, Air Canada progressively introduced 15 Embraer E175 and 45 Embraer E190 aircraft into its fleet. These narrow-body aircraft have allowed Air Canada to offer its customers improved frequencies on key routes, maintain competitive frequencies on other routes and introduce new non-stop routes thus serving customers to destinations where such demand was expected.

In order to support the expansion of its international operations and deliver a superior aircraft product in the international market to and from Canada, starting in 2007, Air Canada progressively introduced 17 Boeing 777 aircraft into its fleet, including one delivery during the first quarter of 2009. The last remaining Boeing 777 aircraft is expected to be delivered in the third quarter of 2009. The new Boeing 777 aircraft is allowing Air Canada to modernize and re-size its fleet and reduce operating costs through fuel and maintenance savings in addition to gaining greater manpower efficiency and economies of scale. This new aircraft is also providing Air Canada with the ability to serve new markets that could not be previously served in an efficient manner.

To remain competitive, in addition to acquiring new aircraft and removing older and less efficient aircraft, Air Canada offers its customers a world class product. Starting in 2006, Air Canada began the interior refurbishment of its aircraft. To date, Air Canada has refurbished the interior of its operating fleet with the exception of three Airbus A330 and three Boeing 767-300ER aircraft. The Embraer and Boeing 777 aircraft have been delivered with new seats and entertainment systems. Refurbished aircraft have new seats with personal in-flight entertainment systems and in-seat power outlets accessible at every seat in Economy Class, Executive Class and Executive First.

Leveraging its Technology for Enhanced Customer Service and Cost Containment

New Reservation System

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

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

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

The first phase of implementation which involved the roll-out of a web-based document management system for all policies and procedures has been substantially completed. The next two phases involve the completion of the development and cutover of the reservation system and an airport departure control system. Air Canada continues to evaluate the timeline for completion of POLARIS. Certain components of POLARIS are expected to move into production before the end of 2010.

Self-Service Products

In 2008, Air Canada continued to take steps to provide passengers self-service products such as mobile check-in, web check-in and self-tagging via airport kiosks. This has allowed Air Canada to simplify its business processes and enhance the travel experience for its customers while generating cost savings. In 2008, 56% of Air Canada's customers used self-service products worldwide (55% in 2007). In Canada, self-service increased from 59% in 2007 to 61% in 2008. Mobile check-in and web check-in are available at all Canadian airports, as well as in 42 international stations and 38 U.S. stations. In addition, customers now have the option of prepaying applicable excess baggage fees as part of the check-in process on the web or at kiosks.

In November 2008, Air Canada celebrated the 10-year anniversary of the launch of the self-service kiosk. The kiosk product is now available in 41 stations around the world. The Air Canada check-in application is installed on close to a thousand airport-managed, common-use kiosks. In December, Air Canada and Jazz launched a new streamlined version of the product called the A-Series Kiosk. It has been deployed at nine Jazz stations across Canada.

Kiosk self-tagging is now available for customers at Montreal Trudeau Airport, Vancouver International Airport, Toronto Pearson Airport, Paris Charles de Gaulle Airport and London Heathrow Airport. In 2008, self-tagging volumes increased by 413%, and self-tagging was used by approximately one million passengers. Air Canada's customers can also experience its new quick bag drop-off solutions in Montreal, Vancouver and London Airports.

Additionally, in 2008, Air Canada enhanced its flight notification product which enabled it to provide customers with more information with respect to changes to their travel plans.

In 2009, Air Canada is planning to continue to introduce new self-service products and enhance its applications to simplify the customers' experience before travel. Air Canada plans to introduce new languages to its kiosk application (Korean, German, Chinese Mandarin, Japanese, and Spanish). Additionally, mobile native applications will be available for customers using smartphones (iPhone, BlackBerry, etc.) where a complete set of services will be offered to the customer, enhancing the user experience. Air Canada plans to introduce the electronic boarding pass to select stations in the U.S. and in Europe. Finally, the new early check-in product will provide customers with the possibility of registering for check-in as soon as their reservation is complete and receive a boarding pass to their e-mail or mobile device 24 hours before departure.

NetLine

The legacy technology of Air Canada's current flight operations systems has been replaced by the NetLine system, an integrated software suite. The new system is designed to enable Air Canada to enhance operational efficiencies by providing better real time operational information. Furthermore, NetLine allows for an easier and more cost effective adaptation to changes in Air Canada's operational needs by leveraging new generation technology.

Maintenance and Engineering System

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

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

In 2008, Air Canada began the design phase of the project with subsequent releases of the functional phases expected throughout 2009 and 2010. In 2009, Air Canada plans to finalize the development of the solution and begin its deployment in the latter part of 2009. The deployment strategy is one of a phased implementation that is expected to be rolled out throughout 2009 and 2010.

Maintaining Positive Employee and Labour Relations

In 2005, Air Canada introduced two incentive programs. The "Profit Sharing Plan" engages employees in ensuring Air Canada's success, while "Sharing Our Success" emphasizes the relationship between performance and personal rewards by providing employees with financial rewards on a monthly basis when operational performance levels are achieved.

The "Profit Sharing Plan" permits employees to share in the fiscal year-end pre-tax profits when corporate, financial and operational performance levels are achieved. Under the "Profit Sharing Plan", an annual pool of funds based on the previous year's adjusted pre-tax profits of Air Canada is established. The pool of funds is then distributed to all employees pro-rata based on the employee's base salary compared to the aggregate base salary of all employees.

“Sharing Our Success” is tied to profit sharing as it “advances” funds from the profit sharing pool each month when operational targets are met. At the end of each year, the Corporation determines what the annual profit sharing pool would be (if any) and then calculates what each employee is entitled to receive from the pool. The Corporation then subtracts what the employee has already received through “Sharing our Success” and any outstanding amount is paid as a “profit sharing award”. In 2008, a total of \$33 million was paid in advance under "Sharing Our Success".

Air Canada is one of the few remaining North American carriers with defined benefit pension plans. Air Canada provides defined retirement benefits for all unionized and most management employees. In 2008, Air Canada made cash contributions of \$456 million under these plans, of which \$189 million represented past service costs in accordance with Air Canada’s agreement with OSFI.

As part of Air Canada’s ongoing objective to improve overall employee relations throughout the organization, in 2007, Air Canada completed a two-day training program for substantially all management employees, including executive and senior management. Called "Relationship Matters", this program focused on skills training around the principles of leadership, effective communication and taking ownership and accountability for one's own area of responsibility. This program was provided to its frontline unionized employees in lead functions starting in the first quarter of 2008.

In the latter part of 2007, Air Canada commenced a second training program that focuses on the institutional relationships between Air Canada and its unions. Called "Labour Relationships Matter", this program provides participants with knowledge, skills and tools to build and maintain authentic and constructive relationships with union representatives and unionized employees in accordance with Air Canada's labour relations philosophy. Substantially all executive, senior management and frontline managers have completed this training program.

In 2008, Air Canada also commenced an intensive course on all aspects of customer service. Called “Customer Service Managers Foundation”, this program provides managers with the skills to coach and support employees to provide consistent exceptional customer service. It involves classroom time as well as job shadowing across the organization to help share tips and best practices.

Pension Plan Arrangements

The solvency position of Air Canada's defined benefit registered pension plans deteriorated significantly in 2002 as a result of various macroeconomic developments, triggering a series of valuation and funding directions to Air Canada by the Office of the Superintendent of Financial Institutions (“OSFI”), the federal pension regulator, in March 2003. On September 30, 2004, after negotiations with OSFI and representatives of the pension plan stakeholders, the Air Canada Pension Plan Solvency Deficiency Funding Regulations came into effect. The regulations extended the usual five-year amortization period for solvency deficits to ten years, and provided for the making of variable annual amortization payments according to an agreed schedule rather than the usual equal annual payments. Air Canada also issued a series of subordinated secured promissory notes in the aggregate initial amount of approximately \$347 million in favour of the pension plan trustees, of which approximately \$16.5 million was outstanding as at January 30, 2009. 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.

As at January 1, 2008, the solvency deficit in the registered domestic plans was \$1,175 million. As at January 1, 2009, based on preliminary estimates, the solvency deficit in the registered pension plans is estimated to be approximately \$3,200 million. The final funding obligation for 2009 will be determined based on the January 1, 2009 valuation, which will be completed in the first half of 2009. Based on pension funding legislation and regulations as at December 31, 2008, this preliminary estimate of the solvency deficit would be funded over five years requiring an approximate \$410 million increase to cash funding obligations for 2009 versus 2008. For years 2010 to 2013, assuming no gains or losses in future years, current funding legislation and regulations would require an approximate \$530 million increase to cash funding obligations versus 2008. However, several factors may impact required contributions, including regulatory developments, assumptions and methods used and changes in the economic conditions, mainly the return on fund assets and changes in interest rates. There can be no assurance that required contributions will be in line with preliminary estimates provided. These funding projections are updated annually.

The Government of Canada has proposed certain amendments to the general pension funding requirements for federally registered pension plans to address concerns over the impact of the 2008 decline in value of pension assets. These proposals include increasing the limit for smoothing asset valuation fluctuations over five years and increasing

the period for funding a solvency deficiency from five years to ten years, subject to certain conditions. In particular, both members and retirees would need to agree to the extended schedule, or the difference between the 5-year and 10-year payment schedules would need to be secured by a letter of credit. One of these two conditions would need to be met by December 31, 2009. If agreement by plan members and retirees or a letter of credit were not secured by the end of 2009, the plan would be required to fund the deficiency over the following five years. If these provisions are finalized, and based on the above preliminary estimates, Air Canada estimates funding requirements for 2009 will increase by approximately \$150 million versus 2008, resulting in estimated aggregate pension funding payments of approximately \$605 million during 2009. The estimated funding payments of \$605 million include the estimated impact of funding changes to current service costs as well as other pension arrangements which amount to a reduction of approximately \$10 million. Air Canada is monitoring the government's actions and dialoguing with government officials on this matter. Until the government finalizes this proposal and the funding valuation is completed during the first half of 2009, uncertainty as to the amount and timing of additional pension funding continue to exist. There can be no assurance that the proposed funding relief will be implemented. Any increase in funding obligations for 2009 will be paid in the second half of the year as the funding in the first half of the year is based on the January 1, 2008 actuarial valuation reports.

The *Pension Benefits Standards Act* and Regulations allow the use of an asset smoothing method over five years, limited to 110% of the market value of plan assets, to determine minimum funding requirements on a solvency basis. Any such smoothing method would also have to comply with actuarial practice and be accepted by regulators. As part of funding relief measures, OSFI issued specifications relating to asset smoothing method on March 6, 2009 whereby, under certain conditions and restrictions, the asset value resulting from the use of an asset smoothing method would be limited to 115% rather than 110% of the market value of plan assets. The amount of any deferral of funding that would result from the use of an asset value in excess of 110% would be subject to a deemed trust. OSFI is expected to issue further details with respect to this measure in the near future and Management continues to evaluate the availability of this new measure.

As at March 27, 2009, the Solvency Funding Relief Regulations, 2009 were proposed by the Canadian federal government and the Corporation is evaluating their impact.

Arrangements with Unions

Following its filing for protection under the CCAA in April 2003, Air Canada concluded in 2003 and amended in 2004 long-term collective agreements with the International Association of Machinists and Aerospace Workers ("IAMAW"), the Air Canada Pilots Association ("ACPA"), the Canadian Union of Public Employees ("CUPE"), the Canadian Air Line Dispatchers Association ("CALDA"), the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW") and the International Brotherhood of Teamsters ("IBT"). 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. With the exception of the collective agreement with the IBT representing certain airport and call centre employees in the United States, which was renewed in 2008 for a term of three years, the collective agreements with the unions representing the largest groups of employees expire in 2009. Air Canada also concluded agreements with the Transport and General Workers Union ("TGWU") and Amicus, both in the United Kingdom, which also expire in 2009.

The collective agreements concluded in 2003 also provided for negotiations limited to the subject of wages (and for pilots, some pension issues) in 2006, subject to mediation and binding arbitration. No strikes or lock-outs may lawfully occur during the term of the collective agreements, nor during the negotiations of their renewal until a number of pre-conditions, in respect of the unions for Canadian-based employees, prescribed by the Canada Labour Code, have been satisfied. In 2006, Air Canada concluded wage re-opener agreements, mediations or arbitrations under the collective agreements with all its union groups. The average of the wage adjustment agreements and awards represents an increase of approximately 5% over the three-year period from mid-2006 to mid-2009.

Air Canada's Main Environmental Objectives

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

Air Canada's main environmental objectives are as follows:

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

BUSINESS OF AIR CANADA

The table below sets forth Air Canada's financial result for the year ended December 31, 2008:

<i>(in millions)</i>	YEAR ENDED DECEMBER 31, 2008
Passenger Revenue	\$9,713
Cargo Revenue	515
Other Revenue ⁽¹⁾	854
Total Operating Revenues	11,082
Total Operating Expenses	11,121
Operating Loss before a Provision for Cargo Investigations	(39)
Provision for Cargo Investigations ⁽²⁾	(125)
Operating Loss	\$(164)

- (1) Other revenue includes revenues from the sale of the ground portion of vacation packages, ground handling services and other airline-related services.
- (2) In 2008, Air Canada recorded a provision of \$125 million relating to alleged anti-competitive cargo pricing activities. Refer to the "Risk Factors" section of this AIF for additional information.

The table below sets forth the proportions of passenger revenues derived from domestic, transborder and international services of Air Canada for the years ended December 31, 2008 and December 31, 2007.

	PASSENGER REVENUES (%) FOR THE YEARS ENDED DECEMBER 31	
	<u>2008</u>	<u>2007</u>
Domestic	42	43
Transborder	19	20
International	39	37
Total	100%	100%

For additional information on Air Canada's financial results for 2008, refer to Air Canada's consolidated financial statements for the year ended December 31, 2008 and Air Canada's 2008 MD&A dated February 13, 2009, both of which are available on SEDAR at www.sedar.com.

Routes and Schedules

Air Canada

In 2008, Air Canada (including Jazz) operated, on average, approximately 1,374 average daily departures to 58 destinations in Canada, 48 destinations in the United States and 54 destinations in the Canada–Europe, Canada–Pacific, Canada–Caribbean/Central America and Canada–South America markets. Domestic, transborder and international departures accounted for approximately 66%, 26% and 7%, respectively, of the approximately 1,374 average daily departures. In 2008, Air Canada's current route network extended to 39 countries and territories.

In 2008, Air Canada, together with Jazz, carried approximately 33 million passengers and provided direct passenger service to 160 destinations and, through commercial agreements with other unaffiliated regional airlines, to an additional 11 destinations, for a total of 171 direct destinations on five continents.

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

Toronto Pearson Airport is the largest hub in Canada and a significant airline origin and destination market in North America. For the year ended December 31, 2008, Air Canada, together with Jazz, operated on average 300

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, 2008, Air Canada, together with Jazz, operated on average 144 daily departures from Vancouver. Montreal Trudeau Airport is the third most important hub in Air Canada's network. For the year ended December 31, 2008, Air Canada, together with Jazz, operated on average 129 daily departures from Montreal. Calgary International Airport is Air Canada's fourth largest hub. For the year ended December 31, 2008, Air Canada, together with Jazz, operated on average 100 daily departures from Calgary.

Domestic Services

In 2008, Air Canada, together with Jazz, provided the largest network and most extensive product offering in Canada, with scheduled direct passenger service to 58 Canadian destinations. The most important Canadian routes, in terms of operating revenues, are the transcontinental routes linking Toronto, Montreal and Ottawa with major Western Canadian cities, including Vancouver, Calgary, Edmonton and Winnipeg. Air Canada, together with Jazz, operates a large number of short-haul routes, including Rapidair[®] routes, linking Toronto, Montreal and Ottawa. Air Canada, together with Jazz, also offers frequent service linking major centres within Western Canada, and operates numerous flights including Calgary, Edmonton and Vancouver. In addition to transcontinental and commuter routes, Air Canada, together with Jazz, provides service between and within Central Canada, the Prairies and the Atlantic provinces.

Regional carriers, having commercial agreements with Air Canada, operate in markets not sufficiently large to be served by Air Canada or Jazz aircraft. These airlines operate flights under Air Canada's designator code and, in 2008, provided service to an additional two domestic destinations. Air Canada does not own equity interests in any of these carriers.

Transborder Services

With the most non-stop destinations and flights from Canada to the United States, Air Canada, together with Jazz, carries more passengers between Canada and the United States than any other airline. Air Canada, together with Jazz, directly served 48 U.S. destinations (including five seasonal destinations) in 2008. Air Canada's network reach is also increased by its extensive connections to, and code sharing flights with, United Airlines, one of its Star Alliance[®] partners, and its United Express carriers.

In 2008, regional carriers, operating flights under Air Canada's designator code, provided service to an additional nine U.S. transborder destinations.

International Services

Air Canada is well positioned as Canada's largest scheduled international airline. In 2008, Air Canada provided scheduled service directly to 54 destinations in Europe, the Middle East, Asia, Australia, the Caribbean and Central America and South America.

Air Canada offers year-round trans-Atlantic services to the United Kingdom, Germany, France, Switzerland, Israel, and seasonal services to Ireland, Italy and Spain.

Air Canada also offers services to the Asia-Pacific market via its Vancouver and Toronto hubs. Air Canada operates non-stop flights to Japan (Vancouver and Toronto to Tokyo), China (Vancouver and Toronto to Beijing, Shanghai and Hong Kong) and Korea (Vancouver to Seoul).

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.

Air Canada will start flying to Geneva and Martinique in the summer of 2009.

Jazz

Jazz is an integral part of Air Canada's North American strategy. Jazz operates both domestic and transborder services for Air Canada under the Jazz CPA. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 817 departures per weekday to 56 destinations in Canada and 30 destinations in the United States as at December 31, 2008. Approximately 35% of Jazz's traffic connects to Air Canada's mainline network. In 2008, Jazz contributed approximately 19% of Jazz's and Air Canada's combined domestic ASM capacity and approximately 17% of Jazz's and Air Canada's combined transborder ASM capacity.

Aircraft Fleet

See “Further Enhancing its Product Offering through a Redesigned Network and a Renewed Fleet” of this AIF for a description of the Corporation’s fleet renewal program.

Widebody Aircraft Fleet

Current Fleet of Widebody Aircraft

As at December 31, 2008, Air Canada's operating widebody fleet was comprised of 54 aircraft, each configured in two classes of service: Executive First or Executive Class, and Economy Class. The Airbus A330-300 aircraft is a 265-seat aircraft twin-engine aircraft that Air Canada operates mainly on trans-Atlantic routes. The Boeing 777-300ER aircraft is a 349-seat twin-engine aircraft used mainly on international routes. The Boeing 777-200LR aircraft is a long-range 270-seat twin-engine aircraft used mainly on international routes. The Boeing 767-300ER aircraft is a long-range 191-213-seat aircraft used mainly on international routes. In 2008, Air Canada retired its fleet of Boeing 767-200 aircraft, consisting of 10 aircraft. In addition, during 2008, Air Canada subleased to third parties (or parked pending sublease to third parties) its five Airbus A340-300 aircraft.

Boeing Orders and Financing Terms

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

During 2007, the Corporation amended agreements with Boeing to cancel orders for two Boeing 777 aircraft scheduled for delivery in 2009. In addition, the Corporation increased its order for Boeing 787 aircraft by 23, bringing its total firm orders to 37 Boeing 787 aircraft.

In 2008, Air Canada introduced five Boeing 777-300ER aircraft and three Boeing 777-200LR aircraft into its fleet. As at December 31, 2008, 15 of the 16 Boeing 777 firm aircraft under the purchase agreement with Boeing had been delivered. The remaining Boeing 777-300ER under the Boeing purchase agreement was delivered in February 2009. This aircraft was financed through a loan guarantee support from EXIM. The loan guarantee covers a 12-year loan term for 85% of the capital expenditure at an interest rate based on floating rates.

The Corporation has financing commitments from Boeing and the engine manufacturer covering 31 of the 37 Boeing 787 aircraft. Of the 31 covered aircraft, the terms for 28 aircraft reflect financing for up to 80% of the aircraft delivery price. The term to maturity is 12 years with straight-line principal repayments over the term of maturity. The terms for the remaining three of the 31 covered aircraft reflect financing for up to 90% of the aircraft delivery price based on a floating or fixed rate equivalent with an equivalent rate of 7.94% as at December 31, 2008. The term to maturity is 15 years with principal payments made on a mortgage-style basis.

Boeing has notified Air Canada that its first Boeing 787 aircraft originally scheduled for delivery in February 2010 has been rescheduled for delivery for the second half of 2012, with additional deliveries, originally scheduled for completion between 2010 and 2014, being delayed by approximately three years. Air Canada will be seeking compensation from Boeing. Air Canada is evaluating alternatives to mitigate any potential impact of this delay.

Narrowbody and Regional Jet Aircraft Fleet

Current Fleet of Narrowbody and Regional Jet Aircraft

As at December 31, 2008, Air Canada operated 146 narrowbody aircraft, including 86 Airbus narrowbody aircraft. These aircraft are configured in two classes of service: Executive Class and Economy Class. The Airbus A320 aircraft is a 146-seat, twin-engine aircraft. The twin-engine Airbus A319 aircraft offers 120 seats and is essentially a shortened version of the Airbus A320 aircraft, with the same engines, operating systems and flight deck. The twin-engine Airbus A321 aircraft is the largest narrowbody aircraft in the Airbus family, with 174 seats. The Embraer E190 and E175 aircraft are 93-seat and 73-seat twin-engine aircraft, respectively. These small jets have lower trip operating costs than Air Canada’s Airbus narrowbody aircraft. All of these narrowbody aircraft types primarily serve Air Canada's domestic, transborder and Caribbean routes.

Embraer Orders and Financing Terms

In 2004, Air Canada signed a definitive purchase agreement with Embraer covering firm orders for 45 Embraer E190 aircraft as well as 15 Embraer E175 aircraft. Air Canada had taken delivery of all 15 Embraer E175 aircraft by the end of 2006 and had taken delivery of all 45 Embraer E190 aircraft by the end of February 2008.

The Embraer aircraft have been used in Air Canada's fleet both for growth and replacement of a portion of Air Canada's older Airbus A319 and A320 aircraft. The purchase agreement also contains rights to exercise options for up to 60 additional Embraer E190 series aircraft as well as providing for conversion rights to other Embraer models. As at March 27, 2009, four options remained exercisable.

Jazz's Regional Jet and Turboprop Aircraft Fleet

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

As at December 31, 2008, as part of the Jazz CPA, Jazz operated, on behalf of Air Canada, 73 Bombardier regional jet aircraft. In 2004, Air Canada entered into an agreement with Bombardier Inc. ("Bombardier") covering firm orders for 15 Bombardier CRJ-705 and 15 Bombardier CRJ-200 aircraft, all of which were delivered between 2004 and the end of 2005.

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

In addition, as at December 31, 2008, Jazz operated 60 Bombardier Dash-8 aircraft as Covered Aircraft under the Jazz CPA. The Dash 8-100 aircraft is a twin-engine turboprop medium range aircraft with seating capacity of 37 passengers. The 50-seat Dash 8-300 aircraft has advanced turboprop characteristics that approach those of a jet aircraft. Turboprop aircraft continue to serve certain segments of the Canadian domestic market more efficiently than regional or larger jet aircraft. On short-haul routes with lower traffic volumes, turboprops often present the most economical and efficient way to serve these markets. Compared to larger jet aircraft, the turboprop is more profitable to operate on shorter routes with low levels of passenger demand due to its generally lower break-even load requirements.

Current and Planned Operating Fleet

Air Canada's operating fleet (excluding Jazz) as at December 31, 2008 and the planned operating fleets for 2009 to 2010 are shown below:

Fleet Plan	December 31, 2007					December 31, 2008					December 31, 2009		Planned 2010 fleet changes	December 31, 2010
	New Deliveries	Sublease to Third Party	Lease returns	Parked		New Deliveries	Sublease/lease to Third Party	Lease returns	Parked					
B777-300	5	5	-	-	-	10	2	-	-	-	12	-	12	
B777-200	3	3	-	-	-	6	-	-	-	-	6	-	6	
B767-300	31	-	-	(1)	-	30	-	(2)	-	-	28	-	28	
B767-200	10	-	-	-	(10)	-	-	-	-	-	-	-	-	
A340-300 ⁽¹⁾	5	-	(3)	-	(2)	-	-	-	-	-	-	-	-	
A330-300	8	-	-	-	-	8	-	-	-	-	8	-	8	
A321	10	-	-	-	-	10	-	-	-	-	10	-	10	
A320	41	-	-	-	-	41	-	-	-	-	41	-	41	
A319	37	-	-	(2)	-	35	-	-	-	-	35	-	35	
Embraer E190	42	3	-	-	-	45	-	-	-	-	45	-	45	
Embraer E175	15	-	-	-	-	15	-	-	-	-	15	-	15	
Total	207	11	(3)	(3)	(12)	200	2	(2)	-	-	200	-	200	
Average age (years)	9.0					8.8					9.5		10.5	

(1) Two Airbus A340-300 aircraft were parked in the fourth quarter of 2008 pending their sublease to third parties.

The fleet of Covered Aircraft operated as at December 31, 2008 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, 2008
Bombardier CRJ-100	24
Bombardier CRJ-200	33
Bombardier CRJ-705	16
Total Bombardier CRJ Aircraft	73
Bombardier Dash 8-300	26
Bombardier Dash 8-100	34
Total Turboprop Aircraft	60
Total Covered Aircraft	133

Fuel

Aircraft fuel is a major expense in the airline industry and the single largest expense to Air Canada, representing approximately 31% of Air Canada's 2008 total operating expenses. During 2008, fuel prices experienced extreme volatility and declined from a peak of U.S. \$145 per barrel of West Texas Intermediate ("WTI") crude oil in mid-2008 to U.S. \$34 per barrel in December 2008. Fuel prices continue to be influenced by many factors including international

market conditions and geopolitical events. 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, available capacity and disruptions to production and refining facilities, speculative trading, alternative fuels and the weather could have an impact on fuel prices and availability. Based on 2008 volumes and U.S. exchange rates, Air Canada estimated that a U.S. \$1 per barrel movement in the price of WTI crude oil or in the refining spread between WTI and jet fuel impacted 2008 fuel expense by approximately \$25 million, (excluding any impact of fuel surcharges, foreign exchange rates and fuel hedging) assuming flying capacity remained unchanged and that refining spreads between WTI crude oil and jet fuel as well as foreign exchange rates remained constant.

In order to manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, Air Canada enters into derivative contracts with financial intermediaries. Throughout 2008, a systematic hedging strategy was applied by adding hedging positions on a regular basis. There are regular reviews to adjust the strategy in light of market changes.

At February 28, 2009, approximately 32% of Air Canada's anticipated purchases of jet fuel for the remainder of 2009 are hedged at an average WTI-equivalent capped price of U.S. \$103 per barrel, of which 46% is subject to an average WTI-equivalent floor price of U.S. \$81 per barrel. Air Canada has also hedged approximately 13% of its 2010 anticipated jet fuel purchases in crude oil-based contracts hedged at an average capped price of U.S. \$110 per barrel, of which 87% is subject to an average floor price of U.S. \$101 per barrel.

The following table outlines the notional volumes outstanding at February 28, 2009, along with the weighted average floor and ceiling price for each year currently hedged by type of derivative instruments. The average contract prices represent the equivalent price in WTI using the forward prices for WTI, heating oil, and jet fuel as at February 28, 2009.

Outstanding at February 28, 2009				
Derivative Instruments	Term	Volume (BBLs)	WTI-equivalent Average Floor Price (U.S.\$ per barrel)	WTI-equivalent Average Capped Price (U.S.\$ per barrel)
Call Options ⁽¹⁾	2009	3,280,000	n/a	114
	2010	400,000	n/a	134
Swaps ⁽¹⁾	2009	975,000	99	99
	2010	1,070,000	99	99
Collars ⁽¹⁾	2009	1,800,000	71	84
	2010	1,560,000	102	112
Put options ⁽²⁾	2009	800,000	40	n/a

(1) Air Canada is expected to generate fuel hedging gains if oil prices increase above the average capped price and is exposed to fuel hedging losses if oil prices decrease below the average floor price.

(2) Given the recent significant decrease in oil prices, Air Canada also purchased crude oil put options. Air Canada is expected to generate fuel hedging gains if oil prices decrease below the average floor price. Their objective is to protect against potential additional collateral requirements caused from further price decreases. The fair value of these derivative instruments increases as crude oil prices decrease, therefore offsetting in part the exposure on the total portfolio and limiting the collateral requirements.

The types of derivative instruments used by Air Canada within its hedging program, such as swaps and the put options within collar structures expose Air Canada to the potential of posting cash collateral deposits. The drastic decrease in fuel prices observed in the fourth quarter of 2008 has resulted in a significant negative fair value for Air Canada's portfolio of fuel hedges. Once the fair value in favour of the counterparty of certain fuel derivatives exceeds the credit thresholds with those counterparties, Air Canada is responsible for extending collateral to the counterparties. At February 28, 2009, the total cash collateral deposits held by counterparties amounted to \$219 million (U.S. \$172 million). If oil prices remain at the current levels throughout 2009, the collateral currently extended would cover the expected losses on fuel hedging contracts maturing in 2009 and would not generate additional cash outflows to Air Canada. This collateral requirement has put additional pressure on liquidity in the short term. If fuel prices remain at the current levels throughout 2009, the lower fuel prices will provide significant cash savings to Air Canada.

For additional information on Air Canada's fuel derivatives, refer to Air Canada's consolidated financial statements for the year ended December 31, 2008 and Air Canada's 2008 MD&A dated February 13, 2009, both of which are available on SEDAR at www.sedar.com.

Star Alliance®

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

Since its inception in 1997, the Star Alliance® network has grown to include, as at March 27, 2009, the following 21 airlines: Air Canada, Air China, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, bmi, Egyptair, LOT Polish Airlines, Lufthansa, SAS, Shanghai Airlines, Singapore Airlines, South African Airways, Spanair, Swiss International Airlines, TAP Portugal, Thai Airways, Turkish Airlines, United Airlines, and U.S. Airways. The Star Alliance® network also includes three regional members: Adria Airways, Blue 1 and Croatia Airlines.

Through Air Canada's strategic and commercial arrangements with Star Alliance® members and several other airlines, Air Canada's customers have access to over 916 destinations in 160 countries, with reciprocal participation in frequent flyer programs and use of airport lounges. The Star Alliance® facilitates code sharing and passenger connections and transfers by providing a higher level of service between network connection points (which may include one stop check-in). The airlines have implemented initiatives, such as common utilization of facilities, and are focusing on capturing potential synergies in additional areas. Air Canada code shares with all Star Alliance® members, except U.S. Airways, TAP Portugal, South African Airways, Shanghai Airlines, Turkish Airlines, Egyptair, Air China and the three regional members.

Other Services

Cargo Services

Air Canada provides direct cargo services to over 150 Canadian and international destinations and has sales representation in over 50 countries. The Corporation is Canada's largest provider of air cargo services as measured by cargo capacity. Air Canada Cargo provides air cargo services on domestic and US transborder flights using cargo capacity on aircraft operated by Air Canada and Jazz in these markets. Air Canada offers international cargo services on routes between Canada and major markets in Europe, Asia, South America and Australia using cargo capacity on Boeing 777 and other wide-body aircraft operated by Air Canada. The new Boeing 777 aircraft provide increased cargo capacity on international routes as compared to the Airbus aircraft that the Boeing 777 aircraft have replaced. Air Canada's cargo network is also extended through interline agreements with other air carriers worldwide and through ground trucking services offered in selected markets.

The Corporation's primary customers for cargo services are large freight forwarding companies and businesses whose products require the use of air cargo services to expedite their cargo shipments. Cargo services offered by the Corporation include services for high priority shipments (AC Expedair® and AC Priority™) and air freight services (AC Air Freight™) to Air Canada destinations worldwide and most Jazz destinations in North America. Air Canada's freight management system, AC Lynx™, offers customers a number of services including on-line tracking of cargo shipments. Air Canada is a founding member of Cargo Portal Services which offers customers a web-based booking and an air cargo management tool that facilitates the movement and tracking of air cargo globally. In 2007, the Corporation also joined the Global Freight Exchange ("GF-X"), a large electronic cargo distribution channel, to offer customers greater choice.

In the fall of 2008, Air Canada Cargo introduced the first phase of a new cargo capacity management system which is expected to provide improved revenues through more effective management of available cargo capacity throughout the Air Canada network. Air Canada Cargo is also a leading carrier in the IATA e-freight pilot initiative which has the objective of removing the need to carry paper documents for international shipments. Air Canada's cargo terminal at Toronto Pearson Airport and the new cargo terminal at Montreal Trudeau Airport are equipped with modern cargo handling technology to promote efficient operations. Air Canada is also actively involved in Cargo 2000 and several other industry initiatives to promote more efficient cargo operations and improved ongoing measurement of cargo performance for its customers.

Air Canada Ground Handling Services

Air Canada Ground Handling Services provides passenger handling services to Air Canada, Jazz and other airlines in Canada. These services include passenger check-in, ramp services, cabin cleaning, deicing services, gate management and baggage and cargo handling.

Air Canada Vacations

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

As part of its growth strategy, Air Canada Vacations has implemented a number of new product lines including Ski vacations and Escapades which offers flight, hotel and car packages to Europe and major U.S. cities, and across previously offered Caribbean destinations served by a high frequency of flights. Air Canada Vacations' future plans include inbound leisure packages from Europe and Asia to North America with the intent of eventually offering vacation packages to and from most of Air Canada's international destinations.

Facilities

Air Canada owns or leases facilities in major airports consisting of offices, hangar space, aircraft maintenance and ground handling facilities. The following describes the principal properties owned or leased by Air Canada as at December 31, 2008:

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

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

Financial Arrangements

During 2008 and continuing in 2009, Air Canada undertook a strategy to improve its liquidity position, which resulted in the following financial arrangements:

- A series of agreements for secured financings with General Electric Capital Corporation (“GECC”) and its affiliates providing Air Canada with total financing of U.S.\$193 million (approximately \$238 million), of which \$98 million was received in December and \$92 million was received in January 2009. On March 13, 2009, Air Canada announced that it had completed a sale and leaseback transaction for one Boeing 777-300ER aircraft with GE Commercial Aviation Services (GECAS), a division of General Electric Capital Corporation (GECC). This 12-year sale and leaseback transaction provides Air Canada with US\$38 million of funding (approximately \$48 million).
- A senior secured revolving credit facility of up to \$100 million with the Canadian Imperial Bank of Commerce (“CIBC”) with draw downs being subject to certain conditions. The Credit Facility has a one year term that can be extended at Air Canada’s request for additional one-year periods on each anniversary of the closing, subject to prior approval of the lenders. The Credit Facility replaces Air Canada’s previous secured syndicated three-year revolving credit facility, which was a \$400 million facility as of December 31, 2007. The total amount available for borrowing under the Credit Facility is subject to a borrowing base restriction based on certain percentages of the values of eligible accounts receivable and eligible real property. The Credit Facility 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 are guaranteed by 1209265 Alberta Ltd., a subsidiary of Air Canada, which provides 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 Credit Facility contains customary representations and warranties and is subject to customary terms and conditions (including negative covenants, financial covenants and events of default). Financial covenants require the Corporation to maintain, as of the last business day of each month, a minimum liquidity level of \$900 million, which includes the unused and available commitment under the facility, and an interest coverage ratio test determined as at the end of each fiscal quarter. The interest rate margin for drawn amounts is, at the option of Air Canada, prime plus 13% or bankers’ acceptances plus 14%. As of March 27, 2009, no amounts were drawn under this Credit Facility.
- A secured financing transaction with Calyon New York Branch and Norddeutsche Landesbank Girozentrale for a \$143 million loan, of which \$97 million was received in December 2008 and the remaining received in January 2009, maturing in December 2013 bearing interest at 5.13%.
- An agreement with Aeroplan to accelerate payments for purchase of seats for the period from October 2008 to May 2009, in exchange for future credits to be settled in 2009. Payments by Air Canada to Aeroplan for Miles earned by passengers continue based on the original terms of settlement. Under this arrangement, cash flows from operations have been favourably impacted by \$63 million as at December 31, 2008. This impact will reverse in 2009 upon expiry of this agreement.
- Secured financings amounting to proceeds of \$190 million (US\$155 million). Of this amount, US\$75 million remains outstanding. The financing has a term to December 15, 2009 and is repayable prior to then provided the Corporation has received certain additional alternate financing. The financing bears interest at one month LIBOR plus 5.98%.
- Sale and leaseback arrangements for five Boeing 777 aircraft which generated net proceeds of \$144 million.

Liquidity

On February 23, 2009, Standard & Poor’s Ratings Services lowered its long-term corporate credit rating on Air Canada to “B-” from “B” and reported an outlook of negative. The downgrade reflects Standard and Poor’s assessment of Air Canada’s ability to maintain adequate liquidity levels to satisfy financial covenant requirements, the numerous challenges facing the airline in 2009, and weakened financial measures in 2008.

Along with many airline carriers globally, Air Canada faced a number of significant challenges in 2008, including as a result of volatile fuel prices and foreign exchange, liquidity requirements and the weakening demand for air travel. With the expectation of a continuing recession in 2009, the industry, including Air Canada, will continue to face significant challenges throughout 2009. The recession is expected to put significant pressures on passenger and cargo revenues for many airlines, including Air Canada. At the same time, it is expected that lower fuel prices in 2009 and capacity adjustments made in 2008 as a result of the high fuel prices will provide some relief. Air Canada continues to be significantly leveraged requiring continuing interest payments and debt payments, which are largely denominated in foreign currencies. Further, the funding of employee benefit plans for many companies, including Air Canada, will be impacted during 2009 by the declines in the value of plan assets. In 2009, a number of the Corporation's collective agreements expire and uncertainties exist with respect to the outcome of their negotiation. In addition, the credit markets continued to be constrained throughout the latter part of 2008 raising concerns about available funding for a number of companies, including Air Canada. These factors have had an impact on the liquidity risk of Air Canada during 2008 and are continuing challenges for Air Canada as well as other airline industry companies.

Liquidity risk is the risk that Air Canada will encounter difficulty in meeting obligations associated with its financial liabilities and other contractual obligations. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts, monitoring the condition and value of assets available to be used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. A key component of managing liquidity risk is also ensuring that operating cash flows are optimized. Air Canada's principal objective in managing liquidity risk is to maintain a minimum cash, cash equivalents and short-term investments' ("unrestricted cash") balance in excess of a target liquidity level of 15% of operating revenues. However, Air Canada expects there may be challenges to achieving its target unrestricted cash to operating revenue ratio of 15% in 2009.

In addition to the risk factors identified in the "Risk Factors" section of this AIF, the risks that may have a material impact on future operating results and liquidity include: risks related to the current economic conditions; market risks, which include fuel price and foreign exchange rates; pension funding obligations; covenants in credit card agreements; and cargo investigations. Air Canada is also exposed to the potential of posting cash collateral deposits under fuel derivatives.

Market risk includes the risk that future cash flows will fluctuate because of changes in market prices, including foreign exchange rates, interest rates and commodity prices. During 2008, the Corporation's operating results and cash flows were significantly affected by historically high and volatile fuel prices during the first half of the year and the weakening of the Canadian dollar during the second half of the year. While Management is able to mitigate certain of these risks through certain hedging activities, the volatility of the markets has created challenges to mitigating the full extent of some of these risks. The price of fuel, foreign exchange rates and interest rates are beyond the control of Management and it is reasonably possible market volatility will continue in the future which may adversely impact operating results and cash flows.

Air Canada maintains several defined benefit pension plans. Air Canada's pension funding obligations are likely to rise significantly starting in the second half of 2009. Based on preliminary estimates, the solvency deficit as at January 1, 2009 in the registered pension plans, which is used to determine funding requirements, is estimated to be approximately \$3,200 million, a significant increase versus the \$1,175 million determined as at January 1, 2008. See the "Pension Plan Arrangements" section of this AIF for additional information.

Air Canada has various agreements with companies that process customer credit card transactions. Approximately 80% of Air Canada's sales are processed using credit cards, with remaining sales processed through cash based transactions. Air Canada receives payment for a credit card sale generally in advance of when the passenger transportation is provided. Under the terms of one credit card processing agreement, the credit card processing company may withhold payment of funds to Air Canada upon the occurrence of certain events ("triggering events"), which include cash, cash equivalents and short-term investments ("unrestricted cash") of less than \$900 million as at the end of any month and operating losses in excess of certain amounts. The amount of funds withheld (the "deposit") is based upon a specified percentage of credit card sales processed through the credit card processing company for which transportation has not been provided to the passenger. The specified percentage increases based upon the level of unrestricted cash below \$900 million or the level of operating losses. If a triggering event occurred, based upon advance sales as at December 31, 2008, the deposit could be from a minimum of \$110 million up to a maximum of \$425 million. Under the terms of the above credit card processing agreement, beginning at the end of the second

quarter of 2009, the triggering events for deposits will change and will be based upon a matrix of unrestricted cash and a debt service coverage ratio. Such ratio will be based on an EBITDAR (earnings before interest, income taxes, depreciation, amortization, aircraft rentals, certain non operating income (expense) and special items) to fixed charges (principal, interest and aircraft rentals) ratio for the preceding four quarters. Under these triggering events, beginning at the end of the second quarter of 2009, the unrestricted cash required in order to avoid a deposit could be as much as \$1.3 billion. The basis for calculating the amount of the deposit, if required, remains consistent with the above description.

Air Canada is exposed to potential liabilities related to the investigations of alleged anti-competitive cargo pricing activities described in the “Risk Factors” section of this AIF. During 2008, Air Canada recorded a provision of \$125 million as a preliminary estimate. This estimate is based upon the current status of the investigations and proceedings and Air Canada’s assessment as to the potential outcome for certain of them. This provision does not address the proceedings in all jurisdictions, but only where there is sufficient information to do so. Management has determined it is not possible at this time to predict with any degree of certainty the outcome of all proceedings. Additional material provisions may be required. Amounts could become payable within the year and may be materially different than Management’s preliminary estimate.

At December 31, 2008, Air Canada had cash, cash equivalents and short-term investments of \$1,005 million, which represented 9% of 2008 operating revenues. At January 31, 2009, Air Canada had cash, cash equivalents and short-term investments of approximately \$985 million.

The various initiatives undertaken by Air Canada in order to manage and mitigate these risks include: adjusting its capacity to match passenger demand; implementing cost containment initiatives; entering into hedging programs to manage its exposure to jet fuel prices and help mitigate volatility in operating cash flows (see “Fuel” of this AIF for additional information); and entering into new financial arrangements as described under “Financial Arrangements” above.

Air Canada has equity in Boeing 777 aircraft and Embraer aircraft, based upon estimated fair value in excess of loan value which would be available to support additional financings going forward. Management has developed estimates of the current value of these assets and identified potential opportunities. However, given the current and continuing instability of credit markets and economic conditions, there can be no assurance as to whether Air Canada will be able, if needed, to conclude further transactions, including on acceptable terms, or as to the amount of proceeds that Air Canada’s assets would generate.

Trademarks

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

Employees

As at December 31, 2008, Air Canada had 22,994⁽³⁾ full-time equivalent (“FTE”) employees compared to 23,608⁽³⁾ FTE employees as at December 31, 2007. The following table provides a breakdown of the Corporation's average FTE employees for the fourth quarter of 2008 and 2007 and for the full year 2008 and 2007 together with the unions that represent them.

Employee Group	Union(1)	Fourth quarter 2008	Fourth quarter 2007	2008	2007
Management and Administrative Support(3)	N/A(2)	3,132	3,137	3,177	3,148
Pilots	ACPA	2,912	2,895	2,944	2,829
Flight Attendants	CUPE	5,761	6,094	6,199	6,236
Customer Sales and Service Agents ⁽³⁾	CAW/IBT	3,525	3,721	3,630	3,703
Technical Services, Ramp and Cargo ⁽³⁾	IAMAW	7,257	7,048	7,232	6,939
United Kingdom Unionized Employees	Amicus/TGWU	658	639	647	665
Other Unionized		367	396	373	408
Total		23,612	23,930	24,201	23,928

(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 General Services Agreement, 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 815 FTE employees as at December 31, 2008 and 891 FTE employees as at December 31, 2007. These employees are not included in the numbers presented above. In addition to the numbers presented in the above table, pursuant to the Aveos General Services Agreement, Aveos has agreed to reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of unionized employees working for the benefit of Aveos. Such group represented 2,705 FTE employees as at December 31, 2008 and 3,222 FTE employees as at December 31, 2007. These employees are not included in the numbers presented above.

Refer to the section “Arrangements with Unions” of this AIF for information on Air Canada’s long-term collective agreements with its unions.

RISK FACTORS

In addition to the risks described in other parts of this AIF, the Corporation has identified the following risks which may have a material adverse impact on the Corporation's business, results from operations and financial condition. The risks identified by the Corporation 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

Operating Results

Prior to emergence from its restructuring under the CCAA on September 30, 2004, the Corporation had sustained significant losses and the Corporation may sustain significant losses in the future. In 2008, the Corporation recorded an operating loss before a provision for cargo investigations of \$39 million. Current economic conditions may result in significant losses for the Corporation. Despite ongoing business initiatives and efforts at securing cost reductions and additional sources of financing, the Corporation may not be able to successfully achieve positive net profitability or realize the objectives of any or all of its initiatives, including those which seek to offset or mitigate risks facing the Corporation, including those relating to economic conditions, liquidity, pension funding, unexpected volatility in fuel costs and other expenses.

Leverage

The Corporation has, and is expected to continue to have and incur, a significant amount of indebtedness, including substantial fixed obligations under aircraft leases and financings, and as a result of challenging economic or other conditions affecting the Corporation, the Corporation may incur greater levels of indebtedness. 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 and Liquidity

The Corporation faces a number of challenges in its business, including in relation to economic conditions, pension plan funding, volatile fuel prices, contractual covenants which could require the Corporation to deposit cash collateral with third parties, foreign exchange rates and increased competition from international, transborder and low-cost domestic carriers. The Corporation's liquidity levels may be adversely impacted by these as well as by other factors and risks identified throughout this AIF. As part of the Corporation's efforts to meet such challenges and to support the Corporation's business strategy, significant liquidity and significant operating and capital expenditures are, and will in the future be, required. There can be no assurance that 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 overcome challenges and support its business strategy if cash flows from operations and cash on hand are insufficient.

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

The Corporation's credit ratings influence its ability to access capital markets and its liquidity. 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, adversely impact its liquidity, 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.

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).

In May 2004, the Corporation and OSFI agreed on a protocol pursuant to which the solvency funding requirements for the Corporation's registered pension plans provided for in the then-existing federal regulations were amended with effect retroactive to January 1, 2004. The Corporation is required to make substantial annual cash contributions, and the level of those contributions increases 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.

The solvency deficit is influenced primarily by long-term interest rates and by the investment return on plan assets, which in turn may be dependant on a variety of factors, including economic conditions. The interest rate used to calculate benefit obligations for solvency purposes is a prescribed rate derived from the interest rates on long-term Government of Canada bonds. Deteriorating economic conditions may result in significant increases in the Corporation's funding obligations, which could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Refer to section 9.6 of Air Canada's 2008 MD&A dated February 13, 2009 and the "Pension Plan Arrangements" section of this AIF for information on Air Canada's pension funding obligations.

Economic and Geopolitical Conditions

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

Airline fares and passenger demand have fluctuated significantly in the past and may fluctuate significantly in the future. 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. Depressed economic conditions in North America and other areas served by the Corporation, as well as geopolitical instability in various areas of the world, concerns about the environmental impacts of air travel and tendencies towards "green" travel initiatives where consumers reduce their travel activities, could have the effect of reducing demand for air travel in Canada and abroad and could materially adversely impact the Corporation's profitability.

Fuel Costs

Fuel costs constituted the largest percentage of the total operating costs of the Corporation in 2008. 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 2006, 2007 and 2008, fuel prices increased and fluctuated near or at historically high levels. Should fuel prices fluctuate significantly or increase significantly above current levels, fuel costs could have a material adverse effect on 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 2008 volumes, Management estimates that a U.S.\$1 per barrel movement in the average price of WTI crude oil would have resulted in an approximate Cdn\$25 million change in 2008 fuel expense for the Corporation (excluding any impact of fuel

surcharges, foreign exchange rates and fuel hedging), assuming flying capacity remained unchanged and that refining spreads between WTI crude oil and jet fuel as well as foreign exchange rates remained constant.

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 2008, a \$0.01 increase in the U.S. dollar/Cdn exchange rate (i.e., \$1.23 to \$1.24 per U.S. dollar) would have had an estimated \$30 million unfavourable impact on operating income. Conversely, an opposite change in the exchange rate would have had the opposite effect. The Corporation incurs significant expenses in U.S. dollars for such items as fuel, aircraft rental charges, interest payments, debt servicing and computerized reservations system fees, while a substantial portion of its revenues are generated in Canadian dollars. A significant deterioration of the Canadian dollar relative to the U.S. dollar would increase the costs of the Corporation relative to its U.S. competitors and could have a material adverse effect on the Corporation's business, results from operations and financial condition. In addition, the Corporation may be unable to appropriately hedge the risks associated with fluctuations in exchange rates.

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. With the exception of the collective agreement with the IBT representing certain airport and call centre employees in the United States, which was renewed in 2008 for a term of three years, the most recent collective agreements with the unions representing the largest groups of employees were concluded in 2003 and 2004 and expire in 2009 (other than the collective agreements covering two groups of crew schedulers, which were concluded more recently). No strikes or lock-outs may lawfully occur during the term of the collective agreements, nor during the negotiations of their renewal until a number of pre-conditions, in respect of the unions for Canadian-based employees, prescribed by the Canada Labour Code, have been satisfied. There can be no assurance that collective agreements will be renewed without labour conflict or action or that there will not be a labour conflict that could lead to an interruption or stoppage in the Corporation's service or otherwise adversely affect the ability of the Corporation to conduct its operations, all of which could have a material adverse effect on its business, results from operations and financial condition.

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

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

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

Competition

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

Canadian low-cost and other carriers have entered and/or expanded or announced their intention to compete in many of the Corporation's key domestic markets and, along with some U.S. carriers have also entered and/or expanded their operations in the U.S. transborder market. Carriers against which the Corporation may compete, including U.S. carriers, may undergo (and some of whom who have undergone) substantial reorganizations (including by way of merger with or acquisition by another carrier), creating reduced levels of indebtedness and lower operating costs and may be in a position to more effectively compete with the Corporation. The Corporation is also facing increasing competition in international markets as carriers increase their international capacity, both by expansion and by shifting existing domestic capacity to international operations to avoid low-cost domestic competition.

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

The Corporation also encounters substantial price competition. The expansion of low-cost carriers in recent years, along with the advent of Internet travel websites and other travel products distribution channels, has resulted in a substantial increase in discounted and promotional fares initiated by the Corporation's competitors. The decision to match competitors' fares, to maintain passenger traffic, results in reduced yields which, in turn, could have a material adverse effect on the Corporation's business, results from operations and financial condition. Furthermore, the Corporation's ability to reduce its fares in order to effectively compete with other carriers is dependent on the Corporation's ability to achieve acceptable operating margins and may also be limited by government policies to encourage competition. Likewise, competitors continue to pursue commission/incentive actions and, in many cases, increase these payments. The decision to modify Air Canada's current programs in order to remain competitive and maintain passenger traffic could result in increased costs to the Corporation's business.

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

Limitations Due to Restrictive Covenants

Some of the financing and other major agreements of the Corporation contain restrictive, financial (including in relation to liquidity and debt coverage ratios) and other 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 reducing the Corporation's liquidity, limiting the Corporation's ability to incur indebtedness, create liens, sell assets, make capital expenditures and engage in acquisitions, mergers or restructurings. Future financing and other major agreements may also be subject to similar covenants which limit Air Canada's operating and financial flexibility, which could materially and adversely affect the Corporation's profitability.

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

Refer to the "Liquidity" section of this AIF for a description of restrictive covenants relating to one of the Corporation's credit card processing agreements.

Airport User Fees and Air Navigation Fees

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

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 and others. These initiatives, including activities relating to their development and implementation, may be adversely impacted by a wide range of factors, many of which are beyond 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, and the modernization of its 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 delays by the manufacturers in the delivery of the wide-body aircraft, or an inability to remove, as planned, certain aircraft from the fleet in coordination with the planned entry into service of new aircraft, could adversely affect the implementation of the Corporation's business plan which may, in turn, have a material adverse effect on the Corporation's business, results from operations and financial condition.

Dependence on Technology

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

These technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunications failures, power failures, computer viruses, unauthorized or fraudulent users, and other operational and security issues. While the Corporation continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any such technology systems failure, interruption or misuse 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 available at airports or from airport authorities or otherwise required for the Corporation's operations such as fuel, aircraft and related parts and aircraft maintenance services (including maintenance services obtained from Aveos). In certain cases, goods and services may only be available from a limited number of suppliers and transition to new suppliers may take significant amounts of time and require significant resources. A failure, refusal or inability of a supplier may arise as a result of a wide range of causes, many of which are beyond the Corporation's control. Any failure or inability of the Corporation to successfully source goods and services, including by reason of a failure, refusal or inability of a supplier, or to source goods and services on terms and pricing and within the timeframes acceptable to the Corporation, could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Aeroplan

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

Jazz

Under the Jazz CPA, Jazz provides the Corporation's customers service in lower density markets and higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States and also provides valuable traffic feed to the Corporation's mainline routes. Pursuant to the terms of the Jazz CPA, the Corporation pays Jazz a number of fees which are determined based upon certain costs incurred by Jazz. The Corporation also reimburses Jazz, without mark-up, for certain pass-through costs incurred directly by Jazz, such as fuel, navigation, landing and terminal fees and certain other costs. Significant increases in such pass-through costs, the failure by Jazz to adequately fulfill its obligations towards 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.

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 International Airport. Delays or disruptions in service, including those due to security or other incidents, weather conditions, labour conflicts with airport workers, baggage handlers, air traffic controllers and other workers not employed by the Corporation or other causes beyond the control of the Corporation could have a material adverse impact on the Corporation's business, results from operations and financial condition.

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 with these investigations, which are likely to lead, or have led, to proceedings against the Corporation and a number of airlines and other cargo operators in certain jurisdictions including in the European Union where all formal procedural steps preceding a decision have been completed. 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.

During 2008, the Corporation recorded a provision of \$125 million as a preliminary estimate. This estimate is based upon the current status of the investigations and proceedings and the Corporation's assessment as to the potential outcome for certain of them. This provision does not address the proceedings and investigations in all jurisdictions, but only where there is sufficient information to do so. Management has determined it is not possible at this time to predict with any degree of certainty the outcome of all proceedings and investigations. Additional material provisions may be required.

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against Porter Airlines Inc. ("Porter") and other defendants (collectively the "Porter Defendants") after Jazz became aware that it would be excluded from operating flights from Toronto City Centre (Island) Airport (the "TCCA"). On October 26, 2007, the Porter Defendants counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming \$850 million in damages. Concurrently with the Ontario Superior Court of Justice proceedings, Jazz commenced judicial review proceedings against the Toronto Port Authority ("TPA") before the Federal Court of Canada relating to Jazz's access to the TCCA. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against Jazz and Air Canada making allegations and seeking conclusions similar to those in the Ontario Superior Court counterclaim. Management views Porter's counterclaims in both jurisdictions as being without merit.

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

Future Legal proceedings

Airlines are susceptible to various claims and litigation in the course of operating their business. Future litigation, including an increase in class action claims, could also have a material adverse effect on the Corporation's business and results from operations.

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 Airline Industry

Terrorist Attacks and Security Measures

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

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

As a result of the international outbreaks of Severe Acute Respiratory Syndrome (SARS) in 2003, the World Health Organization (the "WHO") issued on April 23, 2003 a travel advisory, which was subsequently lifted on April 30, 2003, against non-essential travel to Toronto, Canada. The seven-day WHO travel advisory relating to Toronto, the location of the Corporation's primary hub, and the international SARS outbreak had a significant adverse effect on passenger demand for air travel in the Corporation's markets and resulted in a major negative impact on traffic on the

entire network. The WHO warns that there is a serious risk of an influenza pandemic. An outbreak of influenza, SARS or of another epidemic disease (whether domestic or international) or a further WHO travel advisory (whether relating to Canadian cities or regions or other cities, regions or countries) could have a material adverse effect on passenger demand for air travel. Any resulting reduction in traffic in the markets served by the Corporation could have a material adverse effect on the Corporation's business, results from operations and financial condition.

Casualty Losses

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

Seasonal Nature of the Business, Other Factors and Prior Performance

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

As described elsewhere, demand for and cost of air travel is also affected by factors such as geopolitical and economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for 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, environment (including noise levels and carbon emissions) 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. For example, new and proposed legislation have been considered or adopted concerning carbon emissions emanating from the aviation industry; such legislative initiatives include, for example, market-based mechanisms called emissions trading systems which are being proposed and implemented to reduce the amount of pollutants in the atmosphere through the trading of emissions credits. The implementation of additional regulations or decisions, including those relating to carbon emissions, and others, whether by Transport Canada, the Competition Bureau and/or the Competition Tribunal, the Canadian Transportation Agency or other domestic or foreign governmental entities, may have a material adverse effect on 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.

The Corporation is subject to domestic and foreign laws regarding privacy of passenger and employee data, including advance passenger information and access to airline reservation systems, which are not consistent in all countries in which the Corporation operates. The need to comply 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 \$10 million per year. Alternative solutions, such as those envisioned by the International Civil Aviation Organization ("ICAO") and the International Air Transport Association ("IATA"), have not developed as planned, due to actions taken by other countries and the recent availability of supplemental insurance products. ICAO and IATA are continuing their efforts in this area, however, the achievement of a global solution is not likely in the immediate or near future. The U.S. federal government has set up its own facility to provide war risk coverage to U.S. carriers, thus removing itself as a key component of any global plan.

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

Risks Related to the Corporation's Relationship with ACE

Control of the Corporation and Related Party Relationship

As of the date of this AIF, ACE owns shares of Air Canada representing 75% of the voting interests in Air Canada. Voting control enables ACE to determine substantially all matters requiring security holder approval as a result of its voting interest in Air Canada. Accordingly, ACE would exercise control over corporate transactions that must be submitted to Air Canada's security holders for approval and effectively has sufficient voting power to effect or prevent a change in control of Air Canada. This voting control may discourage transactions involving shares in Air Canada, including as a result, transactions in which the public shareholders of Air Canada might otherwise receive a premium for their shares over the then-current market price. The interests of ACE may conflict with those of other shareholders.

Future Sales of Shares by or for ACE

ACE generally has the right at any time to spin-off the Air Canada shares that it owns or to sell a controlling interest in Air Canada to a third party, in either case without the approval of the public shareholders of Air Canada and without providing for a purchase of such shareholders' shares of Air Canada. Sales of substantial amounts of Air Canada's shares by ACE (including through a distribution of Air Canada's shares to ACE shareholders), or the possibility of those sales by ACE, could adversely affect the market price of the shares and impede Air Canada's ability to raise capital through the issuance of equity securities.

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

RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

At December 31, 2008, ACE held a 75% ownership interest in Air Canada. Air Canada has various related party transactions with ACE and Aveos Fleet Performance Inc. ("Aveos") (formerly called ACTS Aero Technical Support & Services Inc. ("ACTS Aero")), which conducts the business previously operated by ACTS LP ("ACTS") prior to the sale of ACTS announced by ACE and completed on October 16, 2007. For a summary of significant related party transactions, refer to section 14 of Air Canada's 2008 MD&A dated February 13, 2009 which can be found on SEDAR at www.sedar.com and which are hereby incorporated by reference in this AIF.

MARKET FOR SECURITIES

The Variable Voting Shares and the Voting Shares are traded on the TSX under the trading symbols "AC.A" and "AC.B", respectively. The following table sets forth the price range and trading volume of the Variable Voting Shares and the Voting Shares as reported by the TSX for the months of January to, and including, December 2008:

2008	Variable Voting Shares				Voting Shares			
	High	Low	Average Daily Trading Volume	Total Monthly Volume	High	Low	Average Daily Trading Volume	Total Monthly Volume
January	12.22	7.80	360,542	7,931,913	12.16	8.25	38,942	856,713
February	11.18	7.66	335,850	6,717,004	11.25	7.78	68,647	1,372,941
March	9.88	8.51	153,581	3,071,621	9.90	8.60	23,003	460,051
April	9.86	7.60	188,130	4,138,862	9.84	7.61	54,052	1,189,149
May	8.80	7.81	295,205	6,199,308	8.81	7.72	163,679	3,437,253
June	9.40	7.51	228,394	4,796,269	9.35	7.32	65,594	1,377,470
July	7.98	3.22	178,752	3,932,538	7.90	3.44	101,592	2,235,021
August	5.99	4.48	279,169	5,583,375	6.00	4.54	58,670	1,173,390
September	5.45	3.89	168,202	3,532,241	5.50	3.90	98,451	2,067,465
October	5.49	3.75	88,457	1,946,048	5.35	3.54	109,753	2,414,571
November	5.45	1.64	111,772	2,235,436	5.50	1.62	169,288	3,385,763
December	2.23	1.24	127,646	2,680,570	2.29	1.25	168,835	3,545,528

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, 2008.

Air Canada's current policy is to reinvest earnings in order to finance the growth and development of its business. As a result, Air Canada does not 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. As of March 27, 2009, 14,927,059 Class A Variable Voting Shares and 85,072,941 Class B Voting Shares were issued and outstanding. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares and the Voting Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of Air Canada's articles of amalgamation, as amended.

Variable Voting Shares

Voting

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

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

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

Dividends

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

Subdivision or Consolidation

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

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada ranking prior to

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

Conversion

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

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

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

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

Constraints on Ownership of Shares

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

Voting Shares

Voting

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

Dividends

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

Subdivision or Consolidation

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

Rights upon Liquidation, Dissolution or Winding Up

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

Conversion

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

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

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

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

Constraints on Ownership of Shares

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

Residency Declaration

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

Repurchase of Shares

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

Information and Reports

Air Canada 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 are required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in securities of Air Canada and ACE.

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.

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Bernard Attali ^{(1) (3) (5)} Paris, France	Senior Advisor, TPG Capital	November 15, 2006
Montie Brewer Hudson, Québec	President and Chief Executive Officer, Air Canada	March 8, 2005
Pat Jacobsen ^{(4) (5)} Vancouver, British Columbia	President, Jacobsen Advisors	May 21, 2008
Pierre Marc Johnson ^{(1) (3) (4)} Montreal, Québec	Counsel, Heenan Blaikie LLP	November 15, 2006 ⁽⁶⁾
Joseph B. Leonard ^{(3) (4)} Minneapolis, Minnesota	Corporate Director	May 21, 2008
Robert G. Long ^{(2) (5)} Thornhill, Ontario	Corporate Director	January 1, 2008
Arthur T. Porter ^{(2) (5)} Montreal, Québec	Director General and Chief Executive Officer, McGill University Health Centre	November 15, 2006
David I. Richardson ⁽¹⁾ Grafton, Ontario	Corporate Director	September 30, 2004 ⁽⁷⁾
Vagn Sørensen ^{(2) (3) (4)} Holte, Denmark	Senior Industrial Advisor, EQT Partners	November 15, 2006
Michael M. Wilson ^{(4) (5)} Calgary, Alberta	President and Chief Executive Officer, Agrium Inc.	May 21, 2008
Marvin Yontef ^{(1) (3)} Toronto, Ontario	Senior Partner, Stikeman Elliott LLP	September 30, 2004

(1) Is currently also a director of ACE.

(2) Member of the Audit, Finance and Risk Committee.

(3) Member of the Governance and Corporate Matters Committee.

(4) Member of the Human Resources and Compensation Committee.

(5) Member of the Nominating Committee.

(6) Mr. Johnson was also a director of Air Canada from May 2000 to September 2004.

(7) Mr. Richardson has been a director of Air Canada since September 2004 and became Chairman of the Board of Air Canada on January 1, 2008.

Unless otherwise indicated below, each of the directors has held the occupation listed above for more than five years. Mr. Brewer was Executive Vice President, Commercial, Air Canada from 2002 to 2004. Ms. Jacobsen was Chief Executive Officer, Translink from 2001 to 2008. Mr. Leonard was Chairman of AirTran Airways from 1999 to 2008 and was also Chief Executive Officer from 1999 to 2007. Mr. Sørensen was President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006.

Officers

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

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

<u>Name and Municipality of Residence</u>	<u>Position with Air Canada</u>	<u>Principal Occupation</u>	<u>Executive Officer Since</u>
David I. Richardson Grafton, Ontario	Chairman of the Board	Corporate Director	January 1, 2008
Montie Brewer Hudson, Québec	President and Chief Executive Officer	President and Chief Executive Officer, Air Canada	April 1, 2002
Bill Bredt Hudson, Québec	Executive Vice President and Chief Operating Officer	Executive Vice President and Chief Operating Officer, Air Canada	August 11, 2008
Michael Rousseau Oakville, Ontario	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer, Air Canada	October 22, 2007
Benjamin M. Smith Toronto, Ontario	Executive Vice President and Chief Commercial Officer	Executive Vice President and Chief Commercial Officer, Air Canada	April 26, 2004
Lise Fournel Lachine, Québec	Senior Vice President, E-Commerce and Chief Information Officer	Senior Vice president, E-Commerce and Chief Information Officer, Air Canada	April 10, 1995
Kevin Howlett Delta, British Columbia	Senior Vice President, Employee Relations	Senior Vice President, Employee Relations, Air Canada	March 18, 2002
Alan Butterfield Beaconsfield, Québec	Vice President, Air Canada Maintenance and Engineering	Vice President, Air Canada Maintenance and Engineering, Air Canada	February 19, 2007
Yves Dufresne Montreal, Québec	Vice President, International and Regulatory Affairs	Vice President, International and Regulatory Affairs, Air Canada	April 26, 2004
Lucie Guillemette Pierrefonds, Québec	Vice President, Revenue Management	Vice President, Revenue Management, Air Canada	February 6, 2008

Name and Municipality of Residence	Position with Air Canada	Principal Occupation	Executive Officer Since
Carolyn M. Hadrovic Beaconsfield, Québec	Corporate Secretary	Corporate Secretary, ACE and Air Canada	February 16, 2006
Chris Isford Winnipeg, Manitoba	Controller	Controller, Air Canada	November 1, 2006
Priscille LeBlanc Toronto, Ontario	Vice President, Corporate Communications	Vice President, Corporate Communications, Air Canada	November 8, 2007
David Legge Mississauga, Ontario	Vice President, Flight Operations	Vice President, Flight Operations, Air Canada	March 1, 2006
Charles D. McKee, Jr Toronto, Ontario	Vice President, Marketing	Vice President, Marketing, Air Canada	August 10, 2006
Scott Morey Burlington, Ontario	Vice President, Labour Relations	Vice President, Labour Relations, Air Canada	January 15, 2007
Claude Morin Montreal, Québec	Vice President, Global Sales	Vice President, Global Sales, Air Canada	March 2, 2000
David J. Shapiro Hampstead, Québec	Vice President and General Counsel	Vice President and General Counsel, Air Canada	November 12, 2004
Daniel Shurz Montreal, Québec	Vice President, Network Planning	Vice President, Network Planning, Air Canada	August 10, 2006
Susan Welscheid Town of Mont Royal, Québec	Vice President, Customer Service — In-Flight, Call Centres and Customer Relations	Vice President, Customer Service — In-Flight, Call Centres and Customer Relations, Air Canada	December 13, 1999
Chantal Baril Pointe-Claire, Québec	President and Chief Executive Officer, Air Canada Ground Handling Services	President and Chief Executive Officer, Air Canada Ground Handling Services	May 12, 2005

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. Bredt was Senior Vice President and Chief Operating Officer, Air Canada Jazz from 2004 to 2008. Mr. Rousseau was President, Hudson's Bay Company from 2006 to 2007 and Executive Vice President and Chief Financial Officer, Hudson's Bay Company from 2001 to 2006. Mr. Smith was President and Chief Executive Officer, Air Canada Vacations from 2006 to 2007 and Vice President, Network Planning, Air Canada from 2004 to 2006. Mr. Butterfield was Vice President, Line and Airframe Maintenance at United Airlines from 2004 to 2007. Mr. Dufresne was Senior Director, Bilaterals and International Regulatory Affairs, Air Canada from 1999 to 2004. Ms. Guillemette was Senior Director, Human Resources, Air Canada from 2007 to 2008 and Senior Director, Network Management, Air Canada from 2001 to 2007. Ms. Hadrovic was Deputy Secretary of ACE from 2004 to 2005 and Senior Counsel, Regulatory and International Law, Air Canada from 2000 to 2004. Mr. Isford was Manager, Financial Reporting, Air Canada from 2001 to 2004, Director, Financial Reporting, Air Canada from 2004 to 2005 and Senior Director, Financial Reporting, Air Canada from 2005 and 2006. Ms. LeBlanc was Senior Director, Corporate Communications, Air Canada from 2000 to 2007. Captain Legge was Director, Flight Technical, Air Canada from 2004 to 2006 and Chief Pilot, Flight Standards, Air Canada from 2002 to 2004. Mr. McKee was Senior Director, Strategic Marketing, Air Canada from 2001 to 2006. Mr. Morey was Director, Labour and Employee Relations, Coca Cola Bottling Company from 2004 to 2007. Mr. Morin was President and Chief Executive Officer, Air Canada Cargo from 2004 to 2008 and Vice President, Cargo from 2000 to 2004. Mr. Shapiro was Assistant General Counsel, Air Canada from 2000 to 2004. Mr. Shurz was General Manager, Bus Operations, Archer Garage for the Chicago Transit Authority from 2003 to 2005, Director, Business Development Airports, Air Canada, from 2005 to 2006 and Senior Director, Airports, Air Canada in 2006. Ms. Welscheid was Vice President, In-Flight Services, Air Canada from 2004 to 2007 and Vice President, People, Air Canada from 1999 to 2004. Ms. Baril was General Manager, Customer Service - Airports, Air Canada from 2003 to 2005.

As at March 27, 2009, the directors and officers mentioned above, as a group, owned, or had control or direction over, directly or indirectly, 100,136 Voting Shares representing approximately 0.12% of the outstanding Voting Shares and 9,300 Variable Voting Shares representing approximately 0.06% of the outstanding Variable Voting Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

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

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

- (ii) Pierre Marc Johnson was a director of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (iii) Lise Fournel was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (iv) Alan Butterfield was appointed Vice President, Line and Airframe Maintenance at United Airlines in March 2004 while United Airlines was operating under bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code;
- (v) 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;
- (vi) Susan Welscheid was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003; and
- (vii) Claude Morin was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003.

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

AUDIT, FINANCE AND RISK COMMITTEE

Audit Committee Charter

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

Composition of Audit Committee

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

Relevant Education and Experience of Audit Committee Members

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

- (i) Robert G. Long is the former Vice Chairman of Ernst & Young LLP. Mr. Long joined its predecessor Clarkson, Gordon & Co. in 1963. Mr. Long was also a member of the Executive and Management Committees of Ernst & Young LLP and a senior partner in the international audit practice until his retirement from the partnership in 2001. Mr. Long currently serves on the board of directors of the Dominion of Canada General Insurance, Empire Life Insurance Company, ICICI Bank Canada and Inscap Corporation. Mr. Long holds a Bachelor of Commerce degree from the University of Toronto and is a member and a Fellow of the Institute of Chartered Accountants of Ontario.
- (ii) Arthur T. Porter is the Director General and Chief Executive Officer of the McGill University Health Centre since 2004. Dr. Porter was previously President and Chief Executive Officer of the Detroit Medical Center from 1999 to 2003 and has extensive clinical, research and administrative experience in a university teaching hospital environment. Dr. Porter has also acted as consultant for several major companies in the airline and energy sectors with respect to human resources and logistic challenges, and teaches an MBA course on mergers and acquisitions at the University of Tennessee and on leadership at McGill’s School of Business Administration. Dr. Porter is a director and member of the Audit Committee of the Munder Funds, and the Chairman of CancerPartnersUK. Dr. Porter holds a Medical degree from the Cambridge School of Clinical Medicine, a Master of Business Administration from the University of Tennessee and certificates in Medical Management from Harvard University and the University of Toronto.
- (iii) Vagn Sørensen is Senior Industrial Advisor with EQT Partners, a private equity fund. Mr. Sørensen is also Chairman of KMD A/S, Select Service Partner Plc U.K, BTX Group A/S, Scandic Hotels AB and TDC A/S, and Vice Chairman of DFDS A/S and ST Global. Mr. Sørensen is a director of Braganza AS, FormueEvolution I+II and Scandinavian International Management Institute. Mr. Sørensen was previously President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006, and previously held various senior commercial positions with SAS Scandinavian Airlines System. Mr. Sørensen has served as Chairman of the Association of European Airlines, member of the Board of Governors of the International Air Transport Association and member of the Board of Vienna Stock Exchange. Mr. Sørensen holds a Master of Economics degree from Aarhus Business School, Denmark.

Pre-approval Policies and Procedures

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

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

Auditors' Fees

PricewaterhouseCoopers LLP has served as the Corporation's auditing firm since April 26, 1990. Fees payable for the years ended December 31, 2008 and December 31, 2007 to PricewaterhouseCoopers LLP and its affiliates are \$3,011,035 and \$2,354,582, respectively. Fees payable to PricewaterhouseCoopers LLP and its affiliates in 2008 and 2007 are detailed below.

	<u>Year ended December 31,</u> <u>2008</u>	<u>Year ended December 31,</u> <u>2007</u>
Audit fees	\$2,382,442	\$2,039,178
Audit-related fees	326,342	297,404
Tax fees	57,761	18,000
All other fees	244,490	Nil
	<u>\$3,011,035</u>	<u>\$2,354,582</u>

The nature of each category of fees is described below.

Audit fees

Audit fees were paid for professional services rendered for the audit of the Corporation's annual consolidated financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements.

Audit-related fees

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

Tax fees

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

Other fees

Other fees were paid for translation and advisory services. Translation services were previously provided by another entity.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

- (i) the Registration Rights Agreement which was entered into on the closing of the Initial Public Offering of Air Canada pursuant to which ACE has been granted certain demand and “piggy-back” registration rights by Air Canada, subject to certain restrictions, which enables ACE to require Air Canada to file a prospectus and otherwise assist with a public offering of Shares under Canadian securities laws, in accordance with the terms and conditions contained in the Registration Rights Agreement. The Registration Rights Agreement covers all Shares that are held by ACE or permitted transferees. The registration rights under the Registration Rights Agreement may be exercised in respect of all or, from time to time, in respect of a portion of the Shares held by ACE or permitted transferees, in accordance with the terms and conditions contained in the Registration Rights Agreement. The costs of any public offerings of Shares will be borne by Air Canada, other than any applicable underwriters' commissions which will be borne by ACE. The Registration Rights Agreement obligates Air Canada to provide indemnification and contribution for the benefit of ACE and its affiliates and representatives and any underwriters.
- (ii) the Aveos General Services Agreement described in Air Canada’s 2008 MD&A dated February 13, 2009 which can be found on SEDAR at www.sedar.com;
- (iii) the Aveos Maintenance Agreements described in Air Canada’s 2008 MD&A dated February 13, 2009 which can be found on SEDAR at www.sedar.com.

TRANSFER AGENT AND REGISTRAR

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

LEGAL PROCEEDINGS

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

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2008 or before such year but which are still in effect, and which are required to be filed with Canadian securities regulatory authorities in accordance with section 12.2 of National Instrument 51-102 — Continuous Disclosure Obligations, are as follows:

- (i) the Registration Rights Agreement;
- (ii) the Jazz CPA;
- (iii) the Aveos General Services Agreement;
- (iv) the Aeroplan General Services Agreement (“Aeroplan GSA”);
- (v) the Aircraft General Terms Agreement AGTA-ACN and related agreements between The Boeing Company and Air Canada dated November 4, 2005, described under “Aircraft Fleet”.

EXPERTS

The Corporation's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have issued an independent auditor's report dated February 12, 2009 in respect of the Corporation's consolidated financial statements as at December 31, 2008 and December 31, 2007 and for each of the years ended December 31, 2008 and December 31, 2007. 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 2008 annual and special meeting of shareholders which can be found on www.sedar.com and Air Canada's management proxy circular for its 2009 annual meeting of shareholders, scheduled for May 8, 2009, which will be filed on www.sedar.com in April 2009. Additional financial information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2008 and Air Canada's 2008 MD&A dated February 13, 2009. The above documents and additional information relating to Air Canada are available on SEDAR at www.sedar.com.

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

- (i) this AIF, together with any document incorporated herein by reference;
- (ii) the Consolidated Financial Statements of Air Canada as at and for the year ended December 31, 2008, including the auditor's report and notes related thereto, Air Canada's MD&A for the year ended December 31, 2008 and any interim financial statements filed after the audited financial statements for Air Canada's most recently completed financial year; and
- (iii) any other documents that are incorporated by reference into a short form prospectus pursuant to which securities of Air Canada are in the course of a distribution.

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

GLOSSARY OF TERMS

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

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

“**ACPPA**” means the Air Canada Public Participation Act, as amended;

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

“**Aeroplan GSA**” means a General Services Agreement between Air Canada and Aeroplan effective January 1, 2005 pursuant to which Air Canada provides Aeroplan with the services of a group of call centre employees of Air Canada and whereby Aeroplan must reimburse Air Canada for all costs, including salary and benefits, related to these call centre employees on a fully-allocated basis;

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

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

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

“**Air Canada Public Participation Act**” means the Air Canada Public Participation Act (Canada);

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

“**ATAC**” means the Air Transportation Association of Canada;

“**Audit Committee**” means the Audit, Finance and Risk Committee of Air Canada;

“**Aveos**” means Aveos Fleet Performance Inc. which was formerly called ACTS Aero Technical Support & Services Inc. (“ACTS Aero”);

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

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

“**CAIL**” means Canadian Airlines International Ltd.;

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

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

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

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

“**CIBC**” means the Canadian Imperial Bank of Commerce;

“**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*, as amended;

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

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

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

“**GECC**” means the 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 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 between Air Canada and Jazz Air Limited Partnership dated January 1, 2006;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“TGWU” means the Transport and General Workers Union;

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

“TSA” means the 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
OF THE BOARD OF DIRECTORS OF AIR CANADA**

1. Purpose

The purpose of the Audit Committee is as follows:

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

2. Composition and Qualification

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

3. Meetings and Procedure

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

4. Responsibilities and Duties

To achieve its objectives, the Audit Committee shall:

- (a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with Management, the external auditor and the internal auditor. This will include a review of the annual and quarterly financial statements and Management's Discussion and Analyses (“MD&As”) to be filed with regulatory authorities and provided to shareholders, and financial statements and other financial disclosure included in prospectuses, earnings press releases and other similar documents. The Audit Committee shall also review the Corporation's annual information form and other similar documents. These reviews will include:
 - (i) discussions with Management and the external auditor and a consideration of the report by the external auditor to the Audit Committee of matters related to the conduct of an audit;
 - (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by Management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by Management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case may be, of the accounting policies adopted by the Corporation, the process used by Management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;
 - (iii) a review of significant adjustments arising from an audit;

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

Committee to whom such authority is delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval;

- (ii) and implement from time to time a process in connection with non-audit services performed by the external auditor.
- (g) Review a report from the external auditor that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations and to confirm that it is not the subject of any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm.
- (h) Receive reports on any consultations between Management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which Management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with Management to satisfy itself that such matters are adequately guarded against.
- (i) At least once each year:
 - (i) Meet privately with Management to assess the performance of the external auditor.
 - (ii) Meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from Management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.
- (j) Evaluate the performance of the external auditor, and if so determined, recommend that the Board either take steps to replace the external auditor or provide for the reappointment of the external auditor by the shareholders.
- (k) Regarding the services provided by the internal audit department, the Audit Committee will:
 - (i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from Management during the performance of their work;
 - (ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit group;
 - (iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff and approve the appointment, dismissal or replacement of the head of the internal audit department;
 - (iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;
 - (v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and
 - (vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and Management.

- (l) Obtain from both the internal audit department and the Corporation's external auditor the major audit findings and internal control recommendations reported during the period under review, the response of Management to those recommendations, and review the follow-up performed by Management and the internal audit department in order to monitor whether Management has implemented an effective system of internal accounting control.
- (m) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Corporation's financial statements.
- (n) Establish policies and procedures for the receipt, retention and treatment of complaints received by the Corporation from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal accounting controls and internal or external auditing matters. The Audit Committee should be satisfied that sufficient controls are in place with the objective that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in place. The Audit Committee should also be satisfied that processes are in place with the objective that all such complaints, regardless of significance, are presented to the Audit Committee.
- (o) Review policies for approval of senior Management expenses.
- (p) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.
- (q) Review with Management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.
- (r) Review and approve all related party transactions as such term is defined from time to time in Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions of the Autorité des marchés financiers and Multilateral Instrument 61-101 issued by the Ontario Securities Commission, as may be amended from time to time.
- (s) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.
- (t) Whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Audit Committee as the Audit Committee may consider appropriate. The Corporation shall ensure that funding is available to the Audit Committee in respect of the aforementioned activities.
- (u) Report regularly to the Board on the activities, findings and conclusions of the Audit Committee.
- (v) Review this Charter on an annual basis and recommend to the Board any changes to it that the Audit Committee considers advisable.
- (w) Complete a self-assessment annually to determine how effectively the Audit Committee is meeting its responsibilities.
- (x) Perform such other functions as may be delegated from time to time by the Board.

- (y) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner of the external auditor of the Corporation.
- (z) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

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 any consultant recommended by Management;
- (vi) On the recommendation of Management, approve the actuarial valuation for the pension plans; and
- (vii) Approve the annual audited financial statements and the pension accounting for the pension plans.

(b) Public Disclosure

The Audit Committee shall:

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

(c) Risk Identification and Management

The Audit Committee shall make all reasonable efforts to identify and address material financial and other risks to the business and affairs of the Corporation and its subsidiaries and make recommendations in that regard to the Board of Directors of the Corporation. The Audit Committee shall review and discuss with Management, the internal audit department and the external auditor all major financial risk exposures and the steps Management has taken to monitor/control those exposures. The Audit Committee shall be entitled, from time to time, to retain experts

and consultants to assist the Audit Committee with the discharge of such mandate. The Audit Committee shall have the discretion in the discharge of these duties to address risks to the Corporation's and its subsidiaries' revenues and costs, as well as potentially corrupt or other practices that may lead to loss or depreciation of business reputation.

(d) Contingent Liabilities

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

(e) Corporate Authorizations Policies

The Audit Committee shall:

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

(f) Performance to Budget

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

(g) Responsibilities

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

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

August 7, 2008