AIR CANADA

2015

Annual Information Form

March 24, 2016

A STAR ALLIANCE MEMBER

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EXPLANATORY NOTES

Except as otherwise noted or where the context may otherwise require, the information in this Annual Information Form ("AIF") is current as at December 31, 2015.

Air Canada and the Corporation – References in this AIF to Air Canada and 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 in this AIF to the term "subsidiary" or "subsidiaries" refer, in relation to any entity, to any other entity, including a corporation or a limited partnership, which is controlled, directly or indirectly, by that entity.

Defined Terms – For an explanation of the capitalized terms and expressions and certain defined terms, refer to the section entitled "Glossary of Terms" at the end of this AIF.

Currency – All currency amounts used in this AIF 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.

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

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to important risks and uncertainties. Forward-looking 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, economic and geopolitical conditions, currency exchange, the ability to reduce operating costs and secure financing, energy prices, interest rates, competition, employee and labour relations, pension issues, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties, as well as the factors identified throughout Air Canada's public disclosure file available at **www.sedar.com** and, in particular, those identified in section 17 "Risk Factors" of Air Canada's 2015 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 17, 2016. The forward-looking statements contained or incorporated by reference in this AIF represent Air Canada's expectations as of the date of this AIF (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

Intellectual Property - Air Canada owns or has rights to trademarks, service marks or trade names used in connection with the operation of its business. In addition, Air Canada's names, logos and website names and addresses are owned or licensed by Air Canada. Air Canada also owns or has the rights to copyrights that also protect the content of its products and/or services. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this AIF may be listed without the ©, ® and ™ symbols, but Air Canada reserves all rights to assert, to the fullest extent under applicable law, its rights or the rights of the applicable licensors to these trademarks, service marks, trade names and copyrights. This AIF may also include trademarks, service marks or trade names of other parties. Air Canada's use or display of other parties' trademarks, service marks, trade names or products is not intended to, and does not imply a relationship with, or endorsement or sponsorship of Air Canada by, the trademark, service mark or trade name owners or licensees.

CORPORATE STRUCTURE

Name, Address and Incorporation

Air Canada was continued under the Canada Business Corporations Act ("CBCA") on August 25, 1988. Air Canada acquired Canadian Airlines International Ltd. ("Canadian Airlines") on July 6, 2000 and completed a corporate amalgamation with Canadian Airlines effective January 1, 2001, with the amalgamated entity being known as Air Canada. Pursuant to a consolidated plan of reorganization, compromise and arrangement of Air Canada and certain of its subsidiaries made pursuant to the *Companies' Creditors Arrangement Act* ("CCAA"), ACE Aviation Holdings Inc. ("ACE") became the parent holding company of the reorganized Air Canada on September 30, 2004. In 2006, ACE and Air Canada completed an initial public offering and secondary offering of 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").

Effective November 3, 2014, Air Canada's Class B voting shares and Class A variable voting shares were listed for trading on the Toronto Stock Exchange ("TSX") under the single ticker "AC". Prior to that date, the Voting Shares and the Variable Voting Shares were listed for trading on the TSX under the respective symbols AC.B and AC.A.

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 **aircanada.com.** For greater certainty, no information contained in Air Canada's website (or any other website referred to in this AIF) is incorporated to this AIF, except for such information, if any, which is expressly stated in this AIF to be incorporated to this AIF.

Additional information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2015 and Air Canada's 2015 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 17, 2016 ("Air Canada's 2015 MD&A"), both of which, along with this AIF, are available on SEDAR at **www.sedar.com** or on Air Canada's website at **aircanada.com**.

INTERCORPORATE RELATIONSHIP

At December 31, 2015, Air Canada did not have any subsidiaries which represented 10% or more of the consolidated assets, or 10% or more of the consolidated sales and operating revenues of Air Canada, or, which in the aggregate represented 20% or more of the total consolidated assets, or the total consolidated sales and operating revenues of Air Canada.

Air Canada directly and/or indirectly holds all of the issued and outstanding shares of certain subsidiaries. Air Canada holds, directly and indirectly, all the issued and outstanding limited partner units of Touram Limited Partnership doing business as Air Canada Vacations® ("Air Canada Vacations"), a limited partnership formed under the laws of the province of Québec. 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 and Air Canada holds a 100% interest in Touram General Partner Inc. As well, Air Canada holds, directly and indirectly, all the issued and outstanding limited partner units of Air Canada *rouge* LP, doing business as Air Canada *rouge*® ("Air Canada *rouge*"), a limited partnership formed under the laws of the province of Québec. Air Canada *rouge* General Partner Inc., a corporation incorporated under the laws of Canada, is the general partner of, and holds a 0.0001% interest in Air Canada *rouge* LP, and Air Canada holds a 100% interest in Air Canada *rouge* General Partner Inc.

THE BUSINESS

Overview

Air Canada is Canada's largest domestic, U.S. transborder and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market and in the international market to and from Canada. In 2015, Air Canada, together with Jazz Aviation LP ("Jazz") and other regional airlines operating flights on behalf of Air Canada under capacity purchase agreements, operated, on average, 1,579 daily scheduled flights to 193 direct destinations on five continents, comprised of 63 Canadian cities, 53 destinations in the United States and a total of 77 cities in Europe, the Middle East, Asia, Australia, the Caribbean, Mexico and South America. In 2015, Air Canada carried over 41 million passengers, an increase of nearly 7% from 2014 (over 38.5 million passengers).

At December 31, 2015, Air Canada mainline operated a fleet of 171 aircraft, comprised of 74 Airbus narrow-body aircraft, 60 Boeing and Airbus wide-body aircraft and 37 Embraer 190 regional jets, while Air Canada *rouge* operated a fleet of 39 aircraft, comprised of 20 Airbus A319 aircraft, four Airbus A321 aircraft and 15 Boeing 767-300 aircraft, for a total mainline fleet of 210 aircraft.

The ongoing renewal and expansion of Air Canada's wide-body fleet continues to be a key element of its strategy to profitably develop its international network and to become a global champion. In 2015, Air Canada took delivery of six Boeing 787 aircraft (for a total of 12 Boeing 787 aircraft at December 31, 2015, out of 37 Boeing 787 aircraft on order). These aircraft, with their lower operating costs, mid-size capacity and longer range, are driving new opportunities for profitable growth at Air Canada and allowing the airline to more efficiently operate routes previously operated with Boeing 767 aircraft and to serve new international destinations.

In order to improve the airline's profitability and competitive position in the leisure markets, Air Canada created a travel leisure group in 2012. The Air Canada Leisure Group represents a coordinated strategy which leverages the strengths of Air Canada, Air Canada *rouge*, the airline's lower-cost leisure airline, and Air Canada Vacations. Through Air Canada *rouge*, Air Canada is improving margins on leisure routes previously operated by the mainline fleet and is pursuing opportunities in new international leisure markets made viable by Air Canada *rouge*'s more competitive cost structure. Air Canada Vacations is a leading Canadian tour operator, developing, marketing and distributing vacation travel packages, operating in the outbound leisure travel market

(Caribbean, Mexico, U.S., Europe, Central and South America, South Pacific, Australia and Asia) and also offering cruise packages in North America, Europe and the Caribbean.

Air Canada enhances its domestic and transborder network through capacity purchase agreements (“CPAs”) with regional airlines, namely Jazz, Sky Regional Airlines Inc. (“Sky Regional”), Air Georgian Limited (“Air Georgian”) and Exploits Valley Air Services Ltd. (“EVAS”), which all operate flights on behalf of Air Canada under the Air Canada Express® banner (and are referred to as Contracted Carriers in this AIF). These carriers form an integral part of the airline’s international network strategy as they provide valuable traffic feed to Air Canada and Air Canada *rouge* routes. At December 31, 2015, the Air Canada Express fleet was comprised of 43 Bombardier regional jets, 85 Bombardier Dash-8 turboprop aircraft, 15 Embraer 175 aircraft and 17 Beech 1900 aircraft, for a total of 160 aircraft. As part of Air Canada’s continued focus on cost reduction, on February 2, 2015, Air Canada and Jazz concluded an amended and extended capacity purchase agreement (“Jazz CPA”) which allows for significant cost reductions, a stronger relationship and better alignment of interests over the long term.

Air Canada is a founding member of the Star Alliance® network. Through the 28 member Star Alliance® network, Air Canada is able to offer its customers access to approximately 1,300 destinations in 192 countries, as well as reciprocal participation in frequent flyer programs and the use of airport lounges and other common airport facilities.

Air Canada is able to build customer loyalty through Air Canada Altitude™, its frequent flyer program and through its relationship with Aimia Canada Inc. (formerly Aeroplan Canada Inc. and referred to as “Aeroplan” in this AIF), Air Canada’s loyalty program provider. Air Canada Altitude™ recognizes and rewards Aeroplan® members who are among Air Canada’s most frequent flyers by delivering a range of premium travel privileges and benefits depending on the status level they have reached. Air Canada offers its customers who are Aeroplan® members the opportunity to earn Aeroplan® Miles when they fly with Air Canada and with the 27 other Star Alliance® member airlines. Aeroplan is also Air Canada’s single largest customer. The relationship with Aeroplan is designed to provide a stable and recurring source of revenue from the purchase of Air Canada seats by Aeroplan, which in turn are provided to Aeroplan® members who choose to redeem their Aeroplan® Miles for travel on Air Canada. Additionally, Aeroplan® members may also choose to redeem their Aeroplan® Miles for travel with the Star Alliance® member airlines.

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

STRATEGY

Air Canada’s principal objective is to be among the best global airlines, to continually improve customer experience and employee engagement, and to create value for its shareholders. Air Canada is pursuing its principal goal of becoming a global champion through its focus on four core strategies:

- Identifying and implementing cost reduction and revenue generating initiatives;
- Pursuing profitable international growth opportunities and leveraging competitive advantages to appropriately enhance margins, in large part by increasing connecting traffic through international gateways and expanding and competing effectively in the leisure market to and from Canada;

- Engaging customers by continually enhancing their travel experience and providing a consistently high level of customer service, with additional emphasis on premium and business passengers and products;

- Fostering positive culture change through employee engagement programs, including meaningful investments in required training and other tools, that promote an appreciation of how the airline and its employees can work together in a supportive and enriching environment to successfully realize Air Canada's goals and objectives, including delivering top customer care.

Air Canada's key priorities and key achievements in 2015 are discussed in section 4 "Strategy" of Air Canada's 2015 MD&A, which section is incorporated into the AIF by this reference.

ROUTES AND SCHEDULES

In 2015, Air Canada, together with its Contracted Carriers, operated, on average, 1,579 daily scheduled flights to 193 direct destinations on five continents, comprised of 63 Canadian cities, 53 destinations in the United States and a total of 77 cities in Europe, the Middle East, Asia, Australia, the Caribbean, Mexico and Central and South America. Domestic, U.S. transborder and international departures accounted for approximately 66%, 26% and 8%, respectively, of the 1,579 average daily departures.

Air Canada's hubs are located in Toronto, Vancouver, Montréal and Calgary, each of which provides extensive access to domestic, transborder and international markets. Toronto Pearson International Airport ("Toronto Pearson Airport") is the largest hub in Canada and a significant airline origin and destination market in North America. In 2015, Air Canada, together with its Contracted Carriers, operated, on average:

- 349 daily departures from Toronto;
- 148 daily departures from Vancouver;
- 144 daily departures from Montréal, and
- 110 daily departures from Calgary.

Domestic Services

In 2015, Air Canada, together with its Contracted Carriers, provided the largest network and most extensive product offering in Canada, with scheduled direct passenger service to 63 Canadian destinations. The most important Canadian routes, in terms of operating revenues, are the transcontinental routes linking Toronto, Montréal and Ottawa with major western Canadian cities, including Vancouver, Calgary and Winnipeg. On a combined basis, Air Canada, together with its Contracted Carriers, operates a large number of short-haul routes, including Rapidair® routes, linking Toronto, Montréal and Ottawa. Air Canada, together with its Contracted Carriers, also offers frequent service linking major metropolitan centres within western Canada, and operates numerous flights between Calgary, Edmonton and Vancouver. In addition to transcontinental and commuter routes, Air Canada, together with its Contracted Carriers, provides service between and within Central Canada, the Prairies and the Atlantic provinces. In 2015, Air Canada rouge began operating flights on a limited number of new leisure-oriented domestic routes, including Halifax-Calgary, Toronto-Kelowna, and Toronto-Abbotsford, as part of our strategy for sustainable, profitable growth and to complement the mainline domestic network.

Transborder Services

With the most non-stop destinations and flights from Canada to the United States, Air Canada, together with its Contracted Carriers, carries more passengers between Canada and the United

States than any other airline. Air Canada, together with its Contracted Carriers, directly served 53 U.S. destinations in 2015. Air Canada's network reach is also enhanced through its extensive connections and code share flights with United Airlines, its Star Alliance® partner.

In the summer of 2016, Air Canada, along with Air Canada *rouge* and Air Canada Express®, is scheduled to provide new non-stop services between four key Canadian hubs and 11 U.S. cities. The new transborder routes will include new destinations, such as Toronto to Washington-Dulles, Toronto to Salt Lake City, Toronto to Jacksonville and Vancouver to San Jose, while also creating new city-pair routings, such as Toronto to Portland, Vancouver to Chicago, Montréal to Houston, Montréal to Denver and Calgary to San Francisco.

<u>International Services</u>

Air Canada is well positioned as Canada's largest scheduled international airline. In 2015, Air Canada provided scheduled service directly to 77 destinations in Europe, the Middle East, Asia, Australia, the Caribbean, and Central and South America. Air Canada offers transatlantic services to the United Kingdom, Germany, France, Switzerland, Israel, Ireland, Italy, Spain, Belgium, Denmark, Netherlands, Greece, Portugal, Turkey, United Arab Emirates and India. In 2015, Air Canada began operating non-stop service from Toronto to Mexico City, Amsterdam, Delhi and Dubai and introduced non-stop Air Canada *rouge* service from Montréal to Venice and from Vancouver to Osaka.

Air Canada's summer 2016 schedule includes the introduction of year-round, non-stop service from Vancouver to Brisbane, from Toronto to Seoul and from Montréal to Lyon. In addition, Air Canada *rouge* will operate seasonal non-stop service from Montréal to Casablanca, from Toronto to London-Gatwick, from Toronto to Warsaw; from Toronto to Prague, from Toronto to Budapest and from Toronto to Glasgow, and from Vancouver to Dublin.

Air Canada participates in a transatlantic joint venture with United Airlines and Deutsche Lufthansa AG, referred to as A++. By coordinating pricing, scheduling and sales (under the joint venture), Air Canada is better able to service customers by offering more travel options, greater choice and streamlined service on routings between North and Central America, and Africa, India, Europe and the Middle East.

Air Canada offers services to the Asia-Pacific market via its Vancouver, Calgary and Toronto hubs. Air Canada operates non-stop flights to Japan (Vancouver, Calgary and Toronto to Tokyo-Narita and Toronto to Tokyo-Haneda), China (Vancouver and Toronto to Beijing, Shanghai and Hong Kong) and Korea (Vancouver to Seoul). In 2015, Air Canada *rouge* service was introduced between Vancouver and Osaka-Kansai.

Air Canada has a market-leading position as the only carrier flying non-stop between Canada and South America. Air Canada and Air Canada *rouge* provide service to six destinations in South America via its Toronto hub (Sao Paolo, Buenos Aires, Santiago, Bogota, Rio de Janeiro and Lima). Air Canada and Air Canada *rouge* also offer service from Toronto to Panama City, making it the only Canadian network carrier operating between Canada and Panama, as well as to San Jose and Liberia in Costa Rica.

Air Canada also provides service to 10 destinations in Mexico/Central America and 30 destinations in the Caribbean.

THE AIR CANADA LEISURE GROUP

As discussed in the section entitled "The Business" of this AIF, the Air Canada Leisure Group was created in 2012 with a goal of improving the airline's earnings capabilities and strengthening its competitive position. This leisure travel group represents a coordinated strategy which leverages the strengths of Air Canada, Air Canada *rouge* and Air Canada Vacations.

Air Canada Vacations

Air Canada Vacations is a Canadian tour operator based in Montréal and Toronto. Air Canada Vacations operates its business in the outbound leisure travel market (Caribbean, Mexico, U.S., Europe, Central and South America, South Pacific, Australia and Asia) by developing, marketing and distributing vacation travel packages. Air Canada Vacations also offers cruise packages in North America, Europe and the Caribbean. Air Canada Vacations offers its products through its website at **vacations.aircanada.com** and a network of independent travel agencies across Canada.

Air Canada *rouge*

The ongoing strategic expansion of Air Canada *rouge* in parallel with the growth of Air Canada's mainline fleet continues. Since its first flight in July 2013, the leisure carrier has been deployed to a growing number of Caribbean destinations and select leisure destinations in the United States and in Canada, as well as in international leisure markets where demand is highly-elastic and responds positively to lower-priced, non-stop capacity. The ability of Air Canada *rouge* to leverage the strengths of Air Canada, including its extensive network with enhanced connection options, operational expertise and frequent flyer program, is a further competitive advantage, offering additional customer benefits vis-à-vis its competitors. Pursuant to the 2014 collective agreement concluded with the Air Canada Pilots Association ("ACPA"), Air Canada *rouge* may operate up to 50 aircraft (comprised of 25 narrow-body aircraft and 25 Boeing 767 aircraft). At December 31, 2015, Air Canada *rouge* operated 39 aircraft and expects to have a total of 50 aircraft in its fleet by summer of 2017.

Air Canada *rouge* has a cost structure consistent with that of its leisure market competitors, effectively lowering operating expense per available seat miles ("CASM") on leisure routes through increased seat density, lower wage rates, more flexible work rules, and reduced overhead costs. This is yielding enhanced margins and providing new opportunities for profitable growth in international leisure markets. The Air Canada *rouge* fleet is estimated to generate 25% lower CASM when compared to the same aircraft in the mainline fleet. Air Canada *rouge* has exceeded management expectations since its launch in 2013 and is delivering enhanced margins on leisure routes previously operated by Air Canada's mainline fleet in addition to opening new leisure route opportunities internationally. Air Canada *rouge* has been further strengthened by the additional flexibility provided through terms of new labour agreements with the unions representing its flight attendants and pilots.

CONTRACTED CARRIERS

As discussed in the section entitled "The Business" of this AIF, Air Canada enhances its domestic and transborder network through capacity purchase agreements with regional airlines, namely Jazz, Sky Regional, Air Georgian and EVAS, which all operate flights on behalf of Air Canada under the Air Canada Express® banner.

Jazz is an integral part of Air Canada's North American strategy. Jazz operates both domestic and transborder services for Air Canada pursuant to the Jazz CPA. Jazz also provides valuable feed traffic to Air Canada mainline and Air Canada *rouge* routes. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 711 departures per day to 56 destinations in Canada and 22 destinations in the United States as at December 31, 2015. Approximately 37% of Jazz's traffic connects to Air Canada's mainline network. In 2015, Jazz contributed approximately 18% of Air Canada's consolidated domestic Available Seat Miles ("ASMs") capacity and approximately 10% of Air Canada's consolidated transborder ASMs capacity.

In January 2015, Air Canada concluded an amended capacity purchase agreement with Jazz. The highlights of the new CPA include:

- Extension of the term by five years to December 31, 2025;
- Establishment of a pilot mobility agreement that provides Jazz pilots with access to pilot vacancies at Air Canada, thus allowing a significant reduction in Jazz operating costs;
- Simplification and modernization of the Jazz fleet which will provide improved service and greater efficiency;
- Reduction in Air Canada costs derived from a combination of improved fleet economics, greater network flexibility and reduced operating and labour costs; and
- Modification of the Jazz CPA fee structure, moving from a "cost plus" mark-up to a more industry standard fixed fee compensation structure. The new cost structure is consistent with Air Canada's cost reduction goals and is designed to improve Air Canada's competitiveness in regional markets.

Sky Regional operates five Q400 aircraft on 15 daily non-stop return flights between downtown Toronto and Montréal's Pierre Elliott Trudeau International Airport ("Montréal Trudeau Airport") and 15 Embraer 175 aircraft for Air Canada under a capacity purchase agreement. The Embraer 175 aircraft operate primarily on U.S. short-haul routes, from Toronto and Montréal, to destinations in the Northeast U.S.

Air Georgian operates a number of regional routes on Air Canada's behalf, including transborder routes, using Canadair regional jet aircraft and Beech 1900 aircraft while EVAS operates Beech 1900 aircraft on routes primarily within the Maritimes.

STAR ALLIANCE®

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

Since its inception in 1997, the Star Alliance® network has grown to include the following 28 airlines: Adria Airways, Aegean Airlines, Air Canada, Air China, Air India, Air New Zealand, ANA, Asiana Airlines, Austrian, Avianca, Avianca Brazil, Brussels Airlines, Copa Airlines, Croatia Airlines, EGYPTAIR, Ethiopian Airlines, EVA Air, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Shenzhen Airlines, Singapore Airlines, South African Airways, SWISS, TAP Portugal, THAI, Turkish Airlines and United Airlines.

Through Air Canada's strategic and commercial arrangements with Star Alliance® members and other airlines, Air Canada's customers have access to approximately 1,300 destinations in 192 countries, with reciprocal participation in frequent flyer programs and the use of airport lounges. The Star Alliance® network is an alliance that brings together flight networks, lounge access, check-in services, ticketing and dozens of other services to improve the travel experience for customers. The airlines have implemented initiatives, such as the common utilization of facilities, and are focusing on capturing potential synergies in additional areas. Air Canada code shares with all Star Alliance® members with the exception of Adria Airways, Copa, Shenzhen Airlines and Avianca Brazil. In 2015, Air Canada and Croatia Airlines entered into a codeshare agreement to improve air travel between Canada and Croatia via common European gateways. Furthermore, at the end of February 2016, Air Canada introduced a codeshare agreement with EVA Air applicable for select Asian gateways and domestic Canadian points to enhance travel between Canada and Taiwan.

Air Canada also code shares with a number of carriers who are not members of Star Alliance. These include Aer Lingus, Etihad, Jet Airways, Middle East Airlines and SriLankan. In 2015, Air Canada and Brazil's GOL Linhas Aéreas Inteligentes introduced a new codeshare agreement to improve air travel connectivity between Canada and Brazil.

In 2015, Air Canada and Air China announced that they were preparing for the launch of non-stop flights between Beijing and Montréal, creating the first direct trans-Pacific link between Asia and Montréal. Air China commenced flights in September 2015 (initially three-times-weekly with a Boeing 777-300ER aircraft) and Air Canada has placed its code for sale on the flights. In a second phase (subject to agreement of terms by the parties and requisite approvals by the relevant competition authorities) Air Canada and Air China intend to form a comprehensive revenue sharing joint venture in respect of all their flights between China and Canada.

CARGO

Air Canada Cargo provides direct cargo services to over 150 Canadian, U.S. transborder and international destinations and has sales representation in over 190 destinations in over 50 countries on five continents. With hubs in Montréal, Toronto, Vancouver, London and Frankfurt, its network is extended through interline agreements with other air carriers and through ground trucking services offered in selected markets, serving more than 300 destinations in all.

Air Canada Cargo is Canada's largest provider of air cargo services as measured by cargo capacity. Its primary customers are large freight forwarding companies and businesses whose products require the use of air services to expedite their time sensitive cargo shipments. It offers shipping solutions tailored to specific commodities and time requirements to meet the needs of its customers efficiently and cost-effectively.

With a profit-driven and innovation focus, Air Canada Cargo develops applications and utilizes technology to consistently improve operational and business processes and deliver quality service to its customers. It is active in many industry initiatives and assumes a position of leadership in moving the air cargo industry forward.

AIR CANADA'S ENVIRONMENTAL OBJECTIVES

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

Air Canada's main environmental objectives are as follows:

- Optimize energy consumption and minimize emissions resulting from air and ground operations including aircraft maintenance;
- Ensure efficient use of resources, minimize waste generation and effectively manage waste disposal;
- Minimize noise from aircraft operations;
- Respond effectively to accidental release of hazardous substances and eliminate occurrence of future incidents; and
- Promote sound environmental management policies and practices throughout the Corporation.

Air Canada provides its greenhouse gas emissions and climate change disclosure, annually, in the Air Canada Corporate Sustainability Report. Air Canada also monitors its carbon dioxide emissions for flights to and from EU destinations pursuant to the EU Emission Trading Scheme ("EU ETS"), including in respect of Air Canada *rouge*. Refer to the section entitled "Regulatory Environment" of this AIF for additional information.

FINANCIAL OVERVIEW

The table below sets forth certain of Air Canada's financial results for the years ended December 31, 2015, December 31, 2014 and December 31, 2013:

(Canadian dollars in millions)	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Passenger revenue	$ 12,420	$ 11,804	$ 11,021
Cargo revenue	506	502	474
Other revenue	942	966	887
Total operating revenues	**13,868**	**13,272**	**12,382**
Total operating expenses	**12,372**	**12,457**	**11,763**
Operating income	**1,496**	**815**	**619**
Non-operating expense	(1,188)	(710)	(617)
Income before income taxes	**308**	**105**	**2**
Income taxes	-	-	8
Net income	**$ 308**	**$ 105**	**$ 10**
EBITDAR (1)	**$ 2,534**	**$ 1,671**	**$ 1,515**
Adjusted net income (1)	**$ 1,222**	**$ 531**	**$ 340**

(1) These measures are non-GAAP financial measures. Reconciliations of these measures to comparable GAAP measures for the relevant periods can be found in Air Canada's MD&A reports, available at aircanada.com.

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, 2015, December 31, 2014 and December 31, 2013:

(in percent)	Year ended December 31, 2015	Year ended December 31, 2014	Year ended December 31, 2013
Domestic	35	37	38
Transborder	22	20	20
International	43	43	42
Total	**100 %**	**100 %**	**100 %**

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

For additional information on Air Canada's financial results for 2015, refer to Air Canada's consolidated financial statements for the year ended December 31, 2015, and Air Canada's 2015 MD&A, both of which are available on SEDAR at **www.sedar.com** or on Air Canada's website at **aircanada.com**.

SIGNIFICANT FINANCING TRANSACTIONS

Air Canada entered into the following significant financing transactions in the years 2013 through to 2015:

In 2015:

- In connection with the financing of one Boeing 787-8 delivered in January 2015 and eight new Boeing 787-9 aircraft, four of which were delivered in the second half of 2015 and the remainder of which are scheduled for delivery by end of March 2016, Air Canada completed a private offering of three tranches of enhanced equipment trust certificates ("EETC"s) with a combined aggregate face amount of approximately US$1.031 billion. The three tranches of EETC's have a combined weighted average interest rate of 3.81% per annum, and final expected distribution dates between of 2020 and 2027.

- In connection with the financing of three Boeing 787-9 aircraft and two Boeing 777-300ER aircraft, which are scheduled for delivery in April and May 2016, Air Canada completed a private offering of three tranches of EETCs with a combined aggregate face amount of approximately US$537 million. The three tranches of EETC's have a combined weighted average interest rate of 4.044% per annum, and final expected distribution dates between 2023 and 2027.

- Air Canada obtained financing of $118 million in connection with the delivery of one Boeing 787 aircraft. The financing is supported by a loan guarantee from the Export-Import Bank of the United States ("EXIM").

- The margin pricing of the Credit Facility obtained in 2013 and described further below was reduced by 125 basis points.

- The revolving credit facility portion (US$210 million) of the Credit Facility (described further below) obtained in 2013 was extended by one year so as to terminate in 2019. As at December 31, 2015, Air Canada had not drawn down on this revolving credit facility.

In 2014:

- Air Canada obtained financing of US$277 million and $312 million in connection with the delivery of six Boeing 787 aircraft. The financing is supported by a loan guarantee from EXIM.

- The revolving credit facility (described further below) obtained in 2013 was increased from US$100 million to US$210 million and the term was extended by one year so as to terminate in 2018.

- Air Canada completed a private offering of US$400 million of 7.75% senior unsecured notes due 2021 (the "Unsecured Notes"). Air Canada received net proceeds of approximately $432 million from the sale of the Unsecured Notes. The Unsecured Notes were sold at par and provide for interest payable semi-annually. The Unsecured Notes are senior unsecured obligations of Air Canada and are guaranteed on a senior unsecured basis by one of Air Canada's subsidiaries.

In 2013:

- Air Canada completed a private offering of three tranches of EETCs with a combined aggregate face amount of US$715 million, in connection with the financing of five new Boeing 777-300ER aircraft. Four of these five Boeing 777 aircraft were delivered in 2013 and the remaining aircraft was delivered in February 2014. The trust certificates have a combined weighted average interest rate of approximately 4.7% per annum, and a final expected distribution date of 2018 and 2025.

- Air Canada completed private offerings of senior secured notes, consisting of:

  (i) US$400 million principal amount of 6.750% senior secured first lien notes due 2019 and $300 million principal amount of 7.625% senior secured first lien notes due 2019 (the "Senior First Lien Notes"); and

  (ii) US$300 million principal amount of 8.750% senior secured second lien notes due 2020 (the "Senior Second Lien Notes" and together with the Senior First Lien Notes, the "Senior Notes").

In conjunction with the completion of the offering of the Senior Notes, Air Canada also completed the closing of its US$400 million senior secured (first lien) credit facility, comprised of a US$300 million term loan maturing in 2019 and a US$100 million revolving credit facility (collectively, the "Credit Facility"). The combined weighted average interest rate of these financing arrangements is approximately 7% per annum. Air Canada received, in total, net proceeds of approximately $1,300 million from the sale of the Senior Notes and from term loan borrowings under the Credit Facility (in each case, after deduction of the applicable transaction costs, fees and expenses). Air Canada applied a portion of such net proceeds and borrowings to purchase all of its then outstanding 9.250% Senior Secured Notes due 2015, 10.125% Senior Secured Notes due 2015 and 12.000% Senior Second Lien Notes due 2016 (collectively, the "Existing Notes") that were validly tendered on or before the early tender deadline (which was September 18, 2013), in connection with the cash tender offers commenced by the Corporation on September 5, 2013. In October 2013, Air Canada used a portion of the remaining net proceeds and borrowings to redeem the remaining Existing Notes of $70 million not tendered prior to the early tender deadline.

RATINGS

The Corporation’s access to long-term financing in the debt capital markets is dependent on its credit rating and market conditions. The Corporation believes that it continues to have access to the long-term debt capital markets. Rating downgrades could impact the Corporation’s ability to access the capital markets and/or increase its borrowing costs.

Air Canada’s corporate ratings, their long-term debt securities and/or enhanced equipment trust certificates (long-term aircraft financing instruments) are rated by the following credit rating agencies:

- Moody’s Investors Service, Inc. (“Moody’s”);
- Standard & Poor’s Rating Services (“Standard & Poor’s”);
- Fitch Ratings, Inc. (“Fitch”); and
- DBRS Limited (“DBRS”).

Air Canada Corporate Credit Ratings

Rating Agency	Rating	Rank
Moody's	B1 stable	14/21
Standard & Poor's	B+ positive	14/22
Fitch	B+ stable	14/21
DBRS	B(High) stable	14/26

Ratings for Air Canada Long-Term Debt Securities

(i) Senior First Lien Notes

Rating Agency	Rating	Rank
Moody's	Ba3	13/21
Standard & Poor's	BB	12/22
Fitch	BB+	11/21

(ii) Senior Second Lien Notes

Rating Agency	Rating	Rank
Moody's	B2	15/21
Standard & Poor's	BB	12/22
Fitch	BB+	11/21

(iii) Senior Unsecured Notes

Rating Agency	Rating	Rank
Moody's	B3	16/21
Standard & Poor's	B	15/22
Fitch	B	15/21

Ratings for Air Canada Enhanced Equipment Trust Certificates (EETC)

EETC 2013-1	Rating Agency	Rating / Rank A tranche	Rating / Rank B tranche	Rating / Rank C tranche
	Moody's	A3 (7/21)	Ba1 (11/21)	Ba3 (13/21)
	Standard & Poor's	A (6/22)	BBB- (10/22)	BB- (13/22)
	Fitch	A (6/21)	BBB- (10/21)	BB (12/21)

EETC 2015-1	Rating Agency	Rating / Rank A tranche	Rating / Rank B tranche	Rating / Rank C tranche
	Standard & Poor's	A (6/22)	BBB (9/22)	BB- (13/22)
	Fitch	A (6/21)	BBB- (10/21)	BB (12/21)
EETC 2015-2	**Rating Agency**	**Rating / Rank AA tranche**	**Rating / Rank A tranche**	**Rating / Rank B tranche**
	Moody's	A1 (5/21)	A3 (7/21)	Ba1 (11/21)
	Standard & Poor's	AA (3/22)	A (6/22)	BBB- (10/22)

General Note Regarding Long-Term Debt Securities:

The table below shows the range of ratings that each agency may assign to long-term debt securities.

Rating Agency	Highest Rating for Long-Term Securities	Lowest Rating for Long-term Securities
Moody's	Aaa	C
Standard & Poor's	AAA	D
Fitch	AAA	C

Moody's ratings are forward-looking opinions of the relative credit risks of the financial obligations issued by a company. Their long-term debt ratings are assigned to issuers or obligations with an original maturity of one year or more and reflect both the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of a default.

Standard & Poor's ratings are a forward-looking opinion about the creditworthiness of a company with respect to a specific financial obligation or a specific class of financial obligations. They take into consideration the likelihood of payment, i.e., a company's capacity and willingness to meet its financial commitments as they come due, and they assess terms such as collateral security and subordination, which could affect ultimate payment in the event of a default.

Fitch's ratings provide an opinion on the relative ability of a company to meet its financial commitments, including interest, repayment of principal, or counterparty obligations. They are used by investors as an indication of the likelihood of receiving the money owed to them in accordance with the terms on which they invested. Fitch's ratings are forward-looking and include their analysts' views of future performance. They are opinions on relative credit quality and not a predictive measure of specific default probability.

Ratings are intended to provide investors with an independent view of credit quality. They are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

During the last two years, each of the rating agencies listed above charged the company the usual customary fees for their ratings services which include annual surveillance fees and issuance fees for newly issued securities. Access to the rating agencies' websites are also typically included as part of their customary service.

PENSION PLAN ARRANGEMENTS

Air Canada maintains several defined benefit pension plans, including domestic registered pension plans, supplemental pension plans and international plans. Air Canada also has several defined contribution pension plans as well as plans providing other retirement and post-employment benefits to its employees. As at January 1, 2015, the aggregate solvency surplus in the domestic registered pension plans was $660 million. Based on the recently finalized actuarial valuations, as at January 1, 2016, the aggregate solvency surplus in Air Canada's domestic registered pension plans increased to $1.3 billion.

On May 26, 2015, Air Canada elected to opt out of the *Air Canada Pension Plan Funding Regulations, 2014* (the "2014 Regulations"), which had been effective since January 1, 2014, so that it now funds its Canadian domestic registered pension plans in accordance with normal funding rules. Under the 2014 Regulations, Air Canada was required to make solvency deficit payments of $200 million per year, on average, over a seven-year period. An agreement with the Government of Canada entered into in connection with these regulations contained several restrictions applicable while the 2014 Regulations were in effect, including a prohibition on dividends and share repurchases, however, the agreement allowed Air Canada to opt out at any time. The opt-out was effective January 1, 2015. Under normal funding rules, solvency deficit payments to Canadian domestic registered pension plans were reduced to $96 million in 2015. Total employer pension funding contributions during 2015 amounted to $312 million.

Based on the results of the actuarial valuations, as at January 1, 2016, all Canadian domestic registered pension plans are in a surplus position on both solvency and going-concern basis. No contributions are required or permitted to any plan for past service. For current service, depending on the level of surplus on a going concern basis, a contribution is either not permitted or is optional (except for one small plan), depending on applicable pension rules. Air Canada does not intend to make current service cost payments for 2016 for all plans for which it is allowed to do so. Taking this into account, on a cash basis, total pension funding contributions for 2016 are forecasted to be $76 million.

For additional information on Air Canada's pension plan arrangements, refer to Air Canada's consolidated financial statements for the year ended December 31, 2015, and section 9.7 "Pension Funding Obligations" of Air Canada's 2015 MD&A, which section is incorporated into the AIF by this reference.

FOREIGN EXCHANGE

Air Canada's financial results are reported in Canadian dollars, while a large portion of its expenses, debt obligations and capital commitments are in foreign currencies, primarily in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. Air Canada has a risk management objective to reduce cash flow risk related to foreign denominated cash flows. Additional information can be found in Air Canada's consolidated financial statements for the year ended December 31, 2015, and section 12 "Financial Instruments and Risk Management" of Air Canada's 2015 MD&A, which section is incorporated into the AIF by this reference.

AIRCRAFT FUEL

Aircraft fuel is a major expense in the airline industry and the single largest expense to Air Canada, representing approximately 23% of Air Canada's 2015 total operating expenses. Additional information can be found in Air Canada's consolidated financial statements for the year ended December 31, 2015, and section 12 "Financial Instruments and Risk Management" of Air Canada's 2015 MD&A, which section is incorporated into the AIF by this reference.

AIRCRAFT FLEET

For information relating to Air Canada's fleet as at December 31, 2015 and fleet plans, refer to section 8 "Fleet" of Air Canada's 2015 MD&A, which section is incorporated into the AIF by this reference.

EMPLOYEES AND ARRANGEMENTS WITH UNIONS

The following table provides a breakdown of Air Canada's average full-time equivalent ("FTE") employees for the years 2015 and 2014 together with the unions that represent them.

Employee Group	**Union** (1)	**2015**	**2014**
Management and Administrative Support	n/a (2)	3,874	3,726
Pilots	ACPA	2,814	2,791
Flight Attendants	CUPE	6,213	6,326
Customer Sales, Service Agents and Flight Dispatchers	Unifor/IBT /CALDA	3,984	3,604
Technical Services, Ramp and Cargo	IAMAW	7,508	7,388
United Kingdom Unionized Employees	UNITE	175	305
Other Unionized	various	295	286
Total		**24,863**	**24,426**

(1) *ACPA: Air Canada Pilots Association; CUPE: Canadian Union of Public Employees; CALDA: Canadian Airline Dispatchers Association; Unifor (formerly CAW: Canadian Auto Workers); IBT: International Brotherhood of Teamsters; IAMAW: International Association of Machinists and Aerospace Workers; and UNITE.*

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

Most of Air Canada's employees are unionized. In 2014, 2015 and early 2016, Air Canada entered into the following labour agreements:

- IAMAW (Maintenance, Operations and Baggage) – In 2016, Air Canada and the IAMAW, representing approximately 7,500 technical maintenance, operational support and airport baggage handlers, concluded a new contract providing collective agreement terms for 10 years, ending April 1, 2026, subject to certain renegotiation provisions over this period.

- CALDA (Dispatchers) – In 2016, Air Canada and CALDA, representing flight dispatchers, concluded a new contract providing collective agreement terms for 12 years, ending February 29, 2028, subject to certain renegotiation provisions over this period.

- CUPE (Flight Attendants) - In 2015, Air Canada and CUPE, representing over 7,000 flight attendants, concluded a new contract providing collective agreement terms for 10 years, ending March 31, 2025, subject to certain renegotiation provisions over this period.

- Unifor (Customer Service and Sales Agents) – In 2015, Air Canada and Unifor, representing the airline's approximately 4,000 customer service and sales agents concluded a new contract providing collective agreement terms for five years, ending February 28, 2020.

- International Brotherhood of Teamsters (IBT) – In 2015, Air Canada and IBT, representing 650 airport, cargo and call centre employees in the U.S., concluded a new contract providing collective agreements terms for seven years, ending June 30, 2019.

- UNITE – In 2015, Air Canada and UNITE, representing U.K.-based employees, concluded a new contract providing collective agreements terms for five tears, ending December 31, 2019.

- ACPA (Pilots) – In 2014, Air Canada and ACPA, representing approximately 3,000 pilots, concluded a new contract providing collective agreement terms for 10 years, ending September 29, 2024, subject to certain renegotiation provisions and benchmarks over this period.

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, 2015:

Principal Properties	**Description**	**Square Footage**	**Nature of Title**
Montréal – Air Canada Centre Air Canada Headquarters	Head office and training facilities	272,000	Owned facilities on leased land
Montréal 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	180,000	Leased

Toronto Pearson Airport – Maintenance Base	Offices, hangars, workshops and simulators	1,021,632	Owned facilities on leased land
Toronto Pearson Airport	Offices, workshops, training and equipment storage	258,757	Leased
Toronto – Cargo Facility and Equipment Maintenance	Offices, cargo and equipment maintenance facilities	426,000	Leased
Brampton, Ontario SOC Building	Systems Operations Control	74,000	Owned facility on owned land
Vancouver – Technical Operations Centre	Offices, hangars, workshops and simulators	1,087,985	Owned facilities on leased land
Vancouver – South Hangar	Offices, hangars, workshops, stores	131,626	Owned facilities on leased land
Calgary International Airport	Hangar, commissary, ground support equipment and warehouse	267,891	Owned facilities on leased land
Winnipeg – Air Canada Building	Offices and computer centre	394,650	Owned facility 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, Montréal, Vancouver, Calgary, and London (England). A portion of the hangar space and aircraft maintenance facilities in Calgary, Montréal and Toronto are leased or subleased by Air Canada to Jazz and other third parties.

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 Express®, Air Canada Jetz®, Air Canada Jazz®, Jazz®, Air Canada Vacations®, Vacances Air Canada®, Executive First®, Executive Class®, AC Priority™, AC Air Freight®, Rapidair®, Maple Leaf™, Feuille d'érable™, Maple Leaf Lounge™, Air Canada Elite®, Air Canada Super Elite®, Air Canada *rouge*®, Air Canada Altitude®, Altitude Prestige™, Altitude Elite®, Altitude Super Elite® and related design marks such as the Air Canada Roundel®. Air Canada has granted Aeroplan 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 on behalf of Air Canada. Air Canada protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions, confidentiality procedures and other means. Employees, suppliers, 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.

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 Government of Canada and is the responsibility of the Minister of Transport. The Canadian Transportation Agency, an independent administrative body of the Government of Canada, acts as a quasi-judicial tribunal to resolve a range of commercial and consumer transportation-related disputes and acts as an economic regulator, to make determinations and to issue authorities, licenses and permits related to the air transportation industry. NAV Canada, a private sector, non-share capital corporation, 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.

On February 25, 2016, the Minister of Transport tabled in Parliament the *Canada Transportation Act* ("CTA") Review Report, which discusses and makes recommendations across a range of issues, including air policy, infrastructure, and governance. It is not possible to predict with any degree of certainty which, if any, regulatory or other changes would be undertaken by the Minister of Transport as a result of this review.

Transborder Services

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

The Open Skies Agreement between Canada and the United States, which came into force in 2007, further liberalized air transportation services. 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 Government of Canada 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 code sharing and improved flexibility on cargo services. While the ratification process is on-going, these rights and others contained in this new air transport agreement have been available, on a provisional basis, since December 18, 2009.

Charter Services

Subject to certain exceptions, charter operations are generally not covered by bilateral agreements. Canadian government policy permits Canadian carriers to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities.

The policy governing international passenger charter air services does not contain restrictions relating to advance booking, minimum stay requirements or prohibitions on one-way travel, however it requires that the entire seating capacity of an aircraft is chartered and that charter carriers are prohibited from selling seats directly to the public.

Foreign Ownership Rules

The *Budget Implementation Act* 2009, contains provisions whereby the provisions relating to voting securities in the *Air Canada Public Participation Act* (“ACPPA”) would be repealed and the CTA would be amended to provide the Governor in Council with flexibility to increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These provisions will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Finance, in the case of the ACPPA, and on the recommendation of the Minister of Transport, in the case of the CTA. Management cannot predict if or when new provisions relating to foreign ownership limits which were also discussed as part of the CTA Review Report (referred to earlier in this AIF) will come into force.

Carbon Emissions

There continues to be heightened focus on carbon (sometimes referred to as “greenhouse gas”) emissions emanating from the aviation industry, and legislation in various jurisdictions is being considered or adopted. Legislative initiatives include, for example, market-based mechanisms such as emissions trading systems, designed to reduce the total amount of carbon emissions by all targeted industries through the setting of permissible emissions allowances for these industries. Individual operators within those industries are generally allocated a certain number of free emission allowances and may purchase additional allowances from the pool of permissible emissions allowances. In certain circumstances, they may also purchase or sell permissible emissions allowances among operators across different industries and may obtain emissions credits by investing in certified carbon reduction projects or by taking certain early action in reducing their carbon footprint.

The European Union passed legislation for an emission trading scheme (“ETS”), which included carbon emissions from aviation commencing in January 2012, including for flights operated between Canada and countries within the European Union. As a result of international opposition, the European Parliament and Council announced that they would be exempting all flights between Europe and third countries from the EU ETS until and inclusive of 2016, pending the creation by 2020 of an ICAO led global market-based measure (“MBM”) that is likely to reduce greenhouse gas emissions. If reinstated, the EU ETS would be expected to result in increased costs relating to the purchase of emissions allowances. The net financial impact would, in part, depend upon how much of such cost, if any, would be recovered, including in the form of higher passenger fares and cargo rates. Management cannot predict the outcome of the EU ETS or of ICAO’s efforts to set-up a global MBM or the impact of the EU ETS or a global MBM would have on Air Canada, its business, results from operations and financial condition.

At the Paris Conference of the Parties (COP21) in late 2015, 195 countries adopted a global climate agreement set to come into force in 2020 (the “Paris Agreement”). The Paris Agreement includes a long-term goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels. Management cannot predict with any degree of certainty the outcome of any climate change framework including its effect on air transportation or Air Canada.

In 2012, the Government of Canada and the Canadian aviation industry agreed on Canada’s Action Plan to Reduce Greenhouse Gas Emissions from Aviation, which is a voluntary action plan that sets an aspirational goal to improve fuel efficiency from a 2005 baseline by an average annual rate of at least 2% per year until 2020 (the “Voluntary Action Plan”). In 2015, the Voluntary Action Plan was reviewed and a 1.5% annual improvement in fuel efficiency was considered to be a more realistic target for Canada. The three principle measures to achieve this target are fleet renewals and upgrades, more efficient air operations, and improved capabilities in air traffic management. The Voluntary Action Plan also supports the aspirational goal of carbon neutral growth from 2020 onwards and absolute greenhouse gas emission reductions by 2050. The Canadian Industry reports annually to the Government of Canada on progress towards the targets.

Official Languages Act

Pursuant to the ACPPA, 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 its direct employees to work in either official language (Part V of the OLA) where required by regulation. The ACPPA also imposes on Air Canada the obligation to ensure any of its subsidiaries' customers can communicate with the subsidiary in respect of air services and incidental services, and obtain those services, in either official language, where the number of customers warrants such services.

Pursuant to the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language.

Anti-Terrorism Legislation

On January 30, 2015, Bill C-51, an *Act to enact the Security of Canada Information Sharing Act and the Secure Air Travel Act, to amend the Criminal Code, the Canadian Security Intelligence Service Act and the Immigration and Refugee Protection Act and to make related and consequential amendments to other Acts* (the "Anti-Terrorism Act") was tabled for first reading before the House of Commons. The Anti-Terrorism Act would provide a new legislative framework for identifying and responding to persons who may engage in an act that poses a threat to transportation security or who may travel by air for the purpose of committing a terrorism offence. The Anti-Terrorism Act would authorize the Minister of Public Safety and Emergency Preparedness to establish a list of such persons and to direct air carriers to take any necessary actions to prevent the commission of such acts. The Minister of Transport would also have the power to detain an aircraft for inspection and the owner would be required to give such Minister all reasonable assistance to enable them to carry out the inspection. If such Minister is of the opinion that the owner of the aircraft has failed to comply with the legislation, the Minister may make orders in respect of the movement of the aircraft. Management cannot predict if and when the Anti-Terrorism Act may be adopted.

Security

Air Canada is committed to the security of its operations, passengers, employees and assets. Air Canada works with the other stakeholders in the aviation industry, as well as regulators, airports, industry associations, service providers and other third parties, to ensure that the appropriate security measures are implemented in an efficient and effective manner.

Transport Canada regulations require the aviation industry to put security management systems in place. Air Canada has an approved security management system in place which it continues to monitor and evolve. The security management system uses threat/risk assessments in conjunction with government regulations to define appropriate security measures and then monitors compliance through audits and incident reporting. Air Canada has been using its security management system as part of the IATA Operational Safety Audit ("IOSA") compliance process and has found it to be beneficial in driving continuous improvement in the security of its operations.

Air Canada's Corporate Security department provides 24/7 support to the operations world-wide to ensure the security and compliance of the airline's operations.

Safety

In order to improve the safety performance of Canadian air operators and increase accountability in the aviation sector, Canadian Aviation Regulations require air operators to implement a Safety Management System ("SMS") in their organizations and appoint executives who are accountable for safety.

Air Canada has an approved safety management system in place which meets and exceeds the requirements outlined within the Canadian Aviation Regulations. Air Canada's President and Chief Executive Officer has been appointed as the Accountable Executive ("AE") for Air Canada's Safety Management System and Air Canada's Managing Director, Corporate Safety, Environment and Quality is responsible for the day-to-day administration and oversight of the Safety Management System on behalf of the AE.

The development of Safety Management Systems in Canada continues to evolve. In October 2013, Air Canada completed a full SMS assessment with Transport Canada. This process ensures that Air Canada is fully committed to the principles of the SMS program and that its operations are in full compliance with all aspects of an effective SMS program. Further, Air Canada, as a founding member of the Star Alliance® network, is actively engaged in helping ensure that the Star Alliance® members, including Air Canada, are guided by best industry practices and enhanced safety performance. Additional non-regulated measures, such as the completion of Line Operations Safety

Audits, the establishment of Flight Data Monitoring programs, the implementation of Fatigue Risk Management Programs and compliance with IATA, Operational Safety Audit standards are key examples where Air Canada is among those leading international safety efforts.

Air Canada is an active member of the international safety team and actively involved in IATA, ICAO, A4A, NACC and regional safety meetings and working groups. Air Canada is closely aligned with IATA and the Star Alliance® network concerning international benchmarking of standards and safety performance and is sharing its experience and knowledge, especially in the field of Flight Data Analysis, to help develop advanced safety tools to better understand risk, threats and hazards.

The IATA IOSA program is an internationally recognized and accepted evaluation system designed to assess the operational management and control systems of an airline. IATA members are IOSA registered and must remain registered to maintain their IATA membership. Successful completion of a biennial audit is a requirement for Air Canada to remain a Star Alliance member. In 2015, Air Canada and Air Canada *rouge* conducted the IOSA audits in parallel to each other. Both airlines successfully completed the IOSA audit comprising over 900 standards to be met using a structured audit methodology, including standardized checklists, with the following results; Air Canada received zero findings, four observations while Air Canada *rouge* received zero findings, three observations.

Privacy

Air Canada is subject to applicable Canadian and foreign privacy laws regarding the collection, use, disclosure and protection of passenger and employee data. In Canada, Canada's federal private sector privacy legislation, the *Personal Information Protection and Electronic Documents Act* (Canada) (the "PIPEDA"), governs the collection, use and disclosure of personal information in the course of commercial activities by a federally-regulated business. In addition, the PIPEDA regulates the handling of employee personal information by federally-regulated employers. With certain exceptions, the PIPEDA also applies to the collection or disclosure of personal information across provincial or Canadian international borders and within provinces without substantially similar private sector privacy legislation. The PIPEDA requires informed implicit or explicit consent, as the case may be, by the individuals whose personal information is collected and used. The personal information may then only be used for the purposes for which it was originally collected or for other purposes specified in, or allowed by, the PIPEDA. Air Canada has privacy policies which are designed to meet or exceed the requirements of such privacy legislation. The *Digital Privacy Act* (assented to June 18, 2015) amended PIPEDA to, among other things, specify the elements of valid consent and permitted purposes for the collection, use or disclosure of personal information. The *Digital Privacy Act* also proposes to amend PIPEDA to provide data breach notification and record keeping requirements, which amendments have yet to come into force. Management cannot predict if or when such provisions will come into force.

On July 1, 2014, the *Act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act* came into force in Canada. Also known as "*Canada's Anti-Spam Law*" or "CASL", this legislation, principally regulates if, when and how commercial electronic messages may be sent. Air Canada implemented processes in advance of July 1, 2014 to ensure on-going compliance with the requirements of CASL.

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

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, Montréal, Vancouver and Calgary.

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, 2015 to December 31, 2015, Air Canada, together with its Contracted Carriers, led the Canadian airline industry's domestic scheduled capacity with an estimated market share of approximately 55% based on Available Seat Miles ("ASMs"). Air Canada is Canada's largest domestic airline. Jazz is the largest regional airline in Canada and operates regional services for Air Canada under the Jazz CPA. Air Canada, together with its Contracted Carriers, carries more passengers, serves more non-stop destinations and provides more flights in the domestic market than any other airline.

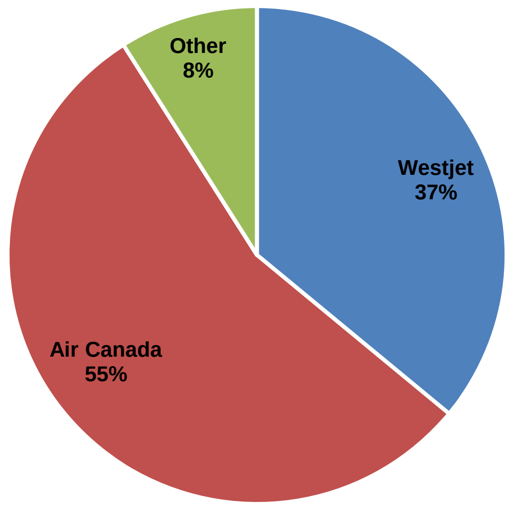
Competition in the domestic market is primarily from WestJet. As at December 31, 2015, Air Canada, together with its Contracted Carriers, provided service to 63 domestic destinations within Canada, while WestJet provided service to 38 domestic destinations.

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

Other airlines operating in the domestic market with whom Air Canada competes include: Air Creebec, Canadian North, Central Mountain Air, First Air, Hawkair, Pacific Coastal Airlines, Pascan Aviation, Provincial Airlines, and to a lesser extent: Air North, Air Inuit, and Bearskin Airlines.

The following chart illustrates the estimated share of the overall domestic scheduled capacity provided by Air Canada, together with its Contracted Carriers, as measured by ASMs.

Estimated Domestic Scheduled Capacity Market Share



(1) *Source: OAG data based on ASMs during the period from January 1, 2015 to December 31, 2015; represents the estimated share of the overall domestic scheduled capacity of Air Canada and its Contracted Carriers. The estimated share of the overall domestic scheduled capacity of the other carriers presented also includes the domestic scheduled capacity of their respective affiliated or contracted regional carrier(s), when applicable.*

U.S. Transborder Market

In 2015, there were, on average, 1,080 daily scheduled transborder flights operated between Canada and the United States across the industry. Toronto Pearson Airport, Air Canada's largest hub, is the world's largest originator of flights into the United States.

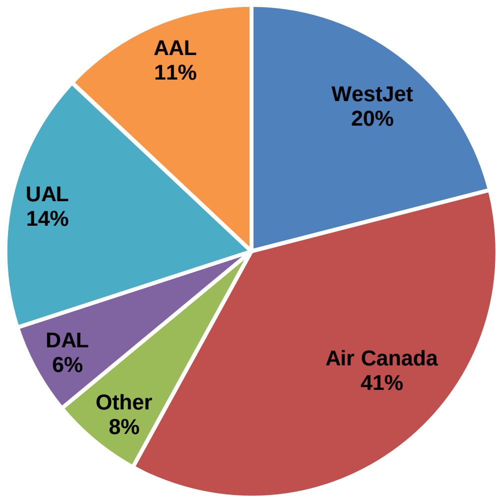
Air Canada is the largest provider of scheduled passenger services in the U.S. transborder market. Based on OAG data, during the period from January 1, 2015 to December 31, 2015, Air Canada, together with its Contracted Carriers, provided more U.S. transborder scheduled capacity than any other airline with an estimated market share of approximately 41% based on ASMs.

Air Canada, together with its Contracted Carriers, carries more passengers, serves more non-stop destinations and provides more flights in the U.S. transborder market than any other airline. Competition in the U.S. transborder market is primarily from U.S. network carriers and their regional affiliates and from WestJet. The U.S. network carriers tend to operate flights between the United States and Canada into their hubs, connecting to flights to other U.S. destinations. U.S. network carriers with U.S. transborder operations include Alaska Airlines, American Airlines, United Airlines and Delta Airlines. In 2015, Air Canada, together with its Contracted Carriers, provided service to 53 U.S. destinations from Canada, while U.S. network carriers provided service to 21 U.S. destinations from Canada and WestJet provided service to approximately 25 U.S. destinations.

Canadian low-cost carriers also operate U.S. transborder services and may further expand these operations in the future.

The following chart illustrates the estimated share of the overall U.S. transborder scheduled capacity of Air Canada, together with its Contracted Carriers, as measured by ASMs.

Estimated Transborder Scheduled Capacity Market Share



(1) Source: OAG data based on ASMs during the period from January 1, 2015 to December 31, 2015; represents the estimated share of the overall transborder scheduled capacity of Air Canada and its Contracted Carriers. The estimated share of the overall transborder scheduled capacity of the other carriers presented also includes the transborder scheduled capacity of their respective affiliated or contracted regional carrier(s), when applicable.

(2) AAL = American Airlines; DAL = Delta Air Lines; UAL = United Airlines.

International Market

Air Canada principally services the international market from three strategically-positioned airports, which are further described below:

- 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, Mexico, Middle East, South America, Asia and Africa. Toronto Pearson Airport offers, on average, approximately 561 daily departures, of which 17% industry-wide are to international non-U.S. destinations.

- Montréal Trudeau Airport is located in Canada's second largest city, and offers regular non-stop service destinations in Europe, Central America, Caribbean, Mexico, Middle East, Asia and Africa. Montréal Trudeau Airport offers, on average, approximately 254 daily departures, of which 15% industry-wide are to international non-U.S. 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, as well as flights to select destinations in Europe. Vancouver International Airport offers, on average, approximately 322 daily departures, of which 9% industry-wide are to international non-U.S. destinations.

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, 2015 to December 31, 2015, 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 37% based on ASMs.

Canadian low-cost carriers as well as Canadian charter airlines and tour operators, such as Transat A.T. Inc. (“Transat”) and Sunwing Airlines (“Sunwing”), also operate services to Mexico and the Caribbean and certain of them have expressed an intention to further expand these operations in the future. In 2015, WestJet, Sunwing and Transat provided service to 34, 26 and 26 destinations, respectively, to Mexico, Central America and the Caribbean. Air Canada *rouge* is enabling Air Canada to compete more effectively against these low-cost carriers serving international leisure destinations.

The continued strategic expansion of Air Canada *rouge* in conjunction with Air Canada’s mainline fleet renewal is a key driver of the airline’s strategy for sustainable, profitable growth. Since its first flight in July 2013, Air Canada *rouge,* Air Canada’s leisure airline, has been deployed to a growing number of Caribbean destinations, select leisure destinations in the United States and in Canada, as well as in international leisure markets. In 2015, Air Canada *rouge* service was introduced from Montréal to Venice and from Vancouver to Osaka. In addition, mainline services from Toronto Pearson Airport to Fort Lauderdale, Lima, Panama City and Sarasota; from Montréal to Fort Lauderdale, Punta Cana and Varadero; and seasonal service from Vancouver to Kona were transferred to Air Canada *rouge*.

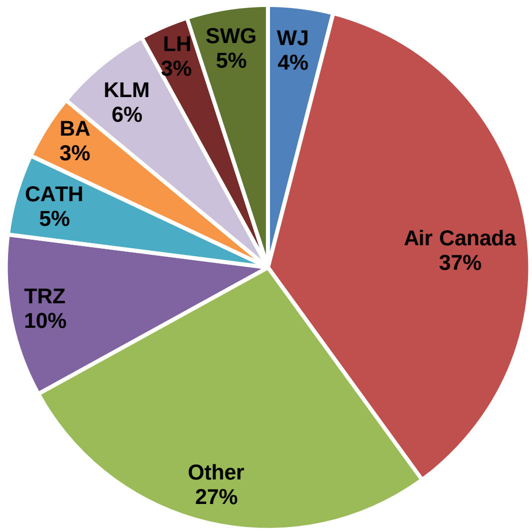
In the transatlantic and transpacific markets, Air Canada competes primarily with foreign network carriers and, to a lesser extent, with charter carriers on higher-density routes during peak travel seasons. In addition, U.S. network carriers compete by flying Canadian passengers through their hubs to destinations in international markets. In 2015, non-stop year-round Air Canada service was introduced from Toronto Pearson Airport to Amsterdam, Delhi and Dubai.

Air Canada has increasingly advanced tools, processes and other competitive attributes to profitably pursue international route opportunities. It has the ability to appreciably increase international-to-international traffic through its strategic international gateways in Toronto, Vancouver, Montréal and Calgary. It is also broadening its network appeal through its membership in Star Alliance®, its revenue-sharing Atlantic joint venture and through numerous codeshare and interline agreements. Furthermore, Air Canada has access to Canada’s wide portfolio of international route rights, and Canada’s multi-ethnic demographic profile provides the airline with further opportunities to profitably capture demand for international travel. These attributes combined with Air Canada’s powerful brand franchise and industry-leading products and services, allow it to leverage its network and benefit from the higher margins generally available in international markets.

In 2015, Air Canada concluded new codeshare agreements with Brazil's GOL Linhas Aéreas Inteligentes to improve air travel connectivity between Canada and Brazil and with Croatia Airlines to improve air travel between Canada and Croatia via common European gateways.

The following chart illustrates the estimated share of the overall international scheduled capacity provided by Air Canada and other airlines as measured by ASMs.

Estimated International Scheduled Capacity Market Share



(1) Source: OAG data based on ASMs during the period from January 1, 2015 to December 31, 2015; represents the estimated share of the overall international scheduled capacity of Air Canada. The estimated share of the overall international scheduled capacity of the other carriers presented also includes the international scheduled capacity of their respective affiliated or contracted regional carrier(s), when applicable.

(2) KLM = Air France KLM; LH = Lufthansa; BA = British Airways; CATH = Cathay Pacific Airways; TRZ = Transat A.T. Inc.; WJ = WestJet Airlines; SWG = Sunwing Airlines.

RISK FACTORS

For a description of risk factors associated with Air Canada and its business, refer to section 17 "Risk Factors" of Air Canada's 2015 MD&A, which section is incorporated into the AIF by this reference.

MARKET FOR SECURITIES

Effective November 3, 2014, the Variable Voting Shares and the Voting Shares started trading on the TSX under a single trading symbol "AC". Prior to this date, the shares were trading under the symbols AC.A and AC.B respectively. The following table sets forth the price range and trading volume, on a combined basis, of the Variable Voting Shares and the Voting Shares as reported by the TSX for the months of January to December 2015.

	Variable Voting Shares and Voting Shares (AC)			
2015	**High**	**Low**	**Average Daily Trading Volume**	**Total Monthly Volume**
January	$ 12.75	$ 11.40	2,084,376	43,771,888
February	$ 13.35	$ 11.68	2,251,685	42,782,013
March	$ 12.97	$ 11.94	1,082,506	23,815,142
April	$ 12.58	$ 11.47	1,417,018	29,757,385
May	$ 13.89	$ 11.00	1,968,995	39,379,901
June	$ 15.09	$ 13.15	1,399,134	30,780,957
July	$ 13.60	$ 11.16	1,075,632	23,663,895
August	$ 13.25	$ 9.50	1,521,132	30,422,634
September	$ 12.39	$ 10.50	1,377,300	28,923,298
October	$ 11.70	$ 10.39	1,237,702	25,991,734
November	$ 12.29	$ 10.20	1,628,530	34,199,136
December	$ 10.95	$ 9.82	1,351,499	28,381,470

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Variable Voting Shares and Voting Shares of Air Canada is CST Trust Company with its principal offices in Montréal, Toronto, Vancouver and Calgary.

DIVIDEND RECORD

The Corporation has not declared or paid dividends on its Voting Shares and Variable Voting Shares for any of the financial years ended December 31, 2015, 2014 and 2013.

Air Canada's current policy is to reinvest earnings in order to finance the growth and development of its business and to improve liquidity levels and pay down debt. Certain agreements described in the section entitled "Significant Financing Transactions" include restrictions with respect to Air Canada's ability to declare and pay dividends. In addition, certain other agreements Air Canada may enter into from time to time may include restrictions with respect to the Corporation's ability to declare and pay dividends. Air Canada does not expect to pay dividends in the foreseeable future. Any future determination to pay cash dividends is subject to legal restrictions applicable at the time to Air Canada and to the discretion of Air Canada's Board of Directors. It will also depend on Air Canada's financial condition, results of operations, capital requirements, restrictive covenants in contracts and such other factors as Air Canada's Board of Directors deems relevant.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Air Canada is comprised of an unlimited number of Variable Voting Shares and Voting Shares. As at December 31, 2015, 98,059,765 Class A Variable Voting Shares and 184,722,413 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, the terms of Air Canada's articles of amalgamation, as amended.

Variable Voting Shares

Voting

The holders of the Variable Voting Shares are 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, 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 *Budget Implementation Act* 2009, contains provisions whereby the provisions relating to voting securities in the *Air Canada Public Participation Act* ("ACPPA") would be repealed and the CTA would be amended to provide the Governor in Council with flexibility to increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These provisions will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Finance, in the case of the ACPPA, and on the recommendation of the Minister of Transport, in the case of the CTA. Management cannot predict if or when new provisions relating to foreign ownership rules which were also discussed as part of the CTA Review Report will come into force.

Dividends

Subject to the rights, privileges, restrictions and conditions attached 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. 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.

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.

Repurchase of Shares

In May 2015, following receipt of approval from the Toronto Stock Exchange, Air Canada implemented a normal course issuer bid to purchase, for cancellation, up to 10,000,000 Variable Voting Shares and/or Voting Shares (the "Shares") representing, at that time, 3.49% of the total issued and outstanding Variable Voting Shares and Voting Shares. The repurchase program is in effect until May 28, 2016.

As at March 17, 2016, Air Canada purchased and cancelled the maximum 10 million Share allotment under the normal course issuer bid, at an average cost of $9.73 per Share for aggregate consideration of approximately $97 million. Air Canada's Board of Directors also approved up to an additional 5 million Shares to be purchased for cancellation before the expiry of the normal course issuer bid on May 28, 2016 (representing, along with the first 10 million Shares, approximately 6.2 per cent of the public float as at May 14, 2015). Air Canada also received approval from the Toronto Stock Exchange to amend its normal course issuer bid for this purpose.

Air Canada may 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 would constitute an "issuer bid" under Canadian provincial securities legislation and would be conducted in accordance with the applicable requirements thereof. Any future decision to purchase shares for cancellation will depend on Air Canada's financial condition, results of operations, capital requirements, restrictive covenants in contracts and such other factors as Air Canada's board of directors deems relevant. Agreements entered into in relation to the Senior Notes, Unsecured Notes and the Credit Facility described in the section entitled "Significant Financing Transactions" in this AIF include restrictions with respect to Air Canada's ability to purchase shares for cancellation.

Air Canada Shareholder Rights Plan

The Board of Directors of Air Canada approved a shareholder rights plan on March 30, 2011 (the "Rights Plan"). The Rights Plan was designed to foster fair treatment of all shareholders of Air Canada in connection with any take-over bid for Air Canada. The plan was approved by the shareholders of Air Canada at the annual and special shareholder meeting held on May 5, 2011.

The Rights Plan creates one right in respect of each Variable Voting Share and Voting Share of Air Canada outstanding as at March 30, 2011 or subsequently issued. Until the separation time, which typically occurs at the time of an unsolicited take-over bid, whereby an Acquiring Person (as defined in the Rights Plan) acquires or attempts to acquire 20% or more of the Variable Voting Shares or 20% or more of the Voting Shares, the rights are not separable from the shares, are not exercisable and no separate rights certificates are issued.

Under the Rights Plan, each right, other than those held by an Acquiring Person and certain of its related parties, entitles the holder in certain circumstances following the acquisition by an Acquiring Person of 20% or more of the Variable Voting Shares or 20% or more of the Voting Shares of Air Canada (otherwise than through the "Permitted Bid" requirements of the Rights Plan) to purchase from Air Canada $200 worth of Variable Voting Shares or Voting Shares for $100 (i.e. at a 50%

discount). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Variable Voting Shares.

On June 4, 2012, the shareholders of Air Canada approved amendments to the Rights Plan. Subject to certain exceptions identified in the Rights Plan, it would be triggered in the event of an offer to acquire 20% or more of the outstanding Variable Voting Shares and Voting Shares of Air Canada calculated on a combined basis. This is instead of 20% or more of the outstanding Variable Voting Shares or Voting Shares calculated on a per class basis as was the case under the Rights Plan prior to the amendments that came into effect in 2012.

The amendments to the Rights Plan were proposed in order to render effective a decision issued by Canadian securities regulatory authorities (pursuant to an application of Air Canada) that effectively treats Air Canada's Variable Voting Shares and Voting Shares as a single class for the purposes of applicable take-over bid requirements and early warning reporting requirements contained under Canadian securities laws. A copy of the decision is available under Air Canada’s profile at **www.sedar.com**.

The Rights Plan, which was originally approved at Air Canada's 2011 annual and special shareholder meeting, is designed to provide Air Canada's shareholders and the Board of Directors additional time to assess an unsolicited take-over bid for the company and, where appropriate, to give the Board of Directors additional time to pursue alternatives for maximizing shareholder value. It also encourages fair treatment of all shareholders by providing them with an equal opportunity to participate in a take-over bid.

The Rights Plan was scheduled to expire at the close of business on the date immediately following the date of Air Canada's annual and special meeting of shareholders held on May 15, 2014 and was renewed pursuant to shareholder approval at that meeting for a period of three years.

DIRECTORS AND OFFICERS

Directors

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

Name and Municipality of Residence	Principal Occupation	Director Since
Christie J.B. Clark (1)(2)(4) Toronto, Ontario	Corporate Director	June 27, 2013
Michael M. Green (3)(5) Radnor, Pennsylvania	Chief Executive Officer and Managing Director, Tenex Capital Management	March 30, 2009
Jean Marc Huot (3) Montréal, Québec	Partner, Stikeman Elliott LLP	May 8, 2009
Joseph B. Leonard (3)(4) Minneapolis, Minnesota	Corporate Director	May 21, 2008
Madeleine Paquin (1)(4)(5) Montréal, Québec	President and Chief Executive Officer, Logistec Corporation	May 12, 2015
David I. Richardson (1)(2)(4)(6) Grafton, Ontario	Corporate Director	November 15, 2006

Name and Municipality of Residence	**Principal Occupation**	**Director Since**
Roy J. Romanow [3] Saskatoon, Saskatchewan	Senior Fellow, Public Policy, University of Saskatchewan	February 9, 2010
Calin Rovinescu Montréal, Québec	President and Chief Executive Officer, Air Canada	April 1, 2009
Vagn Sørensen [2][4][5] London, United Kingdom	Corporate Director	November 15, 2006
Annette Verschuren [1][2][5] Toronto, Ontario	Chair and Chief Executive Officer, NRStor Inc.	November 12, 2012
Michael M. Wilson [3][5][7] Bragg Creek, Alberta	Corporate Director	October 1, 2014

(1) Member of the Governance and Corporate Matters Committee.
(2) Member of the Audit, Finance and Risk Committee.
(3) Member of the Pension Committee.
(4) Member of the Nominating Committee.
(5) Member of the Human Resources and Compensation Committee.
(6) Prior to completion of the Initial Public Offering of Air Canada on November 17, 2006, Mr. Richardson was reconfirmed as a director of Air Canada on November 15, 2006. He was initially appointed a director of Air Canada on September 30, 2004 and continued to hold such position up to and since the completion of Air Canada's Initial Public Offering. Mr. Richardson became the Chairman of the Board of Air Canada on January 1, 2008.
(7) Mr. Wilson also served on the Board of Air Canada from May 21, 2008 to May 8, 2009.

Unless otherwise indicated below, each of the directors has held the occupation listed above for more than five years. Mr. Clark was Chief Executive Officer of PricewaterhouseCoopers LLP from 2005 to 2011. Mr. Leonard was Interim Chief Executive Officer of Walter Energy, Inc. from 2010 to 2011. Ms. Verschuren was the President of The Home Depot Canada from 1996 to 2011. Mr. Wilson was the President and Chief Executive Officer of Agrium Inc. from 2003 to 2013.

Officers

The Board of Directors of Air Canada may from time to time appoint one or more officers of Air Canada.

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

Name and Municipality of Residence	**Position with Air Canada**	**Officer since**
David I. Richardson [1] Grafton, Ontario	Chairman of the Board	January 1, 2008
Calin Rovinescu [2] Montréal, Québec	President and Chief Executive Officer	April 1, 2009
Benjamin M. Smith Toronto, Ontario	President, Passenger Airlines	April 26, 2004
Klaus Goersch Oakville, Ontario	Executive Vice President and Chief Operating Officer	October 1, 2012

Name and Municipality of Residence	**Position with Air Canada**	**Officer since**
Michael Rousseau Saint-Lambert, Québec	Executive Vice President and Chief Financial Officer	October 22, 2007
Marcel Forget Montréal, Québec	Senior Vice President, Commercial Strategy	April 8, 2009
Lise Fournel Beaconsfield, Québec	Senior Vice President and Chief Information Officer	April 10, 1995
Lucie Guillemette Beaconsfield, Québec	Senior Vice President, Revenue Optimization	February 6, 2008
Kevin C. Howlett Delta, British Columbia	Senior Vice President, Regional Markets	March 18, 2002
Amos Kazzaz Saint-Laurent, Québec	Senior Vice President, Financial Planning and Analysis	May 3, 2010
David J. Shapiro Hampstead, Québec	Senior Vice President and Chief Legal Officer	November 12, 2004
Duncan Bureau Oakville, Ontario	Vice President, Global Sales	June 9, 2014
Alan D. Butterfield Beaconsfield, Québec	Vice President, Air Canada Maintenance and Engineering	February 19, 2007
Eddy Doyle Toronto, Ontario	Vice President, Flight Operations	February 16, 2016
Yves Dufresne Montréal, Québec	Vice President, Alliances and Regulatory Affairs	April 26, 2004
Carolyn M. Hadrovic Beaconsfield, Québec	Corporate Secretary	February 16, 2006
Chris Isford Winnipeg, Manitoba	Vice President and Controller	November 1, 2006
Craig Landry Montréal, Québec	President, Air Canada Leisure Group	August 1, 2010
Priscille LeBlanc Toronto, Ontario	Vice President, Corporate Communications	November 8, 2007
Arielle Meloul-Wechsler Montréal, Québec	Vice President, Human Resources	September 18, 2013

Name and Municipality of Residence	Position with Air Canada	Officer since
Renee Smith-Valade Vancouver, British Columbia	Vice President, In-Flight Service	April 1, 2015
Richard Steer Georgetown, Ontario	Vice President, Air Canada Maintenance and Engineering	January 1, 2015
Jim Tabor Mississauga, Ontario	Vice President, System Operations Control	May 8, 2013
Lise-Marie Turpin Pointe-Claire, Québec	Vice President, Cargo	March 1, 2012

(1) Mr. Richardson is a non-executive officer of Air Canada. Mr. Richardson's principal occupation is a corporate director.
(2) Mr. Rovinescu was also an executive officer of Air Canada from 2000 to 2004.

Unless otherwise indicated below, each of the officers has held a position with Air Canada similar to that listed above for more than five years. Mr. Goersch was Executive Vice President, Operations and Customer Service of AirTran Airways from 2010 to 2012. Mr. Howlett was Senior Vice President, Employee Relations of Air Canada from 2006 to 2013. Mr. Bureau was Senior Vice President, Global Sales of Malaysia Airlines from 2012 to 2014 and Vice President, Sales of WestJet Airlines from 2002 to 2012. Mr. Doyle was Managing Director, Flight Operations of Air Canada from 2014 to 2016 and Director, Flying Operations from 2010 to 2014. Mr. Landry was Vice President, Marketing of Air Canada from 2010 to 2016. Ms. Meloul-Wechsler was Senior Director, Human Resources of Air Canada from 2011 to 2013 and Assistant General Counsel and Director of Legal Services from 2005 to 2011. Ms. Smith-Valade was Vice President, Customer Experience of Air Canada from April 2015 to December 2015, Vice President, Customer Experience of Air Canada rouge from 2013 to 2015, a communications consultant at RSV Strategic Communications from 2012 to 2013 and Senior Vice President, Customer Care, Conservation and Communications of BC Hydro from 2010 to 2012. Mr. Steer was Managing Director, Maintenance Operations of Air Canada from 2013 to 2014 and Vice President, Maintenance and Engineering of Jazz from 2005 to 2013. Mr. Tabor was Senior Operations Advisor for AirTran Airways from 2012 to 2013 (during the transition to Southwest Airlines) and Vice President, Operations of AirTran Airways from 2005 to 2012. Ms. Turpin was Managing Director of Air Canada Cargo from 2008 to 2012.

As at December 31, 2015, the directors and officers mentioned above, as a group, owned, or had control or direction over, directly or indirectly, 1,063,824 Class B Voting Shares representing approximately 0.58% of the outstanding Class B Voting Shares and 135,791 Class A Variable Voting Shares representing approximately 0.14% of the outstanding Class A 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 this AIF, or was, within 10 years before the date of this 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 this AIF, or has been within the 10 years before the date of this 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.

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 Christie J.B. Clark (Chair), David I. Richardson, Vagn Sørensen and Annette Verschuren. 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) Christie J.B. Clark is a corporate director. Mr. Clark is a director of Loblaw Companies Limited, Hydro One Inc. and Hydro One Limited, and a trustee of Choice Properties Real Estate Investment Trust. From 2005 to 2011, Mr. Clark was the Chief Executive Officer and senior partner of PricewaterhouseCoopers LLP. Prior to being elected as Chief Executive Officer, Mr. Clark was a National Managing Partner and a member of the firm's Executive Committee from 2001 to 2005. Mr. Clark is also Chair of the Finance Committee of Alpine Canada and a member of the Advisory Council of the Smith School of Business at Queen's University. Mr. Clark has served as a director of Brookfield Office Properties Inc. and IGM Financial Inc. Mr. Clark graduated from Queen's University with a Bachelor of Commerce degree and the University of Toronto with a Master of Business Administration degree. He is a Fellow Chartered Professional Accountant.

(ii) David I. Richardson is a corporate director. Mr. Richardson is the former Chairman of Ernst & Young Inc. (Canada) and a former Executive Partner of Ernst & Young LLP. Mr.

Richardson joined its predecessor, Clarkson, Gordon & Co. in 1963 and was appointed President of The Clarkson Company Limited in 1982. Mr. Richardson was also a member of the Management and Executive Committees of Ernst & Young LLP, national managing partner of the firm's Corporate Finance practice and the senior partner in the Corporate Recovery and Restructuring practice until his retirement from the partnership in 2002. Mr. Richardson is also a Vice Chair of the Board of Governors of Upper Canada College. Mr. Richardson has served as the Chair of the board of directors of Nortel Networks Corporation and Nortel Networks Limited, a director of ACE Aviation Holdings Inc., Husky Injection Molding Systems Ltd. and Jazz Air Holding GP Inc. (Chorus Aviation Inc.), and a trustee of Aeroplan Income Fund (Aimia Inc.). Mr. Richardson holds a Bachelor of Commerce degree from the University of Toronto and is a member and a Fellow of the Institute of Chartered Professional Accountants of Ontario.

(iii) Vagn Sørensen is a corporate director. Mr. Sørensen is the Chairman of FLSmidth & Co. A/S, Scandic Hotels AB, SSP Group plc, TDC A/S, Automic Software GmbH, Bureau Van Dijk Electronic Publishing BV, TIA Technology A/S and Zebra A/S, and the Vice Chairman of Nordic Aviation Capital A/S. Mr. Sørensen is a director of Braganza AS, JP/Politikens Hus A/S and Royal Caribbean Cruises Ltd. Mr. Sørensen is also a Senior Industrial Advisor with EQT Partners, a private equity fund. Mr. Sørensen was previously the President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006 and held various senior commercial positions and served as Deputy Chief Executive Officer with SAS Scandinavian Airlines System. Mr. Sørensen is the former Chairman of British Midland Ltd. and a former director of Lufthansa Cargo AG. Mr. Sørensen has served as the Chairman of the Association of European Airlines, member of the IATA Board of Governors and member of the Board of the Vienna Stock Exchange. Mr. Sørensen holds a Master of Science degree in Economics and Business Administration from Aarhus Business School of Business, University of Aarhus, Denmark.

(iv) Annette Verschuren is the Chair and Chief Executive Officer of NRStor Inc., a new venture focused on commercializing energy storage technologies. From 1996 to 2011, Ms. Verschuren was the President of The Home Depot Canada where she oversaw the company's growth from 19 to 179 Canadian stores and led its entry into China. Prior to joining The Home Depot, Ms. Verschuren was the President and co-owner of Michaels of Canada, a chain of arts and crafts stores. Previously, Ms. Verschuren was the Vice President, Corporate Development of Imasco Ltd. and the Executive Vice President of Canada Development Investment Corporation. Ms. Verschuren is a director of Canadian Natural Resources Limited, Liberty Mutual Insurance Group and Saputo Inc. She serves as Chancellor of Cape Breton University and is a board member of numerous non-profit organizations including the CAMH Foundation, the Conference Board of Canada and MaRS Discovery District. In 2011, Ms. Verschuren was made an Officer of the Order of Canada for her contribution to the retail industry and corporate social responsibility. Ms. Verschuren holds honorary doctorate degrees from Dalhousie University, Mount Saint Vincent University, Carleton University, Ryerson University and St. Francis Xavier University where she also earned a Bachelor of Business Administration degree.

Pre-approval Policies and Procedures

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

The Audit Committee will also review a report from the external auditor that describes any relationship between the external auditor and the Corporation and states 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.

Auditors' Fees

PricewaterhouseCoopers LLP has served as Air Canada's auditing firm since April 26, 1990. Fees payable for the years ended December 31, 2015 and December 31, 2014 to PricewaterhouseCoopers LLP and its affiliates are $3,083,169 and $2,816,023, respectively, as detailed below.

	Year ended December 31, 2015	Year ended December 31, 2014
Audit fees	$ 1,820,983	$ 1,803,467
Audit-related fees	701,677	636,906
Tax fees	186,361	117,280
All other fees	374,148	258,370
	$ 3,083,169	**$ 2,816,023**

The nature of each category of fees is described below:

Audit fees

Audit fees were paid for professional services rendered for the audit of Air Canada's annual consolidated financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements related to the annual consolidated financial statements, including review engagements performed on the interim condensed consolidated financial statements of Air Canada.

Audit-related fees

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

Tax fees

Tax fees were paid for professional services for tax compliance and tax advice.

All other fees

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of the (i) directors or executive officers of Air Canada, (ii) shareholders of Air Canada, that, to the knowledge of Air Canada, beneficially own, or control, directly or indirectly, more than 10% of any class of shares of Air Canada, 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 during the three most recently completed financial years or the current financial year that has materially affected or is reasonably expected to materially affect Air Canada or any of its subsidiaries.

LEGAL PROCEEDINGS

A description of certain legal proceedings to which Air Canada is a party appears under the heading “Current Legal Proceedings” in section 17 entitled “Risk Factors” in Air Canada’s 2015 MD&A, which section is incorporated into the AIF by this reference.

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2015, 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 Indentures dated September 2013 governing the First Lien Notes and the Second Lien Notes, and the Collateral Trust Agreement dated September 2013 governing the holding of collateral securing the First Lien Notes and the Second Lien Notes;

(ii) the Loan Agreement dated September 2013 governing the Credit Facility;

(iii) the amended Jazz CPA dated January 2015; and

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

EXPERTS

The Corporation's independent auditors are PricewaterhouseCoopers LLP, Chartered Professional Accountants. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Corporation within the meaning of the Code of Ethics of the Ordre des comptables agréés du Québec.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Air Canada's securities and securities authorized for issuance under equity compensation plans is contained in Air Canada’s management proxy circular for its 2015 annual and special meeting of shareholders held on May 12, 2015 and will be contained in Air Canada’s management proxy circular for its 2016 annual meeting of shareholders to be held on May 10, 2016.

Additional financial information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2015 and Air Canada’s 2015 MD&A. These documents and additional information related to Air Canada are available on Air Canada’s website at **aircanada.com** or on SEDAR at **www.sedar.com**.

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

(i) this AIF, together with any document incorporated herein by reference;

(ii) the Consolidated Financial Statements of Air Canada as at and for the year ended December 31, 2015, including the auditor's report and notes related thereto, Air Canada's 2015 MD&A, 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.

GLOSSARY OF TERMS

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

"ACPA" means the Air Canada Pilots Association;

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

"AE" means Accountable Executive;

"Aeroplan" means Aimia Canada Inc.;

"Air Canada's 2015 MD&A" means Air Canada's 2015 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 17, 2016;

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

"Air Canada Vacations" means Touram Limited Partnership (doing business as Air Canada Vacations®), a limited partnership established under the laws of the Province of Québec;

"Air Canada *rouge*" means Air Canada *rouge* LP (doing business as Air Canada *rouge*), a limited partnership established under the laws of the Province of Québec;

"Air Georgian" means Air Georgian Limited;

"ASMs" means Available Seat Miles which refers to a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the mile flown;

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

"Boeing" means The Boeing Company;

"CALDA" means Canadian Airline Dispatchers Association;

"CASM" means operating expense per ASM;

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

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

"**Contracted Carriers**" means Jazz, Sky Regional, Air Georgian and other airlines operating flights on behalf of Air Canada under commercial agreements with Air Canada and which operate under the brand name "Air Canada Express";

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

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

"CUPE" means the Canadian Union of Public Employees;

"DBRS" means DBRS Limited**;**

"EETC" means Enhanced Equipment Trust Certificates;

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

"ETS" means emission trading scheme;

"EU ETS" means European Emission Trading Scheme**;**

"EVAS" means Exploits Valley Air Services Ltd.

"Fitch" means Fitch Ratings, Inc.;

"FTE" shall have the meaning ascribed thereto under employees;

"GAAP" means generally accepted accounting principles in Canada as set out in the CPA Canada Handbook – Accounting which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB");

"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 Aviation LP;

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

"MBM" means market-based measure;

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

"Moody's" means Moody's Investors service, Inc.

"OAG" means Official Airline Guide;

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

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

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

"Porter" means Porter Airlines Inc.;

"Shares" means both Variable Voting Shares and Voting Shares of Air Canada;

"SOC" means System Operations Centre;

"Sky Regional" means Sky Regional Airlines Inc.;

“SMS” means Safety Management System;

“Standard & Poor’s” means Standard & Poor’s Rating Services;

“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;

“Sunwing” means Sunwing Airlines;

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

“Toronto Pearson Airport” means Toronto Pearson International Airport;

“Transat” means Transat A.T. Inc.;

“TSX” means the Toronto Stock Exchange;

“Unifor” refers to a trade union in Canada, launched in 2013, as a merger of the Canadian Auto Workers and Communications, Energy and Paperworkers unions.

“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.

SCHEDULE A

CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE
(the "Audit Committee")

OF THE BOARD OF DIRECTORS OF AIR CANADA
(the "Corporation")

1. PURPOSE

The purpose of the Audit Committee is as follows:

(a) To assist the Board in the discharge of its responsibility to monitor the component parts of the Corporation's financial reporting and audit process.

(b) 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.

(c) To assist the Board of Directors in its oversight of the independence, qualifications and appointment of the external auditor.

(d) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.

(e) To provide independent communication among the Board, the internal auditor and the external auditor.

(f) 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.

(g) To assist the Board in the discharge of its oversight responsibility in relation to the Corporation's enterprise risk management process.

2. COMPOSITION AND QUALIFICATION

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

(b) The members of the Audit Committee shall be appointed by the Board to hold office from the time of their appointment until the next annual general meeting of the shareholders or until their successors are appointed. Unless a Chair and a Secretary are appointed by the Board, the members of the Audit Committee may designate a Chair and a Secretary by a majority vote of all the Audit Committee members.

(c) The Audit Committee may invite, from time to time, such person as it may see fit to attend its meeting and to take part in discussion and consideration of the affairs of the Audit Committee. However, any such persons invited may not vote at any meeting of the Audit Committee.

(d) The Board, may, at any time, remove any member of the Audit Committee at its discretion and may accept the resignation of any member of the Audit Committee. Vacancies at any time occurring on the Audit Committee shall be filled by the Board.

3. <u>MEETINGS AND PROCEDURE</u>

(a) 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.

(b) 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.

(c) 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.

(d) An "*in*-camera" session of the members of the Audit Committee shall be held as part of each meeting of the Audit Committee.

(e) 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.

(f) 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.

(g) 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 Analysis ("MD&A") 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 include:

  (i) discussions with management and the external auditor and a consideration of the report by the external auditor to the Audit Committee of matters related to the conduct of an audit;

  (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case may be, of the accounting policies adopted by the Corporation, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;

  (iii) a review of significant adjustments arising from an audit;

  (iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements. The Audit Committee is responsible for the resolution of disagreements between management and the external auditor regarding financial reporting;

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

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

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

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

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

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

(c) Review with management, the external auditor and legal counsel, the Corporation's procedures to be satisfied that it complies with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements. The Audit Committee should be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and must periodically assess the adequacy of those procedures.

(d) Meet with the Corporation's external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department. The Audit Committee is responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.

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

(f) Review and approve, or delegate to a member of the Audit Committee the responsibility to review and approve, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporation's external auditor prior to the commencement of such work. In this regard the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period. The pre-approval of non-audit services by a member of the Audit Committee to whom such authority is delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval.

(g) Review a report from the external auditor that describes any relationship between the external auditor and the Corporation and states 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 each quarterly meeting of the Audit Committee, 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 or review, 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) In conjunction with management, on an annual basis, 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 the head of internal audit at least quarterly to, amongst other things, 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 to ensure that it is independent of management and has sufficient resources to carry out its mandate;*

(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, its budget, and the resources required to attain these objectives;*

(v) *at each quarterly meeting, 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 a summary of all 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) Receive regular reports from the Corporation's Disclosure Committee and Internal Control Compliance group with respect to the Corporation's system of disclosure controls and procedures and internal controls over financial reporting.

(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) 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.

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

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

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

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

(x) Review and confirm the selection of the lead audit partner and any other audit engagement team partner of the external auditor of the Corporation.

(y) 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.

5. <u>OTHER</u>

(a) **Public Disclosure**

The Audit Committee shall:

(i) Review and approve the Corporation's Public Disclosure Policy and any changes related thereto and satisfy itself that such policy is consistent with current developments and best practices;

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

(b) **Enterprise Risk Management**

The Audit Committee shall satisfy itself as to the effective risk management of the individual risks for which oversight has been delegated to the Audit Committee by the Board. The Audit Committee, through the receipt of periodic reports from the internal audit department and management, shall review and discuss with the internal audit department and management all key enterprise risk exposures and the steps management has taken to monitor/control and mitigate 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 what it considers to be emerging risks to the Corporation's strategic, financial and operational goals. The Chair of the Audit Committee shall periodically report to the Board on any major issues arising with respect to the management of these risks.

(c) **Contingent Liabilities**

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

(d) **Corporate Authorizations Policies**

The Audit Committee shall:

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

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

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

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

(e) **Performance to Budget**

The Audit Committee shall monitor the Corporation's performance compared to budget for both its annual operating and capital plans.

(f) **Responsibilities**

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

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

December 10, 2015