



2016 Annual Information Form
March 24, 2017



A STAR ALLIANCE MEMBER 

TABLE OF CONTENTS

EXPLANATORY NOTES	- 1 -
CORPORATE STRUCTURE	- 2 -
INTERCORPORATE RELATIONSHIP	- 3 -
THE BUSINESS	- 3 -
STRATEGY	- 5 -
ROUTES AND SCHEDULES	- 5 -
THE AIR CANADA LEISURE GROUP	- 7 -
CONTRACTED CARRIERS	- 8 -
STAR ALLIANCE®	- 8 -
CODESHARE PARTNERSHIPS	- 9 -
CARGO	- 10 -
AIR CANADA'S ENVIRONMENTAL OBJECTIVES	- 10 -
FINANCIAL OVERVIEW	- 11 -
SIGNIFICANT FINANCING TRANSACTIONS	- 12 -
RATINGS	- 13 -
PENSION PLAN ARRANGEMENTS	- 16 -
FOREIGN EXCHANGE	- 16 -
AIRCRAFT FUEL	- 16 -
AIRCRAFT FLEET	- 16 -
EMPLOYEES AND ARRANGEMENTS WITH UNIONS	- 17 -
FACILITIES	- 18 -
TRADEMARKS	- 19 -
REGULATORY ENVIRONMENT	- 19 -
INDUSTRY OVERVIEW AND COMPETITIVE ENVIRONMENT	- 24 -
RISK FACTORS	- 28 -
MARKET FOR SECURITIES	- 29 -
TRANSFER AGENT AND REGISTRAR	- 29 -
DIVIDEND RECORD	- 29 -
DESCRIPTION OF CAPITAL STRUCTURE	- 30 -
DIRECTORS AND OFFICERS	- 34 -
AUDIT, FINANCE AND RISK COMMITTEE	- 39 -
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	- 42 -
LEGAL PROCEEDINGS	- 42 -
MATERIAL CONTRACTS	- 43 -
EXPERTS	- 43 -
ADDITIONAL INFORMATION	- 43 -
GLOSSARY OF TERMS	- 44 -
SCHEDULE A: CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE	- 47 -

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, 2016.

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 defined terms, capitalized terms and expressions used in this AIF, 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 or completeness 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, our ability to successfully achieve or sustain positive net profitability or to realize our initiatives and objectives, currency exchange, industry, market, credit, economic and geopolitical conditions, energy prices, competition, our ability to successfully implement appropriate strategic initiatives or reduce operating costs, our dependence on technology, cybersecurity risks, our ability to pay our indebtedness and secure financing, war, terrorist acts, epidemic diseases, our dependence on key suppliers including regional carriers and Aimia Canada Inc., casualty losses, employee and labour relations and costs, our ability to preserve and grow our brand, pension issues, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), limitations due to restrictive covenants, insurance issues and costs, our dependence on the Star Alliance, interruptions of service, changes in laws, regulatory developments or proceedings, pending and future litigation

and actions by third parties and our ability to attract and retain required personnel, 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 2016 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 17, 2017 (as updated in the *Risk Factors* section of this AIF). 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 TM 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 Voting Shares and Variable Voting Shares were listed for trading on the Toronto Stock Exchange ("TSX") under the single ticker "AC". Effective July 29, 2016, Air Canada's Variable Voting Shares and Voting Shares were listed for trading on OTCQX International Premier in the United States under the single ticker symbol "ACDVF".

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 into this AIF, except for such information, if any, which is expressly stated in this AIF to be incorporated into this AIF.

Additional information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2016 and Air Canada's 2016 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 17, 2017 ("Air Canada's 2016 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, 2016, 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 2016, Air Canada, together with Jazz Aviation LP (“Jazz”), Sky Regional Airlines Inc. (“Sky Regional”) and other regional airlines operating flights on behalf of Air Canada under capacity purchase agreements, operated, on average, 1,570 daily scheduled flights to 206 direct destinations on six continents, comprised of 64 Canadian cities, 55 destinations in the United States and a total of 87 cities in Europe, Africa, the Middle East, Asia, Australia, the Caribbean, Mexico and South America. In 2016, Air Canada carried approximately 44.8 million passengers, an increase of 9.1% from 2015.

At December 31, 2016, Air Canada mainline operated a fleet of 168 aircraft, comprised of 75 Airbus narrow-body aircraft, 68 Boeing and Airbus wide-body aircraft and 25 Embraer 190 regional jets, while Air Canada Rouge operated a fleet of 45 aircraft, comprised of 20 Airbus A319 aircraft, five Airbus A321 aircraft and 20 Boeing 767-300 aircraft, for a total fleet of 213 aircraft.

The ongoing renewal and expansion of Air Canada’s wide-body fleet remains a key element of its strategy to profitably develop its international network and to become a global champion. In 2016, Air Canada took delivery of nine Boeing 787 aircraft and, since December 31, 2016, Air Canada took delivery of four Boeing 787s (for a total of 25 deliveries 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 allow the airline to more efficiently operate routes previously operated with Boeing 767 aircraft and to serve new international destinations. Air Canada also has a firm order for 61 Boeing 737 MAX aircraft to replace the existing mainline fleet of Airbus narrow-body aircraft. Deliveries of Boeing 737 MAX aircraft are scheduled to begin in late 2017 with two aircraft, with the remaining firm order deliveries scheduled from 2018 to 2021. Furthermore, Air Canada has a firm order for 45 Bombardier C-Series CS300 aircraft. The first 25 aircraft on delivery are expected to replace Air Canada’s existing mainline fleet of Embraer E190 aircraft, with the incremental aircraft supporting Air Canada’s hub and network growth. Deliveries are scheduled to begin in late 2019 and extend to 2022.

The Air Canada Leisure Group, created in 2012, to improve profitability and competitiveness in leisure markets, 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 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 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, Air Georgian Limited ("Air Georgian") and Exploits Valley Air Services Limited ("EVAS"), each of which operates flights on behalf of Air Canada (and are referred to as Contracted Carriers in this AIF). These carriers form an integral part of the airline's international network strategy, providing valuable traffic feed to Air Canada and Air Canada Rouge routes. At December 31, 2016, the Air Canada Express fleet was comprised of 43 Bombardier regional jets, 89 Bombardier Dash-8 turboprop aircraft and 20 Embraer 175 aircraft for a total of 152 aircraft. Air Georgian and EVAS also operate a total of 18 18-passenger Beech 1900 aircraft on behalf of Air Canada.

Air Canada is a founding member of the Star Alliance® network. Through the 28-member airline network, Air Canada offers its customers access to approximately 1,300 destinations in 190 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 the Aeroplan® loyalty program operated by Aimia Canada Inc. (referred to as "Aimia" in this AIF). Air Canada Altitude® recognizes and rewards Aeroplan® members with a range of premium travel privileges and benefits corresponding to their travel activity, such as priority check-in, complimentary checked baggage and upgrades to Business Class, as well as opportunities to earn Aeroplan® Miles on Air Canada flights and those of its other 27 Star Alliance® member airlines. Aimia is also Air Canada's single largest customer, purchasing Air Canada seats to be provided to Aeroplan® members who choose to redeem their Aeroplan® Miles for travel on Air Canada. Aeroplan® members also have opportunities to redeem their Aeroplan® Miles for travel with Star Alliance® member airlines.

Air Canada generates revenue from its cargo division, operating as Air Canada Cargo, Canada's largest provider of air cargo services as measured by cargo capacity. 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 cargo services are provided across the Air Canada network.

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 attributes to appropriately enhance margins, in large part by increasing connecting traffic through existing and new 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; and
- Fostering positive culture change through employee engagement programs. This includes meaningful investments in training and other tools that support delivering exceptional customer experiences and that also promote improved collaboration and an appreciation of how the airline and its talented employees can better work together in a supportive and enriching environment.

Additional information on Air Canada's strategy as well as achievements realized in 2016 are discussed in section 4 "Strategy" of Air Canada's 2016 MD&A, which section is incorporated into the AIF by this reference.

ROUTES AND SCHEDULES

In 2016, Air Canada, together with its Contracted Carriers, operated, on average, 1,570 daily scheduled flights to 206 direct destinations on five continents, comprised of 64 Canadian cities, 55 destinations in the United States and a total of 87 cities in Europe, Africa, the Middle East, Asia, Australia, the Caribbean, Mexico and Central and South America.

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 2016, Air Canada, together with its Contracted Carriers, operated, on average:

- 350 daily departures from Toronto;
- 151 daily departures from Montréal;
- 150 daily departures from Vancouver; and
- 103 daily departures from Calgary.

Domestic Services

In 2016, Air Canada, together with its Contracted Carriers, provided the largest network and most extensive product offering in Canada, with scheduled direct passenger service to 64 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, operates a large number of routes between and within Central Canada, the Prairies and the Atlantic provinces. Air Canada Rouge also operates flights on a limited number of leisure-oriented domestic routes.

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 55 U.S. destinations in 2016. Air Canada's network reach is also enhanced through its extensive connections and code share flights with United Air Lines Inc. ("United Airlines"), its Star Alliance® partner.

In 2016, Air Canada launched 12 transborder routes to the U.S., including Toronto-Washington-Dulles; Toronto-Jacksonville, Toronto-Portland, Oregon; Toronto-Salt Lake City; Toronto-Palm Springs; Vancouver-San Jose, Vancouver-San Diego; Vancouver-Chicago; Montréal-Philadelphia; Montréal-Denver; Montréal-Houston; and Calgary-San Francisco. In addition to further developing Air Canada's transborder business, these new routes serve to channel traffic to and from Air Canada's domestic and international networks through its major airport hubs.

In 2017, Air Canada, together with its Contracted Carriers, plans to launch eight new non-stop U.S. services. Three of the routes, Toronto to San Antonio, Memphis and Savannah, bring new destinations into the airline's U.S. network while the addition of Montréal to Dallas-Fort Worth and Washington, Vancouver to Boston, Dallas, Denver and the conversion of the Vancouver-Phoenix route to year-round operation will deepen Air Canada's transborder schedule.

International Services

Air Canada is well positioned as Canada's largest scheduled international airline. In 2016, Air Canada provided scheduled service directly to 87 destinations in Europe, Africa, the Middle East, Asia, Australia, Mexico, the Caribbean, and Central and South America.

In 2016, Air Canada began operating non-stop service from Vancouver to Brisbane and Delhi, from Toronto to Seoul and from Montréal to Lyon. Moreover, Air Canada Rouge introduced non-stop seasonal service from Montréal to Casablanca, from Toronto to Glasgow, Gatwick, Budapest, Prague and Warsaw and from Vancouver to Dublin.

Air Canada offers transatlantic services to the United Kingdom, Germany, France, Switzerland, Israel, Ireland, Italy, Spain, Belgium, Denmark, Netherlands, Greece, Portugal, United Arab Emirates, India and Morocco. Air Canada participates in a transatlantic joint venture, referred to as A++, with United Airlines and Deutsche Lufthansa AG ("Lufthansa"). 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, as well as Africa, India, Europe and the Middle East.

Air Canada offers services to the Asia-Pacific market via its Vancouver, Calgary, Toronto and Montréal 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 Montréal to Shanghai) and Korea (Vancouver and Toronto to Seoul). Air Canada Rouge operates a non-stop flight 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 five destinations in South

America via the Toronto hub (Sao Paulo, Buenos Aires, Santiago, Bogota and Lima). Air Canada and Air Canada Rouge also offer service from Toronto to San Jose, Liberia (Costa Rica) in addition to Panama City, making Air Canada the only Canadian network carrier operating between Canada and Panama.

Air Canada also provides service to 10 destinations in Mexico/Central America and 31 destinations in the Caribbean.

Air Canada's 2017 schedule includes the introduction of year-round, non-stop service from Toronto to Mumbai and from Vancouver to Taipei; non-stop daily year-round service from Montréal to Shanghai; and non-stop seasonal service from Montréal to Tel Aviv. In addition, Air Canada Rouge will operate seasonal non-stop service from Montréal to Algiers, Marseille and Reykjavik; Vancouver to Nagoya; and Toronto to Berlin and Reykjavik.

Subject to agreement on terms and any 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.

THE AIR CANADA LEISURE GROUP

The Air Canada Leisure Group, created in 2012, to improve profitability and competitiveness in leisure markets, represents a coordinated strategy that leverages the strengths of Air Canada, Air Canada Rouge, the airline's lower-cost leisure airline, 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 strategic expansion of Air Canada Rouge in conjunction with Air Canada's mainline fleet growth 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. Air Canada Rouge offers competitive fares while leveraging strengths of Air Canada such as its brand, extensive network with enhanced connection options, operational expertise and leading loyalty programs. Air Canada Rouge may operate up to 50 aircraft (comprised of 25 narrow-body aircraft and 25 Boeing 767 aircraft). Air Canada Rouge operated 45 aircraft at December 31, 2016 and expects to have 50 aircraft in its fleet by the summer of 2018.

Air Canada Rouge operates with a long-term 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 efficient work standards, and reduced overhead costs. This is providing new opportunities for profitable growth in international leisure markets.

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.

Jazz is an integral part of Air Canada's North American network strategy. Jazz operates both domestic and transborder services for Air Canada pursuant to a capacity purchase agreement with Jazz ("Jazz CPA"). Jazz also provides valuable feed traffic to Air Canada's mainline operations and to Air Canada Rouge routes. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 647 departures per day to 59 destinations in Canada and 24 destinations in the United States.

In January 2015, Air Canada and Jazz amended the Jazz CPA. The highlights of the amended agreement 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 25 Embraer 175 aircraft for Air Canada under a capacity purchase agreement. The Embraer 175 aircraft are operated 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 Airlines AG, Avianca, Avianca Brasil, Brussels Airlines SA/NV, Copa Airlines, Croatia Airlines, EGYPTAIR, Ethiopian Airlines, EVA Air, LOT Polish Airlines, Lufthansa, Scandinavian Airlines, Shenzhen Airlines, Singapore Airlines, South African Airways, Swiss International Air Lines AG, TAP Portugal, THAI, Turkish Airlines and United Airlines.

Through the Star Alliance® network, Air Canada offers its customers access to approximately 1,300 destinations in 190 countries, as well as reciprocal participation in frequent flyer programs and the use of airport lounges and other common airport facilities. The Star Alliance® network is an

alliance that brings together flight networks, lounge access, check-in services, ticketing and other services to improve the travel experience for customers. Member 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 Airlines and Shenzhen Airlines.

CODESHARE PARTNERSHIPS

Air Canada has 34 codeshare partners, 24 of which are with Star Alliance members. Air Canada also has codeshare agreements with non-Star Alliance members, namely: Aer Lingus, Cathay Pacific, Central Mountain Air, Etihad, Eurowings, Germanwings, GOL Linhas Aéreas Inteligentes, Jet Airways, Middle East Airlines and SriLankan.

Air Canada continually assesses strategic partnership opportunities in support of its business plan and international growth strategy. In 2016, Air Canada introduced codeshare agreements with EVA Air in support of its Narita and Incheon services and with Avianca Brasil in support of its Sao Paulo services. Air Canada also reinstated its codeshare relationship with Thai Airways. In January 2017, Air Canada concluded a codeshare agreement with Cathay Pacific that enhances travel services for customers travelling via Hong Kong to Southeast Asian countries, including the Philippines, Malaysia, Vietnam and Thailand. Air Canada offers codeshare services to an additional eight cities in Southeast Asia on flights operated by Cathay Pacific and Cathay Dragon connecting with Air Canada's double daily service to Hong Kong from Toronto and Vancouver. Air Canada has placed its code on Cathay Pacific and Cathay Dragon flights to Manila, Cebu, Kuala Lumpur, Ho Chi Minh City, Hanoi, Bangkok, Phuket and Chiang Mai. Additionally, in support of its international expansion, Air Canada expanded existing codeshare agreements, including:

- with Singapore Airlines with the addition of Air Canada's marketing code to Singapore via Narita and Incheon;
- with Asiana Airlines with the addition of Air Canada's marketing code to Busan via Incheon and Asiana's code on Air Canada's new Toronto-Incheon operation;
- with Avianca/Taca Peru with the addition of Air Canada's marketing code beyond Lima to Cusco, Trujillo, Piura, Arequipa and Juliaca;
- with Air India with the addition of Air Canada's marketing code to Kochi from both Delhi and Mumbai and timing adjustments for existing code on Air India's domestic network connecting to Air Canada's Delhi services.
- with its A++ partners United Airlines and Lufthansa (including Lufthansa Group carriers Swiss International Air Lines, Brussels Airlines and Austrian Airlines), in support of Air Canada's growth strategy. This codeshare expansion included the addition of Lufthansa's and/or United Airline's code on Vancouver-Dublin, Toronto-Budapest, Toronto-Glasgow, Toronto-Prague, Toronto Warsaw, Montréal-Lyon, Montréal-Casablanca, Toronto-Gatwick, Montréal-Marseille, Toronto-Berlin, Vancouver-Gatwick and Vancouver-Frankfurt. Lufthansa Group carriers (Swiss International Air Lines, Austrian Airlines and Brussels Airlines) also expanded code on Air Canada on several transatlantic and domestic Canada points.

In late 2016, Air Canada signed a strategic cooperation agreement with Virgin Australia, simplifying Canadians' travel throughout Australia and New Zealand and providing Australians with more options for travel to Canada. The first stage of the codeshare arrangement is scheduled to be implemented in the first half of 2017 when Air Canada customers will be able to book travel on a single ticket to an additional 10 cities throughout Australia and New Zealand on Virgin Australia-operated flights for connecting with Air Canada's daily year-round service to Sydney and Brisbane.

Subject to obtaining the necessary regulatory approvals, Air Canada will place its code on Virgin Australia flights to Adelaide, Canberra, Cairns, Melbourne and Perth as well as to Christchurch and Auckland, New Zealand and customers will also be able to travel with Air Canada code on Virgin Australia flights from Sydney to Brisbane, Sydney to the Gold Coast and Brisbane to Wellington, New Zealand.

CARGO

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 cargo services are provided across the Air Canada network.

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 operations have on the environment. In support of its efforts to minimize waste and pollution, as well as emissions 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. 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 2014 through to 2016:

(Canadian dollars in millions)	2016	2015	2014
Passenger revenue	\$ 13,148	\$ 12,420	\$ 11,804
Cargo revenue	512	506	502
Other revenue	1,017	942	966
Total operating revenues	14,677	13,868	13,272
Total operating expenses	13,332	12,372	12,457
Operating income	1,345	1,496	815
Non-operating expense	(468)	(1,188)	(710)
Income before income taxes	877	308	105
Income taxes	(1)	-	-
Net income	\$ 876	\$ 308	\$ 105
EBITDAR (excluding special items)⁽¹⁾	\$ 2,768	\$ 2,542	\$ 1,660
Adjusted net income⁽¹⁾	\$ 1,147	\$ 1,222	\$ 531

(1) EBITDAR and adjusted net income are non-GAAP financial measures. Air Canada uses non-GAAP financial measures in an effort to provide readers with additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentations under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and such not be considered a substitute for or superior to GAAP results. Additional information as well as 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 2014 through to 2016:

(in percent)	2016	2015	2014
Domestic	34	35	37
Transborder	22	22	20
International	44	43	43
Total	100 %	100 %	100 %

Air Canada's objective is to increase global international-to-international connecting traffic through its major Canadian hubs. The domestic and transborder markets have experienced continued growth in connecting traffic via Canada to international destinations.

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 2016, refer to Air Canada's consolidated financial statements for the year ended December 31, 2016, and Air Canada's 2016 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 2014 through to 2016:

In 2016:

- Completed a private offering of senior secured notes and a new credit facility in connection with its \$1.25 billion refinancing transaction. As part of its refinancing transaction, Air Canada entered into a purchase agreement with a syndicate of initial purchasers relating to a private offering of \$200 million aggregate principal amount of 4.75% senior secured first lien notes due 2023 (the "2016 Senior Notes"), which were sold at par. Air Canada also received proceeds of a US\$800 million term loan, maturing in 2023, and entered into a new, undrawn US\$300 million revolving credit facility expiring in 2021 (collectively with the term loan, the "2016 Credit Facility"). The 2016 Credit Facility has an initial interest rate of 275 basis points over LIBOR (subject to a LIBOR floor of 75 basis points). Air Canada used the net proceeds from the sale of the 2016 Senior Notes, together with the borrowings under the term loan under the 2016 Credit Facility, and \$444 million of cash on hand, to pay the redemption price for all of Air Canada's then outstanding senior secured notes (the "2013 Secured Notes"), and to repay Air Canada's then outstanding US\$300 million term loan.

In 2015:

- In connection with the financing of one new Boeing 787-8 and eight new Boeing 787-9 aircraft, 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 2020 and 2027.
- In connection with the financing of three Boeing 787-9 aircraft and two Boeing 777-300ER aircraft, 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").

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.
- 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.

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"); and
- Fitch Ratings, Inc. ("Fitch").

Air Canada Corporate Credit Ratings

Rating Agency	Rating	Rank
Moody's	B1 positive	14/21
Standard & Poor's	BB- stable	13/22
Fitch	B+ positive	14/21

Ratings for Air Canada Long-Term Debt

i) Senior Secured Debt (First Lien)

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

ii) Senior Unsecured Notes

Rating Agency	Rating	Rank
Moody's	B3	16/21
Standard & Poor's	BB-	13/22

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 (9/22)	BB (12/22)
	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+ (8/22)	BB (12/22)
	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+ (5/22)	BBB (9/22)

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

The discussion below highlights information from each agency in respect of their ratings:

Moody’s Rating Explanation – Long-Term Debt Securities

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.

Air Canada Senior Secured Debt (1st Lien)	Ba3	Obligations rated Ba are judged to be speculative and subject to substantial credit risk. A modifier of “3” indicates a ranking in the lower end of this rating category.
Air Canada Senior Unsecured Notes	B3	Obligations rated B are judged to be speculative and subject to high credit risk. A modifier of “3” indicates a ranking in the lower end of this rating category.

Standard & Poor’s Rating Explanation – Long-Term Debt Securities

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.

Air Canada Senior Secured Debt (1 st Lien)	BB+	Obligations rated BB are regarded as having significant speculative characteristics and face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inability to meet financial commitments on the obligation. A modifier of plus (+) or minus (-) indicates relative standing within this rating category.
Air Canada Senior Unsecured Notes	BB-	Obligations rated BB are regarded as having significant speculative characteristics and face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inability to meet financial commitments on the obligation. A modifier of plus (+) or minus (-) indicates relative standing within this rating category.

Fitch Rating Explanation – EETC / Aircraft Financing

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. Based on actuarial valuations, as at January 1, 2016, the aggregate solvency surplus in the domestic registered pension plans was \$1.3 billion. Based on actuarial valuations, as at January 1, 2017, the aggregate solvency surplus in Air Canada's domestic registered pension plans was \$1.9 billion.

As permitted by applicable legislation and subject to applicable plan rules, amounts in excess of 105% on a solvency basis may be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan. As a result, total employer pension funding contributions during 2016 (including international and supplemental plans) amounted to \$97 million. Based on the January 1, 2017 actuarial valuation results and applicable pension regulations, given the level of funding, Air Canada is not permitted to and will not make current service cost payments for 2017 to any of its Canadian registered pension plans. For 2017, Air Canada will make contributions to international and supplemental plans, for total forecasted contributions, on a cash basis, of \$90 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, 2016, and section 9.7 "Pension Funding Obligations" of Air Canada's 2016 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, 2016, and section 12 "Financial Instruments and Risk Management" of Air Canada's 2016 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 20% of Air Canada's 2016 total operating expenses. Additional information can be found in Air Canada's consolidated financial statements for the year ended December 31, 2016, and section 12 "Financial Instruments and Risk Management" of Air Canada's 2016 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, 2016 and fleet plans, refer to section 8 "Fleet" of Air Canada's 2016 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 2016 and 2015 together with the unions that represent them.

Employee Group	Union ⁽¹⁾	2016	2015
Management and Administrative Support	n/a ⁽²⁾	3,978	3,874
Pilots	ACPA	2,974	2,814
Flight Attendants	CUPE	6,941	6,213
Customer Sales, Service Agents and Flight Dispatchers	Unifor/IBT /CALDA	4,104	3,984
Technical Services, Ramp and Cargo	IAMAW	7,604	7,508
United Kingdom Unionized Employees	UNITE	170	175
Other Unionized	various	299	295
Total		26,070	24,863

(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. Over the last few years, Air Canada entered into the following labour agreements:

- Unifor (Customer Service and Sales Agents) – In 2015, Air Canada and Unifor, representing the airline's customer service and sales agents concluded a new contract providing collective agreement terms for five years, ending February 28, 2020.
- CUPE (Flight Attendants) - In 2015, Air Canada and CUPE, representing 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.
- IAMAW (Maintenance, Operations and Baggage) – In 2016, Air Canada and the IAMAW, representing technical maintenance, operational support and airport baggage handlers, concluded a new contract providing collective agreement terms for 10 years, ending March 31, 2026, subject to certain renegotiation provisions over this period.
- ACPA (Pilots) – In 2014, Air Canada and ACPA, representing 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.
- 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.
- International Brotherhood of Teamsters (IBT) – In 2015, Air Canada and IBT, representing 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 years, ending December 31, 2019.

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, 2016:

<u>Principal Properties</u>	<u>Description</u>	<u>Square Footage</u>	<u>Nature of Right</u>
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	871,343	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 Aimia 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 seeks to protect its proprietary and sensitive commercial information and intellectual property rights through a variety of means, including, as applicable, through registrations, confidentiality and other contract provisions, policies, restrictions and monitoring of access and other means.

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. The Government of Canada recently announced that it is exploring the privatization of Canadian airports.

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. Following on the CTA Review Report, on November 3, 2016, the Minister of Transport announced the Canadian government's intention to pursue legislation relating to passenger rights and permitting an increase to the non-Canadian ownership limit of Canadian carriers to 49% of voting interests (from the current 25% limit) with a cap of 25% for any single non-Canadian investor. At that time, the Minister of Transport also announced the Canadian government's intention to seek to improve wait times for security screening at Canadian airports. Management cannot predict the outcome or timing of any such initiative.

Transborder Services

Transborder services between Canada and the United States are operated based on the Open Skies Agreement between Canada and the United States, which came into force in 2007. The Open Skies Agreement allows air carriers of both countries (i) to pick up passenger and/or cargo traffic in the other country and carry that traffic to a third country as part of a service to or from the carrier's home country, (ii) to operate stand-alone all-cargo services between the other country's territory and third countries, and (iii) greater pricing flexibility for services between the other country and a third country. The Agreement also permits Air Canada to offer code share services with certain Star Alliance[®] partners between Canada and the United States. In addition, 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 carriage of local traffic between points within one country by carriers of the other country, commonly known as cabotage, remains prohibited.

International Services

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

Transport Canada applies 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 for designation 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.

Transport Canada's international air transportation policy called Blue Sky includes a more liberalized approach to Canada's bilateral air transportation negotiations. Under this policy, when in Canada's overall interest, it proactively pursues opportunities to negotiate more liberalized agreements for international scheduled air transportation that will provide maximum opportunity for the addition of passenger and all-cargo services according to market conditions. In 2008, Canada 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. Although the formal ratification process remains pending, these rights and others contained in this air transport agreement have been made 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 be chartered and that charter carriers are prohibited from selling seats directly to the public.

Foreign Ownership Rules

On November 3, 2016, the Minister of Transport announced the Canadian government's intention to pursue legislation permitting an increase to the non-Canadian ownership limit of Canadian carriers

to 49% of voting interests (from the current 25% limit) with a cap of 25% for any single non-Canadian investor. Management cannot predict the outcome or timing of such initiative.

Additional information on Air Canada's shares and ownership limits is available in the section of this AIF entitled *Description of Capital Structure*.

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 those 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 ("EU") emissions trading system ("ETS") includes carbon emissions from aviation, including for flights between Canada and EU countries. However, the European Parliament and Council exempted all flights between Europe and third countries from the EU ETS, pending the creation of a satisfactory International Civil Aviation Organization ("ICAO") led global market-based measure ("GMBM") by end of 2016. In October 2016, the ICAO Assembly adopted a resolution on a GMBM which includes emissions from international flights. The GMBM is set to be implemented in phases, with the first two phases (occurring from 2021 to 2023, and 2024 to 2026, respectively) to be voluntary and with the third phase (from 2027 to 2035) to be mandatory. Canada voluntarily adopted the first phase. On the basis of the GMBM, in February 2017, the European Parliament and Council presented a legislative proposal to maintain the exemption of flights between Europe and third countries pending progress on the design and implementation of the GMBM. The proposal applies to the requirements to monitor and report emissions and to surrender allowances for emissions from January 1, 2017. For the 2017-2020 period under the ETS, the free allowances allocated to aviation activities will remain the same as in 2016. Air Canada cannot predict if the EU legislative proposal will be adopted with or without modification.

In October 2016, the Canadian Federal Government proposed a pan-Canadian benchmark for carbon pricing to be implemented in all Canadian jurisdictions by 2018. Pricing will be based on greenhouse gas emissions from all fossil fuels sources including jet fuel and other fuels used by Air Canada in ground operations and stationary combustion equipment. Canadian provinces can either choose to apply an explicit price-based system, such as a carbon tax or levy, or a cap and trade system. Some provinces, such as Alberta, British Columbia, Ontario and Québec have already implemented carbon pricing. As of 2017, Air Canada and regional carriers operating flights on behalf of Air Canada are subject to a carbon tax for flights operating in British Columbia and in Alberta.

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.

Official Languages Act

Pursuant to the *Air Canada Public Participation Act* ("ACPPA"), Air Canada is subject to the *Official Languages Act* (Canada), (the "OLA"). The OLA contains numerous provisions applicable to Air Canada such as provisions that members of the traveling public be able to communicate with and obtain services in French and English (including where such services are performed on behalf of Air Canada by another party), where there is significant demand for those services in that language and to allow Air Canada employees to work in either official language 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.

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 refine. 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 and Air Canada Rouge have approved SMS's in place which meet and exceed 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 SMS's on behalf of the AE.

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. On January 15, 2015, new rules came into force prohibiting the installation of programs on a third party computer without consent. Since its inception, enforcement of the anti-spam and anti-malware portions of CASL has been only by the Canadian Radio-television and Telecommunications Commission; however, as of July 1, 2017, private individuals and organizations that claim to be affected by a violation of CASL will be able to seek legal redress through civil actions. Air Canada continues to take measures to ensure ongoing 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, 2016 to December 31, 2016, Air Canada, together with its Contracted Carriers, led the Canadian airline industry's domestic scheduled capacity with an estimated market share of approximately 56% based on 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.

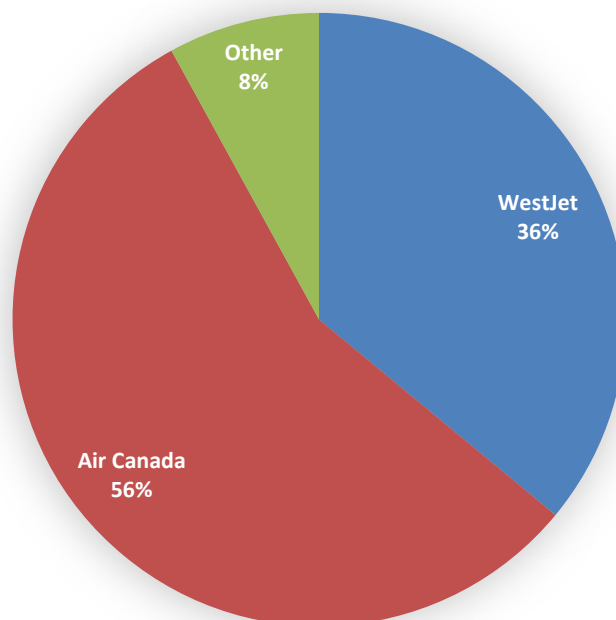
Competition in the domestic market is primarily from WestJet. As at December 31, 2016, Air Canada, together with its Contracted Carriers, provided service to 64 domestic destinations within Canada, while WestJet provided service to 38 domestic destinations.

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, 2016 to December 31, 2016; 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 2016, there were, on average, 1,054 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, 2016 to December 31, 2016, 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 45% based on ASMs.

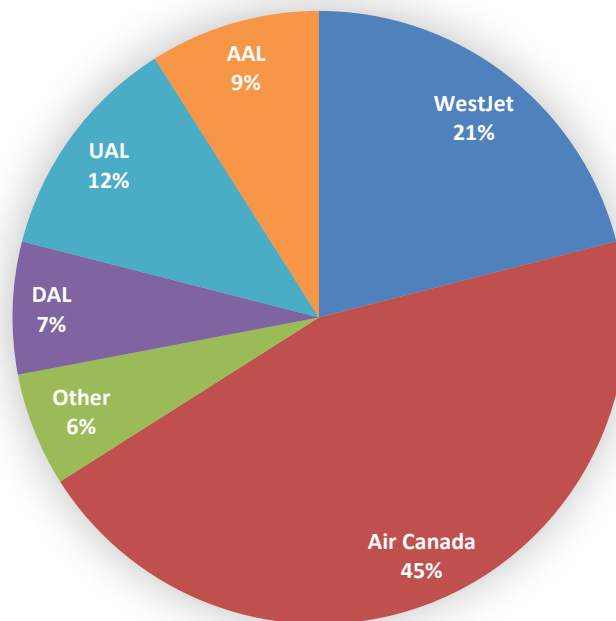
Air Canada, together with its Contracted Carriers, carries more passengers, serves more non-stop destinations and provides more flights in the U.S. transborder market than any other airline. Competition in the U.S. transborder market is primarily from U.S. network carriers and their regional

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 2016, Air Canada, together with its Contracted Carriers, provided service to 55 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 26 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, 2016 to December 31, 2016; 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 575 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 263 daily departures, of which 16% 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 328 daily departures, of which 10% 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, 2016 to December 31, 2016, Air Canada provided more international scheduled capacity in the international market to and from Canada than any other airline with an estimated market share of approximately 39% based on ASMs.

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 2016, WestJet, Sunwing and Transat provided service to 35, 26 and 30 destinations, respectively, to Mexico, Central America and the Caribbean. Transat also provided service to 28 destinations to Europe. Air Canada Rouge is enabling Air Canada to compete more effectively against these low-cost carriers serving international leisure destinations.

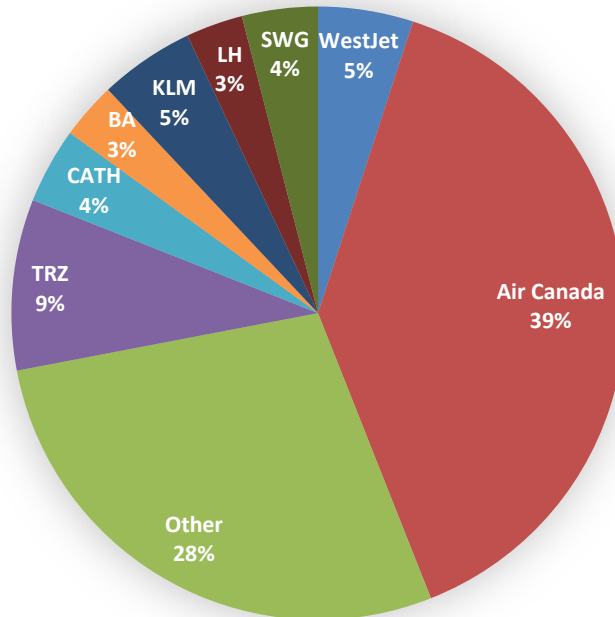
The continued strategic expansion of Air Canada Rouge in conjunction with Air Canada's mainline fleet renewal is a key driver of the airline's strategy for sustainable, profitable growth. Since its first flight in July 2013, Air Canada Rouge, Air Canada's leisure airline, has been deployed to a growing number of Caribbean destinations, select leisure destinations in the United States and in Canada, as well as in international leisure markets.

In 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.

Air Canada has increasingly effective 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 and industry-leading products and services, allow it to leverage its network and benefit from the higher margins generally available in international markets.

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, 2016 to December 31, 2016; 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 2016 MD&A, which section is incorporated into the AIF by this reference, with the following update to the portion entitled *Investigations by competition authorities relating to Air Canada Cargo*: In March 2017, the European Commission issued a new decision imposing the same fine of 21 million Euros (approximately \$30 million) initially levied against Air Canada in 2010. Air Canada will be paying the fine, as required, pending the outcome of its appeal. While Air Canada cannot predict with certainty the outcome of its appeal or any related proceedings, Air Canada believes it has reasonable grounds to successfully challenge the European Commission’s ruling.

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". 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 2016.

2016	Variable Voting Shares and Voting Shares (AC)			
	High	Low	Average Daily Trading Volume	Total Monthly Volume
January	\$ 10.10	\$ 6.99	2,224,473	44,489,456
February	\$ 8.44	\$ 6.81	2,505,296	50,105,913
March	\$ 9.39	\$ 7.18	2,527,984	55,615,641
April	\$ 9.75	\$ 8.05	1,498,602	31,470,637
May	\$ 9.89	\$ 9.20	1,423,878	30,090,447
June	\$ 10.49	\$ 8.17	1,413,810	31,103,818
July	\$ 9.70	\$ 8.56	1,051,185	21,023,701
August	\$ 9.21	\$ 8.66	840,963	18,501,176
September	\$ 10.65	\$ 8.84	1,654,529	34,745,106
October	\$ 13.15	\$ 10.65	1,991,025	39,820,505
November	\$ 14.44	\$ 11.60	1,704,580	37,500,766
December	\$ 14.85	\$ 13.61	954,048	19,080,956

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, 2016, 2015 and 2014.

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, pay down debt and, when appropriate, buy back shares. 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. 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, 2016, 86,657,994 Variable Voting Shares and 186,554,808 Voting Shares were issued and outstanding for an aggregate amount of 273,212,802.

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 restated articles of incorporation.

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.

On November 3, 2016, the Minister of Transport announced the Canadian government's intention to pursue legislation permitting an increase to the non-Canadian ownership limit of Canadian carriers to 49% of voting interests (from the current 25% limit) with a cap of 25% for any single non-Canadian investor. Management cannot predict the outcome or timing of this initiative.

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 are, at the discretion of the directors, 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 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 may 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 is 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.

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 becomes convertible at the option of the holder into one Voting Share that is 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 are to be reconverted automatically and without further act from Air Canada or the holder, into Variable Voting Shares.

There is 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 Air Canada's restated articles of incorporation.

Constraints on Ownership of Shares

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians. Air Canada's restated articles of incorporation, 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 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), 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

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 Air Canada's restated articles of incorporation.

Repurchase of Shares

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.

In May 2016, Air Canada approved a normal course issuer bid for its Variable Voting Shares and Voting Shares, authorizing, between May 30, 2016 and May 29, 2017, the purchase of up to 22,785,511 Shares, representing 10% of the public float of 227,855,112 Shares as at May 16, 2016. In 2016, Air Canada purchased, for cancellation, 10,768,465 Shares at an average cost of \$8.77 per Share for aggregate consideration of \$94 million. At December 31, 2016, a total of 18,333,111 Shares remained available for repurchase under the normal course issuer bid. After December 31, 2016 to March 16, 2017 a total of 2,397,200 Shares were repurchased under the normal course issuer bid. As at March 17, 2017, 15,935,911 Shares remain available for repurchase by Air Canada under this normal course issuer bid.

Air Canada Shareholder Rights Plan

The Board of Directors of Air Canada approved a shareholder rights plan on March 30, 2011 (the "Current Rights Plan"). The Current 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 meeting held on May 5, 2011.

The Current 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 Current 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 Current 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 Current 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 Current Rights Plan. Subject to certain exceptions identified in the Current 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 Current Rights Plan prior to the amendments that came into effect in 2012.

The amendments to the Current Rights Plan were proposed in order to render effective a May 2012 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 Current 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 Current Rights Plan was renewed pursuant to shareholder approval at Air Canada's annual and special meeting of shareholders held on May 15, 2014 and is scheduled to expire the day after the 2017 annual meeting of shareholders scheduled for May 5, 2017, unless terminated earlier in accordance with the terms of the Current Rights Plan.

As the Current Rights Plan is set to expire in 2017, on March 24, 2017, the Board of Directors adopted a new shareholder rights plan (the "New Rights Plan") in order to amend and restate the Current Rights Plan. The New Rights Plan will be submitted for ratification at the 2017 annual meeting of shareholders scheduled for May 5, 2017 and, if approved by shareholders at the meeting, the New Rights Plan will be in effect until the close of business on the date on which the annual meeting of the shareholders of the Corporation is held in 2020, and would be renewed in accordance with its terms for an additional period of three years (from 2020 to 2023) provided that the shareholders ratify such renewal at or prior to the annual meeting of shareholders to be held in 2020.

In adopting the New Rights Plan, the Board of Directors considered the existing legislative framework governing take-over bids in Canada. On February 25, 2016, the Canadian Securities Administrators (the "CSA") published amendments to the take-over bid regime that subsequently came into force on May 9, 2016. The amendments, among other things, lengthen the minimum bid period to 105 days (from the previous 35 days), require that all non-exempt take-over bids meet a minimum tender requirement of more than 50% of the outstanding securities held by independent shareholders, and require a ten day extension after the minimum tender requirement is met. Regarding the minimum bid period, a target issuer will have the ability to voluntarily reduce the period to not less than 35 days. Additionally, the minimum bid period may be reduced due to the existence of certain competing take-over bids or alternative change in control transactions.

As the CSA legislative amendments do not apply to exempt take-over bids, there continues to be a role for rights plans in protecting issuers and preventing the unequal treatment of shareholders. Some remaining areas of concern include:

- protecting against "creeping bids" (the accumulation of more than 20% of the Variable Voting Shares and Voting Shares on a combined basis) through purchases exempt from Canadian take-over bid rules, such as (i) purchases from a small group of shareholders under private agreements at a premium to the market price not available to all shareholders, (ii) acquiring control through the slow accumulation of shares not available

- to all shareholders, (iii) acquiring control through the slow accumulation of shares over a stock exchange without paying a control premium, or (iv) through other transactions outside of Canada (that may not be formally subject to Canadian take-over bid rules), and requiring the bid to be made to all shareholders; and
- preventing a potential acquirer from entering into lock-up agreements with existing shareholders prior to launching a take-over bid, except for permitted lock-up agreements as specified in the New Rights Plan.

The New Rights Plan agreement is available on SEDAR at www.sedar.com.

Air Canada Long-Term Incentive Plan

Certain of the Corporation's employees participate in the Air Canada Long-term Incentive Plan (the "Long-term Incentive Plan"). The Long-term Incentive Plan provides for the grant of options, performance share units and restricted share units to senior management and officers of Air Canada. 20,011,623 Shares are authorized for issuance under the Long-term Incentive Plan of which 7,540,298 currently remain available for future issuance after taking into account the issued and outstanding stock options, and after deducting stock options which have been exercised. The outstanding performance share units and restricted share units will not result in the issuance of new Shares as these share units will be redeemed for Shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

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⁾ Toronto, Ontario	Corporate Director	June 27, 2013
Michael M. Green ⁽³⁾⁽⁴⁾ 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 ⁽¹⁾⁽³⁾ Minneapolis, Minnesota	Corporate Director	May 21, 2008
Madeleine Paquin ⁽¹⁾⁽⁴⁾ Montréal, Québec	President and Chief Executive Officer, Logistec Corporation	May 12, 2015
David I. Richardson ⁽¹⁾⁽²⁾⁽⁵⁾ Grafton, Ontario	Corporate Director	November 15, 2006
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

Name and Municipality of Residence	Principal Occupation	Director Since
Vagn Sørensen ⁽¹⁾⁽²⁾⁽⁴⁾ London, United Kingdom	Corporate Director	November 15, 2006
Kathleen Taylor ⁽¹⁾⁽²⁾⁽³⁾ Toronto, Ontario	Corporate Director	May 10, 2016
Annette Verschuren ⁽¹⁾⁽²⁾⁽⁴⁾ Toronto, Ontario	Chair and Chief Executive Officer, NRStor Inc.	November 12, 2012
Michael M. Wilson ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾ Bragg Creek, Alberta	Corporate Director	October 1, 2014

(1) Member of the Governance and Nominating Committee.

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

(3) Member of the Pension Committee.

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

(5) 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.

(6) 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. Ms. Taylor was President and Chief Executive Officer of Four Seasons Hotels and Resorts from 2010 to 2013. 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
Lucie Guillemette Beaconsfield, Québec	Executive Vice President and Chief Commercial Officer	February 6, 2008

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
Kevin C. Howlett Delta, British Columbia	Senior Vice President, Regional Markets and Government Relations	March 18, 2002
Amos Kazzaz Saint-Laurent, Québec	Senior Vice President, Financial Planning and Analysis	May 3, 2010
Craig Landry Montréal, Québec	Senior Vice President, Revenue Optimization	August 1, 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
Eddy Doyle Toronto, Ontario	Vice President, Flight Operations	February 16, 2016
Yves Dufresne Montréal, Québec	Vice President, Alliances and Regulatory Affairs	April 26, 2004
Mark Galardo Mont-Royal, Québec	Vice President, Network Planning	January 1, 2017
Carolyn M. Hadrovic Beaconsfield, Québec	Corporate Secretary	February 16, 2006
Chris Isford Winnipeg, Manitoba	Vice President and Controller	November 1, 2006
John MacLeod Toronto, Ontario	Vice President, Commercial Strategy	March 6, 2017
Arielle Meloul-Wechsler Montréal, Québec	Vice President, Human Resources	September 18, 2013
Leslie Quinton Pierrefonds, Québec	Vice President, Corporate Communications	May 16, 2016

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
Mark Southern Langley, British Columbia	Vice President, Airports – North America	November 8, 2016
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. Ms. Guillemette was Senior Vice President, Revenue Optimization of Air Canada from 2015 to 2016 and Vice President, Revenue Management from 2008 to 2015. Mr. Howlett was Senior Vice President, Employee Relations of Air Canada from 2006 to 2013. Mr. Landry was President, Air Canada Leisure Group in 2016 and Vice President, Marketing of Air Canada from 2010 to 2016. 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. Galardo was Senior Director, Network Planning of Air Canada from 2014 to 2016, Director, Network Planning from 2012 to 2014 and Manager Network & Fleet Strategy from 2011 to 2012. Mr. MacLeod was Senior Vice President, Planning, Sales, Revenue Management and eCommerce of Virgin America from 2012 to 2017. Ms. Meloul-Wechsler was Senior Director, Human Resources of Air Canada from 2011 to 2013. Ms. Quinton was an independent strategic consultant from 2014 to 2016, Senior Vice President of Global Corporate Communications of SNC-Lavalin from 2012 to 2014 and Vice President of Global Corporate Communications from 2009 to 2012. Ms. Smith-Valade was Vice President, Customer Experience of Air Canada in 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. Southern was Managing Director, Airport Operations – North America of Air Canada from 2015 to 2016 and Senior Director, Airport Operations – West Canada from 2011 to 2015. 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 of AirTran Airways from 2012 to 2013 (during the transition to Southwest Airlines) and Vice President, Operations of AirTran Airways from 2005 to 2012.

As at December 31, 2016, the directors and officers mentioned above, as a group, owned, or had control or direction over, directly or indirectly, 1,071,436 Voting Shares representing approximately 0.0057% of the outstanding Voting Shares and 135,791 Variable Voting Shares representing approximately 0.016% of the outstanding Variable Voting Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Air Canada, no director or executive officer of Air Canada is, as at the date of 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, Kathleen Taylor, Annette Verschuren and Michael M. Wilson. 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 Chief Executive Officer and the 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 a member of the Board of the Canadian Olympic Committee and a member of the Advisory Council of the Stephen J.R. 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 has also 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 Chairman of FLSmidth & Co. A/S, Scandic Hotels Group AB and SSP Group plc, and serves as a director of Royal Caribbean Cruises Ltd. He also represents the private equity fund EQT in some of their portfolio companies. Mr. Sørensen was previously President and Chief Executive Officer of Austrian Airlines from 2001 to 2006 and held various senior commercial positions with SAS Scandinavian Airlines System, including Deputy Chief Executive Officer. Mr. Sørensen is the former Chairman of British Midland Ltd. and a former director of Lufthansa Cargo AG. He has also served as Chairman of the Association of European Airlines and a member of the IATA Board of Governors. Mr. Sørensen holds a Master of Science degree in Economics and Business Administration from Aarhus Business School of Business, University of Aarhus, Denmark.
- (iv) Kathleen Taylor is a corporate director. Ms. Taylor is Chair of the Board of the Royal Bank of Canada and Chair of the Board of the SickKids Foundation and a member of the Hospital's Board of Trustees. She is also a director of The Adecco Group and the Canada Pension Plan Investment Board. Ms. Taylor is the former President and Chief Executive Officer of Four Seasons Hotels and Resorts where, over her 24-year career in a variety of senior leadership roles, she was instrumental in building the firm's global brand and its international portfolio of luxury properties. She is also a member of the C.D. Howe Institute's National Council and serves on the Dean's Advisory Council of the Schulich School of Business and on the Principal's International Advisory Board of McGill University. Ms. Taylor is a Member of the Order of Canada and has received Honorary Doctorates of Laws from York University and Trent University and an Honorary Doctorate of Humane Letters from Mount Saint Vincent University. Ms. Taylor earned a Masters of Business Administration degree from the Schulich School of Business, a law degree from Osgoode Hall Law School and a Bachelor of Arts (Honours) from the University of Toronto.

- (v) Annette Verschuren is Chair and Chief Executive Officer of NRStor Inc., an energy storage development company. From 1996 to 2011, Ms. Verschuren served as 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 President and co-owner of Michaels of Canada, a chain of arts and crafts stores. Previously, Ms. Verschuren was Vice President, Corporate Development of Imasco Ltd. and 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 Rideau Hall Foundation 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 six universities including St. Francis Xavier University where she also earned a Bachelor of Business Administration degree.
- (vi) Michael M. Wilson is a corporate director. Mr. Wilson is the former President and Chief Executive Officer of Agrium Inc., a position he held from 2003 until his retirement in 2013. He previously served as Executive Vice President and Chief Operating Officer. Mr. Wilson has significant experience in the petrochemical industry, serving as President of Methanex Corporation and holding various positions with increasing responsibility in North America and Asia with Dow Chemical Company. Mr. Wilson is a director of Finning International Inc., Celestica Inc. and Suncor Energy Inc. He is also a director of the Calgary Prostate Cancer Centre. Mr. Wilson holds a Bachelor of Science degree in Chemical Engineering from the University of Waterloo.

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, 2016 and December 31, 2015 to PricewaterhouseCoopers LLP and its affiliates are \$2,926,997 and \$3,083,169, respectively, as detailed below.

	Year ended December 31, 2016	Year ended December 31, 2015
Audit fees	\$ 1,852,876	\$ 1,820,983
Audit-related fees	650,101	701,677
Tax fees	162,490	186,361
All other fees	261,530	374,148
	\$ 2,926,997	\$ 3,083,169

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 2016 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, 2016, 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 Indenture dated October 6, 2016 governing the 2016 Senior Notes, and the Collateral Trust Agreement dated October 6, 2016 governing the holding of collateral securing the 2016 Senior Notes;
- (ii) the Loan Agreement dated October 6, 2016 governing the 2016 Credit Facility; and
- (iii) the Amended and Restated Capacity Purchase Agreement between Air Canada and Jazz dated January 1, 2015.

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 2016 annual meeting of shareholders held on May 10, 2016 and will be contained in Air Canada's management proxy circular for its 2017 annual meeting of shareholders to be held on May 5, 2017.

Additional financial information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2016 and Air Canada's 2016 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, 2016, including the auditor's report and notes related thereto, Air Canada's 2016 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;

“**Aimia**” means Aimia Canada Inc.;

“**Air Canada’s 2016 MD&A**” means Air Canada’s 2016 Management’s Discussion and Analysis of Results of Operations and Financial Condition dated February 17, 2017;

“**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;

“**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;

“**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 the section of this AIF entitled Employees and Arrangements with Unions;

"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");

"GMBM" means global market-based measure;

"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, 2015;

"Lufthansa" means Deutsche Lufthansa AG;

"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), as amended;

"Porter" means Porter Airlines Inc.;

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

"Sky Regional" means Sky Regional Airlines Inc.;

"SMS" means Safety Management System;

"SOC" means System Operations Centre;

"Standard & Poor's" means Standard & Poor's Rating Services;

"Sunwing" means Sunwing Airlines;

"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.

"United Airlines" means United Airlines Inc.

"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. MEETINGS AND PROCEDURE

- (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. OTHER

(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