AIR CANADA

Third Quarter 2010

Interim Unaudited

Consolidated Financial Statements and Notes

November 4, 2010

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three Months Ended September 30 2010	2009	Nine Months Ended September 30 2010	2009
Operating revenues					
Passenger		$ 2,722	$ 2,400	$ 7,131	$ 6,469
Cargo		123	92	342	248
Other		181	178	697	674
		3,026	2,670	8,170	7,391
Operating expenses					
Aircraft fuel		733	682	2,012	1,847
Wages, salaries and benefits		471	437	1,415	1,333
Airport and navigation fees		270	272	732	743
Capacity purchase with Jazz	Note 7	247	246	703	746
Depreciation and amortization		166	171	514	495
Aircraft maintenance		158	183	504	557
Food, beverages and supplies		77	82	226	222
Communications and information technology		76	70	235	229
Aircraft rent		88	81	262	250
Commissions		72	51	194	140
Other		341	327	1,097	1,062
		2,699	2,602	7,894	7,624
Operating income (loss)		**327**	**68**	**276**	**(233)**
Non-operating income (expense)					
Interest income		4	2	10	12
Interest expense	Note 2	(86)	(87)	(297)	(286)
Interest capitalized		-	1	-	4
Gain (loss) on assets	Note 2	2	1	1	(70)
Gain (loss) on financial instruments recorded at fair value	Note 5	5	4	(11)	73
Other		-	(4)	-	(5)
		(75)	(83)	(297)	(272)
Income (loss) before the following items		**252**	**(15)**	**(21)**	**(505)**
Non-controlling interest		(1)	(3)	(7)	(11)
Foreign exchange gain		90	295	34	549
Recovery of (provision for) income taxes					
Current		-	-	3	2
Future		(80)	-	(36)	(3)
Net income (loss) for the period		**$ 261**	**$ 277**	**$ (27)**	**$ 32**
Net income (loss) per share					
Basic		$ 0.94	$ 2.77	$ (0.10)	$ 0.32
Diluted		$ 0.91	$ 2.44	$ (0.10)	$ 0.30

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		September 30 2010	December 31 2009
ASSETS			
Current			
Cash and cash equivalents		$ 1,511	$ 1,115
Short-term investments		662	292
		2,173	1,407
Restricted cash		52	78
Accounts receivable		774	701
Aircraft fuel inventory		54	63
Spare parts and supplies		63	64
Prepaid expenses and other current assets	Note 5	293	338
		3,409	2,651
Property and equipment		5,892	6,369
Intangible assets		901	916
Deposits and other assets	Note 8	484	470
		$ 10,686	**$ 10,406**
LIABILITIES			
Current			
Accounts payable and accrued liabilities	Note 5	$ 1,279	$ 1,246
Advance ticket sales		1,320	1,288
Current portion of long-term debt and capital leases	Note 2	511	468
		3,110	3,002
Long-term debt and capital leases	Note 2	4,183	4,054
Future income taxes		86	85
Pension and other benefit liabilities		1,078	1,163
Other long-term liabilities		491	455
		8,948	8,759
Non-controlling interest		166	201
SHAREHOLDERS' EQUITY			
Share capital		532	532
Contributed surplus		1,826	1,825
Deficit		(754)	(727)
Accumulated other comprehensive loss	Note 5	(32)	(184)
		1,572	1,446
		$ 10,686	**$ 10,406**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity

Unaudited (Canadian dollars in millions)	Nine Months Ended September 30 2010	2009
Share capital		
Common shares	$ 532	$ 274
Total share capital	532	274
Contributed surplus		
Balance, beginning of period	1,825	1,797
Fair value of stock options issued to Corporation employees recognized as compensation expense	1	2
Pension MOUs	-	29
Warrants issued under the credit facility	-	7
Contributed surplus	1,826	1,835
Deficit		
Balance, beginning of period	(727)	(703)
Net income (loss) for the period	(27)	32
Deficit	(754)	(671)
Accumulated other comprehensive income (loss)		
Balance, beginning of period	(184)	(606)
Other comprehensive income	152	337
Total accumulated other comprehensive loss	(32)	(269)
Total deficit and accumulated other comprehensive loss	(786)	(940)
Total shareholders' equity	**$ 1,572**	**$ 1,169**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

Unaudited (Canadian dollars in millions)		Three Months Ended September 30 2010	2009	Nine Months Ended September 30 2010	2009
Comprehensive income					
Net income (loss) for the period		$ 261	$ 277	$ (27)	$ 32
Other comprehensive income, net of taxes:					
Net losses on fuel derivatives under hedge accounting, net of taxes	Note 5	-	-	-	(1)
Reclassification of net realized losses on fuel derivatives to income, net of taxes	Note 5	42	94	152	338
		42	94	152	337
Total comprehensive income		**$ 303**	**$ 371**	**$ 125**	**$ 369**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flow

Unaudited (Canadian dollars in millions)		Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Cash flows from (used for)					
Operating					
Net income (loss) for the period		$ 261	$ 277	$ (27)	$ 32
Adjustments to reconcile to net cash from operations					
Depreciation and amortization		166	171	514	495
(Gain) loss on assets	Note 2	(2)	(1)	(1)	70
Foreign exchange gain		(72)	(308)	(39)	(520)
Future income taxes		80	-	36	3
Excess of employee future benefit funding over expense		(43)	(103)	(83)	(315)
Non-controlling interest		1	3	7	11
Fuel and other derivatives	Note 5	21	80	97	17
Fuel hedge collateral deposits, net	Note 5	11	(3)	41	206
Changes in non-cash working capital balances		(303)	(355)	114	(179)
Other		17	5	57	23
		137	**(234)**	**716**	**(157)**
Financing					
Borrowings	Note 2	1,075	587	1,175	930
Reduction of long-term debt and capital lease obligations		(808)	(256)	(1,035)	(856)
Other		-	-	(35)	-
		267	**331**	**105**	**74**
Investing					
Short-term investments		48	252	(370)	339
Additions to capital assets		(25)	(34)	(92)	(190)
Proceeds from contractual commitments		-	230	-	230
Proceeds from sale of assets	Note 2	27	3	28	96
Proceeds from sale-leaseback transactions	Note 2	-	-	20	172
Reduction to Aveos letter of credit	Note 8	-	-	23	-
Other	Note 2	(48)	6	(34)	(21)
		2	**457**	**(425)**	**626**
Increase in cash and cash equivalents		**406**	**554**	**396**	**543**
Cash and cash equivalents, beginning of period		1,105	488	1,115	499
Cash and cash equivalents, end of period		**$ 1,511**	**$ 1,042**	**$ 1,511**	**$ 1,042**
Cash payments of interest		$ 74	$ 66	$ 219	$ 245
Cash payments (recoveries) of income taxes		$ 1	$ -	$ 4	$ (3)

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Interim Consolidated Financial Statements (unaudited)
(currencies in millions – Canadian dollars)

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements are of Air Canada (the “Corporation”). The term “Corporation” refers to, as the context may require, Air Canada and/or one or more of Air Canada’s subsidiaries.

The unaudited interim consolidated financial statements for the Corporation are based on the accounting policies consistent with those disclosed in Note 2 to the 2009 annual consolidated financial statements of the Corporation.

In accordance with generally accepted accounting principles in Canada (“GAAP”), these interim financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the 2009 annual consolidated financial statements of the Corporation. In management’s opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim periods presented.

The Corporation has historically experienced 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. The Corporation has substantial fixed costs in its cost structure that do not meaningfully fluctuate with passenger demand in the short term.

2. FINANCING AND INVESTING ACTIVITIES

Private Note Offerings

On August 3, 2010, the Corporation completed a private offering of two series of senior secured notes, consisting of US$600 senior secured first lien notes due 2015 (the "U.S. Dollar First Lien Notes") and $300 senior secured first lien notes due 2015 (the "Canadian Dollar First Lien Notes" and, collectively with the U.S. Dollar First Lien Notes, the “First Lien Notes”). On August 3, 2010, the Corporation also completed a private offering of US$200 senior secured second lien notes due 2016 (the "Second Lien Notes" and, together with the First Lien Notes, the "Notes"). The Corporation received net proceeds of $1,075, after deduction of fees, expenses and discounts. The Corporation used approximately $729 of the net proceeds of the offerings to repay all of the outstanding debt under the term credit facility, including $29 for early payment fees.

The U.S. Dollar First Lien Notes bear interest at a rate of 9.250% per annum, the Canadian Dollar First Lien Notes bear interest at a rate of 10.125% per annum, and the Second Lien Notes bear interest at a rate of 12.000% per annum, in each case payable February 1 and August 1 of each year, beginning on February 1, 2011. The Corporation is required to pay additional special interest of 2% per annum on the Notes if (i) the priority lien debt value ratio (appraised value of collateral / priority lien debt) is less than 1.7:1.0, or (ii) the total appraised value ratio (total appraised value of collateral / secured debt) is less than 1.25:1.0.

The Corporation may redeem some or all of the First Lien Notes at any time on or after August 1, 2012 at certain established redemption prices, plus accrued and unpaid interest. At any time prior to August 1, 2012, Air Canada may redeem some or all of the First Lien Notes at a price equal to 100% of their principal amount plus a “make-whole” premium and accrued and unpaid interest. At any time prior to August 1, 2012, Air Canada may redeem up to 35% of the aggregate principal amount of each issue of First Lien Notes with the proceeds of certain equity offerings, at established redemption prices, plus accrued and unpaid interest. In addition, at any time and from time to time prior to August 1, 2014, the Corporation may redeem, during any twelve-month period, up to 10% of the original aggregate principal amount of each issue of First Lien Notes at a redemption price of 103% of the principal amount, plus accrued and unpaid interest.

The Corporation may redeem some or all of the Second Lien Notes at any time on or after February 1, 2013 at certain established redemption prices, plus accrued and unpaid interest. At any time prior to February 1, 2013, Air Canada may redeem some or all of the Second Lien Notes at a price equal to 100% of their principal amount plus a “make-whole” premium and accrued and unpaid interest. At any time prior to February 1, 2013, Air Canada may redeem up to 35% of the aggregate principal amount of the Second Lien Notes with the proceeds of certain equity offerings and by paying a redemption price equal to 112% of the principal amount of the Second Lien Notes being redeemed, plus accrued and unpaid interest thereon.

The prepayment options within the First Lien Notes and Second Lien Notes are considered embedded derivatives. The value of these embedded derivatives at September 30, 2010 is nominal. Upon specified change of control events or upon certain sales of assets, the Corporation must offer to repurchase the Notes.

The Notes are senior secured obligations of Air Canada, (i) secured on a first-lien basis (in the case of the First Lien Notes) or on a junior lien basis (in the case of the Second Lien Notes), subject to certain permitted liens, by accounts receivable, certain real estate interests, certain spare engines, ground equipment, certain airport slots and gate leaseholds, and Air Canada's licenses to operate its Pacific routes and the airport slots and gate leaseholds utilized in connection with these Pacific routes and (ii) guaranteed on a senior secured basis by certain subsidiaries of Air Canada, subject to certain thresholds and exclusions.

Refer to Note 5 for a description of the impact to market risk related to the completion of the note offerings.

Loan Facility

On August 20, 2010, the Corporation concluded a credit agreement with GE Japan Corporation, PK Airfinance Japan ("GE Japan") for a senior secured term loan facility in the amount of up to approximately US$171 (the "Facility") to refinance amounts related to sixteen aircraft currently operated by Air Canada and leased from special purpose leasing entities which are consolidated by Air Canada. As a result, the aircraft assets and debt of these leasing entities are recorded on the consolidated statement of financial position. The debt of the aircraft leasing entities is described in Note 6(e) to the 2009 annual consolidated financial statements of the Corporation. On a consolidated basis, the draws on the Facility will be accounted for as a settlement of the special purpose leasing entities' debt related to these aircraft. Draw-downs under the facility are subject to certain customary terms and conditions.

This loan facility will be available in 2011 to refinance up to US$129 of the amount related to eight Airbus A319 aircraft and four Boeing B767-300ER aircraft, with terms of seven and four years respectively. The loan facility will also be available in 2012 to refinance up to US$42 of the amount related to four Airbus A319 aircraft, with a term of five years. As a result of this agreement, the amounts due under the existing debt maturities within the next 12 months that will be refinanced by the commitment on a long-term basis have been classified as long-term at September 30, 2010.

Term Credit Facility

During the first quarter of 2010, the Corporation entered into arrangements with a new lender, comprised of a group of entities that are related to each other, to obtain a $100 increase to the $600 secured term credit facility which is further described in Note 6 to the 2009 annual consolidated financial statements of the Corporation. The addition to the facility increased, on a pro rata basis, the scheduled repayments, including the final payment. The Corporation received financing proceeds of $100, less financing fees of $2, in February 2010. No additional warrants were issued as a result of the increase to the credit facility.

As described above under "Private Note Offerings", total outstanding debt under this facility of $700 was repaid upon the issuance of senior secured notes in August 2010. Based on the change in cash flows under the term credit facility due to its repayment, the Corporation recorded a charge of $54 in interest expense during the second quarter of 2010, including early payment fees of $29 and $25 for the adjustment related to the unamortized portion of transaction costs and debt discounts.

Refer to Note 9 for the Corporation's five year principal and interest repayment requirements as at September 30, 2010.

Prepayments under Lease Obligations

Pursuant to a fair value test as described in Note 6(p) to the 2009 annual consolidated financial statements of the Corporation, during the third quarter of 2010, the Corporation provided $48 of collateral against certain aircraft leases pertaining to A340 and A330 aircraft. This cash outflow is reported in Investing on the consolidated statement of cash flow.

Sale-leaseback

During the first quarter of 2010, the Corporation received additional net proceeds of $20 upon completion of the remaining part of the sale-leaseback transaction of three Boeing 777 aircraft which was substantially completed in the fourth quarter of 2009. The Corporation recorded a Loss on assets of $1 in the first quarter of 2010 for this remaining part of the transaction.

Aveos Restructuring Plan

During the first quarter of 2010, Aveos completed a recapitalization plan. As part of this recapitalization, Air Canada and Aveos entered into agreements to settle certain issues and modify the terms of certain contractual arrangements in exchange for Air Canada receiving a minority equity interest in Aveos as further described in Note 8.

Disposals of and Provisions for Assets

During the third quarter of 2010, the Corporation sold a spare engine for proceeds of $25 with a book value of $24, resulting in a gain on sale of $1. There were no significant disposals or provisions during the first six months of 2010.

There were no significant disposals or provisions during the first and third quarters of 2009.

During the second quarter of 2009:

- The Corporation recorded an impairment charge of $67 relating to previously capitalized costs incurred towards the development of a new reservation system, referred to as POLARIS.

- The Corporation sold two A340 aircraft for proceeds of $91 with a book value of $93, resulting in a loss on sale of $2. The Corporation made a repayment of $82 for the associated debt.

3. PENSION AND OTHER BENEFIT LIABILITIES

Pension and Other Benefit Expense

The Corporation has recorded pension and other employee future benefits expense as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Pension benefit expense	$ 29	$ 2	$ 85	$ -
Other employee future benefits expense	22	20	66	60
	51	**22**	**151**	**60**
Amount charged to ACE, Aveos and Aeroplan	(6)	(6)	(20)	(23)
Net pension and other employee future benefits expense	**$ 45**	**$ 16**	**$ 131**	**$ 37**

As described in Note 18 to the 2009 annual consolidated financial statements of the Corporation, Air Canada and Aveos are parties to a Pension and Benefits Agreement covering the future transfer of certain pension and benefit assets and obligations to Aveos. During the first quarter of 2010, the Office of the Superintendent of Financial Institutions ("OSFI") provided its approval for the transfer of pension assets and liabilities from the Air Canada pension plans to the Aveos pension plan for certain non-unionized employees of Air Canada who became employees of Aveos effective October 16, 2007. The amount of the asset transfer was established as a pro-rata share, based on solvency liabilities, of assets in the Air Canada pension plans as at October 16, 2007. The resulting amount was adjusted by investment returns and benefit payments until the actual date funds were transferred. The transaction, completed in the second quarter of 2010, included an asset transfer of $41, cash payments previously made of $2 and an accrued liability of $1 which aggregated to $44 as well as a reduction of $41 to the benefit obligation. As the cost of the settlements to the plans for the year to date is below the threshold outlined under GAAP, the Corporation has elected to not record the settlement in earnings in the current period. Any gain (loss) will be recognized in actuarial gains (losses) upon the annual remeasurement at December 31, 2010 and amortized over the expected average remaining service life as appropriate.

4. LABOUR RELATED PROVISIONS

The following table outlines the changes to labour related provisions which are included in long-term employee liabilities:

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Beginning of period	$ 48	$ 68	$ 61	$ 54
Interest accretion	1	1	2	3
Charges (credits) recorded in wages, salaries, and benefits	-	-	(2)	24
Amounts disbursed	(5)	(7)	(17)	(19)
End of period	44	62	44	62
Current portion in Accounts payable and accrued liabilities	(17)	(25)	(17)	(25)
	$ 27	**$ 37**	**$ 27**	**$ 37**

The Corporation offers severance programs to certain employees from time to time. The cost of these programs is recorded within Operating expenses. As a result of a review of the outstanding provisions, it was determined that a portion of the provision amounting to $3 was no longer required and was adjusted during the second quarter of 2010.

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Gain (Loss) on Financial Instruments Recorded at Fair Value

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	**2009**	**2010**	**2009**
Fuel derivatives not under hedge accounting	$ (1)	$ 2	$ (22)	$ 78
Other	6	2	11	(5)
Gain (loss) on financial instruments recorded at fair value [(1)]	**$ 5**	**$ 4**	**$ (11)**	**$ 73**

(1) See Fuel Price Risk below for a discussion of losses on fuel derivatives recorded in Other comprehensive income ("OCI").

Risk Management

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk; interest rate risk; and other price risk.

The Corporation's foreign exchange rate risk related to Long-term debt has been impacted with the issuance of the U.S. Dollar First Lien and Second Lien Notes. In relation to this increase in foreign currency denominated debt, a 5% strengthening or weakening in rates of the Canadian dollar versus the U.S. dollar would result in an additional $41 increase or decrease to pre-tax income, respectively. The sensitivity to total USD debt exposure is partially offset by $593 US dollars held in Cash and cash equivalents, Short-term investments and Deposits and other assets for operational activities as at September 30, 2010 for which a 5% strengthening or weakening in rates of the Canadian dollar would impact pre-tax income by approximately $31.

The First Lien Notes and Second Lien Notes have fixed interest rates and there is no significant impact to interest rate risk. Refer to Note 15 to the 2009 annual consolidated financial statements of the Corporation for further information regarding interest rate risk and foreign exchange risk.

Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities, contractual and other obligations. Refer to Note 15 and Note 17 to the 2009 annual consolidated financial statements of the Corporation for information regarding liquidity risks and contingencies, including investigations and proceedings relating to alleged anti-competitive cargo pricing activities.

Covenants in Credit Card Agreements

The Corporation has various agreements with companies that process customer credit card transactions, as further described in Note 15 to the 2009 annual consolidated financial statements of the Corporation. Under the terms of its credit card processing agreements with one of its principal credit card processors, the credit card processing company may withhold payment of funds to Air Canada or require Air Canada to provide the processor with deposits upon the occurrence of certain events ("triggering events"). During 2009, the Corporation entered into amendments with this processor to amend certain credit card processing agreements under which the triggering events were revised. In May 2010, the Corporation entered into a set of further amendments, extending these agreements to the end of November 2010 on the same terms and providing options for the Corporation, on certain terms, to further extend these agreements for a period of up to two years, on revised terms. Although the Corporation did not exercise any of the options to extend the agreements pursuant to the May 2010 amendments, in October 2010, the Corporation further extended these agreements to the end of May 2011. In addition to the extension of the term of these agreements, the Corporation entered into agreements with this processor for the provision of certain credit card processing services requirements for markets other than North America and for its cargo operations worldwide

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

Fuel Price Risk

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

The fuel derivative contracts are not designated under hedge accounting as at September 30, 2010. As at September 30, 2010, the fair market value of the fuel derivatives in favour of the Corporation was $8 and is recorded within Prepaid expenses and other current assets ($31 in favour of the counterparties as at December 31, 2009 recorded within Accounts payable and accrued liabilities).

During the third quarter of 2010:

- The Corporation recorded a loss of $1 in Gain (loss) on financial instruments recorded at fair value related to fuel derivatives ($22 loss in the first nine months of 2010) ($2 gain in the third quarter of 2009 and $78 gain in the first nine months of 2009).

- The Corporation purchased crude-oil call options. The premium related to these contracts was $9 ($30 in the first nine months of 2010).

- Fuel derivative contracts cash settled with a fair value of $7 in favour of the counterparties ($26 in the first nine months of 2010) ($14 in favour of the counterparties in the third quarter of 2009 and $76 in favour of the counterparties in the first nine months of 2009).

As of September 30, 2010, approximately 34% of the Corporation's anticipated purchases of jet fuel for the remainder of 2010 are hedged at an average West Texas Intermediate ("WTI") capped price of US$88 per barrel and approximately 7% is subject to an average floor price of US$90 per barrel. The Corporation's contracts to hedge anticipated jet fuel purchases over the 2010 period are comprised of crude-oil based contracts. The Corporation has also hedged approximately 8% of its 2011 anticipated jet fuel purchases in crude-oil based contracts hedged at an average capped price of US$91 per barrel.

The following table outlines the notional volumes per barrel along with the WTI weighted average floor and capped price for each year currently hedged by type of derivative instruments as at September 30, 2010.

Derivative Instruments	Term	Volume (bbls)	WTI Weighted Average Floor Price (US$/bbl)	WTI Weighted Average Capped Price (US$/bbl)
Call options	2010	1,545,000	n/a	$ 86
Call options	2011	2,100,000	n/a	$ 91
Swaps	2010	195,000	$ 100	$ 100
Collars	2010	195,000	$ 80	$ 88

The Corporation would be expected to generate fuel hedging gains if oil prices increase above the average capped price and would be exposed to fuel hedging losses if prices decrease below the average floor price.

From time to time, the Corporation may choose to adjust or restructure its hedging portfolio in light of market conditions. During the second quarter of 2010, the Corporation modified its fuel hedge portfolio with the termination of swap and collar contracts for $5, in favour of the counterparty. The collateral held by the counterparty was in excess of the settlement amount, and such excess was returned, resulting in a cash inflow for the Corporation.

The Corporation discontinued applying hedge accounting effective the third quarter of 2009. Amounts that were deferred to Accumulated Other Comprehensive Loss ("AOCL") for derivatives previously designated under hedge accounting will be taken into fuel expense in the period where the derivative was scheduled to mature. During the third quarter of 2010, $42 was reclassified from AOCL to Aircraft fuel expense ($152 in the first nine months of 2010). As at September 30, 2010, the net amount of existing losses reported in AOCL that are expected to be reclassified to net income during the following three months is $31 before tax. The AOCL balance related to fuel hedging contracts will be completely depleted as of December 31, 2010.

The following information summarizes the financial statement impact of fuel derivatives:

		Three Months Ended September 30		Nine Months Ended September 30	
		2010	2009	2010	2009
Consolidated Statement of Operations					
Operating expenses					
Aircraft fuel	Realized effective loss on derivatives designated under hedge accounting	$ (42)	$ (94)	$ (152)	$ (334)
Non-operating income (expense)					
Gain (loss) on financial instruments recorded at fair value	Ineffective gain (loss) on derivatives designated under hedge accounting	n/a	n/a	n/a	$ -
	Fair market value gain (loss) on economic hedges	$ (1)	$ 2	$ (22)	$ 78
Consolidated Statement of Comprehensive Income (Loss)					
	Effective loss on derivatives designated under hedge accounting	n/a	n/a	n/a	$ (1)
	Tax expense on effective gain	n/a	n/a	n/a	$ -
	Reclassification of net realized loss on fuel derivatives designated under hedge accounting to Aircraft fuel expense	$ 42	$ 94	$ 152	$ 334
	Tax on reclassification	$ -	$ -	$ -	$ 4

		September 30 2010	December 31 2009
Consolidated Statement of Financial Position			
Prepaid expenses and other currents assets	Collateral deposits for fuel derivatives	$ 2	$ 43
	Fair market value of fuel derivatives	8	-
Accounts payable and accrued liabilities	Fair market value of fuel derivatives	$ -	$ (31)
Shareholders' equity (AOCL)	Net loss from fuel derivatives designated under hedge accounting (net of tax 2010 - $1 and 2009 - $1)	$ (32)	$ (184)

Interest Rate Risk

During the second quarter of 2010, the interest rate swap agreement relating to the term credit facility, further described in Note 15 to the 2009 annual consolidated financial statements of the Corporation, was terminated. The fair value of this contract at termination was nil ($1 in favour of the counterparty at December 31, 2009). During 2010, a gain of $1 was recorded in Gain on financial instruments recorded at fair value related to this derivative.

Stock-based Compensation Risk

The Corporation issues stock-based compensation to its employees in the form of stock options and Performance Share Units ("PSUs") as described in Note 10 to the 2009 annual consolidated financial statements of the Corporation. Each PSU entitles the employees to receive a payment in the form of one Air

Canada common share, cash in the amount equal to market value of one common share, or a combination thereof, at the discretion of the Board of Directors.

Stock-based compensation risk refers to the risk that future cash flows to settle the PSUs will fluctuate because of changes in the Corporation's share price. To hedge the exposure to the PSU plan, the Corporation entered into share forward contracts during the second quarter of 2010 to hedge 75% of the PSUs that may vest in 2011 and 2012, subject to the performance vesting criteria. The contracts were prepaid by the Corporation for $5, representing the initial price of $1.785 per share for 2,700,000 Air Canada common shares. The forward dates for the share forward contracts coincide with the vesting term of 825,000 PSUs in 2011 and 1,875,000 PSUs in 2012 and will be cash settled. These contracts were not designated as hedging instruments for accounting purposes. Accordingly, changes in the fair value of these contracts are recorded in Gain (loss) on financial instruments recorded at fair value in the period in which they arise. During the third quarter of 2010, a gain of $3 was recorded (gain of $3 for the first nine months of 2010). As at September 30, 2010, the fair value of the share forward contracts is $8 in favour of Air Canada and is recorded in Deposits and other assets.

6. SEGMENT INFORMATION

A reconciliation of the total amounts reported by geographic region for Passenger revenue and Cargo revenue on the Consolidated Statement of Operations is as follows:

Passenger revenues	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Canada	$ 1,057	$ 998	$ 2,840	$ 2,708
US Transborder	448	406	1,349	1,236
Atlantic	685	588	1,518	1,345
Pacific	353	256	826	630
Other	179	152	598	550
	$ 2,722	**$ 2,400**	**$ 7,131**	**$ 6,469**

Cargo revenues	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Canada	$ 18	$ 17	$ 52	$ 47
US Transborder	4	3	12	10
Atlantic	44	30	119	89
Pacific	46	32	122	74
Other	11	10	37	28
	$ 123	**$ 92**	**$ 342**	**$ 248**

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin and destination in a specific country or region. Atlantic refers to flights that cross the Atlantic Ocean with origins and destinations principally in Europe. Pacific refers to flights that cross the Pacific Ocean with origins and destinations principally in Asia. Other passenger and cargo revenues refer to flights with origins and destinations principally in South America, South Pacific, and the Caribbean. Other operating revenues are principally derived from customers located in Canada.

7. JAZZ CAPACITY PURCHASE AGREEMENT

Air Canada and Jazz Air LP ("Jazz") are parties to a capacity purchase agreement ("Jazz CPA") pursuant to which Air Canada purchases substantially all of Jazz's fleet capacity based on predetermined rates, in addition to reimbursing Jazz, without mark-up, for certain pass-through costs as defined in the Jazz CPA which costs include fuel, airport and user fees and other costs. The fees include both a variable component that is dependent on Jazz aircraft utilization and a fixed component and are recorded in the applicable category within the operating expenses in the results of Air Canada.

The following table outlines expenses and pass-through costs under the Jazz CPA for the periods presented:

	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Expenses from Jazz CPA	$ 247	$ 246	$ 703	$ 746
Pass-through fuel expense from Jazz CPA	77	71	214	188
Pass-through airport expense from Jazz CPA	51	52	145	149
Pass-through other expense from Jazz CPA	5	5	25	25
	$ 380	**$ 374**	**$ 1,087**	**$ 1,108**

Effective August 1, 2009, the Corporation reached an agreement amending the terms related to the Corporation's capacity purchase agreement with Jazz which provides for a reduction to rates paid under the agreement as further described in Note 2D to the 2009 annual consolidated financial statements of the Corporation.

8. RELATED PARTY TRANSACTIONS

ACE Aviation Holdings Inc. ("ACE") reported holding, as of September 30, 2010, a 27% ownership interest in Air Canada. Air Canada has various related party transactions with ACE. See Note 18 to the 2009 annual consolidated financial statements of the Corporation for additional information. As a result of the Aveos Restructuring Plan described below, Air Canada and Aveos are no longer related parties.

Aveos Restructuring Plan

During the first quarter of 2010, Aveos reached an agreement with its lenders and equity holders on the terms of a consensual restructuring plan to recapitalize the company. As part of this recapitalization, Air Canada and Aveos entered into agreements to settle certain issues and modify the terms of certain contractual arrangements in exchange for Air Canada receiving a minority equity interest in Aveos. This restructuring modified the terms of certain commercial agreements between Air Canada and Aveos, including terms of the Pension and Benefits Agreement and the Agreement with Aveos on Revised Payment Terms described in the 2009 annual consolidated financial statements of the Corporation and below. The modified terms relating to maintenance agreements are not expected to have a material impact on maintenance expense over their terms.

As part of these agreements, the Corporation also agreed to extend repayment terms on $22 of receivables (as further described in Note 18 to the 2009 annual consolidated financial statements of the Corporation under *Agreement with Aveos on Revised Payment Terms*), due in 2010, over six years with annual repayments on a non-interest bearing basis, with such payments subject to satisfaction of certain conditions. This agreement is now referred to as the Term Note.

The terms of the Pension and Benefits Agreement were also modified to defer the determination of pension assets and related solvency deficiencies of transferring unionized employees performing airframe maintenance services to April 2011. This has the result of Air Canada assuming changes in the solvency deficiency for those affected employees from the date of the Pension and Benefits Agreement, which was entered into as of October 16, 2007, to the date of their transfer to Aveos, scheduled for April 2011. As part of the amendment, all letters of credit issued under the Pension and Benefits Agreement were cancelled and a new letter of credit in the amount of $20 was issued by Air Canada in favour of Aveos to secure the payment of all compensation payments owing by Air Canada to Aveos in respect of pension, disability, and retiree liabilities for which Air Canada would be liable under the Pension and Benefits Agreement. This modification resulted in a reduction to the outstanding deposit under Air Canada's letter of credit facility of $23 during the first quarter of 2010. Until such future time as the assets and obligations under the Air Canada pension and other employee and retiree benefit arrangements pertaining to unionized employees may be transferred to Aveos, the current service pension cost and the current service and interest costs for other employee benefits in respect of Air Canada employees providing services to Aveos are charged by Air Canada to Aveos, and as such, the modifications to the Pension and Benefits Agreement have no accounting consequence in the current period. Refer to Note 18 to the 2009 annual consolidated financial statements for further information on the Pension and Benefits Agreement.

As a result of the above agreements, Air Canada's equity investment in Aveos was recorded at $49, based upon its estimated fair value. The Term Note of $22 was recorded at its estimated fair value of $11, based on the present value of expected cash flows on a discounted basis. Other trade receivables from Aveos of $4 were settled. For accounting purposes, $34 for consideration of agreement amendments is deferred and will be amortized over the terms of the amended agreements with Aveos of four years, on average. This accounting treatment recorded in the first quarter of 2010 is summarized as follows:

Share consideration received	**$**	**49**
Allocated to:		
Term Note	$	11
Trade receivables settled		4
Agreements and contract amendments		34
	$	**49**

The investment in Aveos common shares is recorded in Deposits and other assets and will be carried at cost going forward. The Term Note is also recorded in Deposits and other assets and is carried at amortized cost. As a result of the restructuring and the change in equity interests in Aveos, Aveos and Air Canada are no longer related parties.

9. COMMITMENTS

Maturity Analysis

Principal and interest repayment requirements as at September 30, 2010 on Long-term debt and capital leases are as follows:

	Remainder of 2010	2011	2012	2013	2014	Thereafter	Total
Principal	$ 95	$ 634	$ 405	$ 472	$ 297	$ 2,868	$ 4,771
Interest	80	295	270	244	217	354	1,460
	$ 175	**$ 929**	**$ 675**	**$ 716**	**$ 514**	**$ 3,222**	**$ 6,231**

The maturity analysis is based on contractual undiscounted cash flows and is based on interest rates and the applicable foreign exchange rate effective as at September 30, 2010 and does not include the impact of the loan facility with GE Japan as described in Note 2. If drawn upon, the loan facility will reduce the net cash flows by the amount of the related debt maturities refinanced in 2011 and 2012 of $125 and $43, respectively, offset by the principal and interest repayments under the loan facility.

Principal repayments in the table above exclude transaction costs and discounts of $77 which are offset against Long-term debt and capital leases in the consolidated statement of financial position.