AIR CANADA

First Quarter 2011

Interim Unaudited

Condensed Consolidated Financial Statements and Notes

May 5, 2011

Consolidated Statement of Financial Position

Unaudited (Canadian dollars in millions)		March 31 2011	December 31 2010	January 1 2010
			(Note 1)	(Note 1)
ASSETS				
Current				
Cash and cash equivalents		$ 1,102	$ 1,090	$ 1,115
Short-term investments		1,012	1,102	292
		2,114	2,192	1,407
Restricted cash		46	80	78
Accounts receivable		751	641	701
Aircraft fuel inventory		61	67	63
Spare parts and supplies inventory		80	88	64
Prepaid expenses and other current assets		262	279	338
Total current assets		3,314	3,347	2,651
Property and equipment	Note 4	5,513	5,629	6,287
Intangible assets		313	317	329
Goodwill		311	311	311
Deposits and other assets		555	549	547
Total assets		**$ 10,006**	**$ 10,153**	**$ 10,125**
LIABILITIES				
Current				
Accounts payable and accrued liabilities		$ 1,105	$ 1,182	$ 1,246
Advance ticket sales		1,698	1,375	1,288
Current portion of long-term debt and finance leases		421	567	468
Total current liabilities		3,224	3,124	3,002
Long-term debt and finance leases		3,879	4,028	4,313
Pension and other benefit liabilities		3,291	3,328	3,940
Maintenance provisions	Note 4	499	493	461
Other long-term liabilities		454	468	429
Total liabilities		11,347	11,441	12,145
EQUITY				
Shareholders' equity				
Share capital		840	846	844
Contributed surplus		55	54	53
Deficit		(2,339)	(2,334)	(2,881)
Accumulated other comprehensive loss	Note 8	-	-	(184)
Total shareholders' equity		(1,444)	(1,434)	(2,168)
Non-controlling interests		103	146	148
Total equity		(1,341)	(1,288)	(2,020)
Total liabilities and equity		**$ 10,006**	**$ 10,153**	**$ 10,125**

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

Consolidated Statement of Operations

Unaudited (Canadian dollars in millions except per share figures)		Three months ended March 31 2011	2010 (Note 1)
Operating revenues			
Passenger		$ 2,311	$ 2,095
Cargo		116	104
Other		326	320
Total revenues		2,753	2,519
Operating expenses			
Aircraft fuel		742	619
Wages, salaries and benefits		506	474
Airport and navigation fees		234	226
Capacity purchase agreements	Note 9	242	235
Depreciation, amortization and impairment		185	196
Aircraft maintenance		166	186
Sales and distribution costs		166	142
Food, beverages and supplies		68	74
Communications and information technology		50	49
Aircraft rent		88	90
Other		372	364
Total operating expenses		2,819	2,655
Operating loss		**(66)**	**(136)**
Non-operating income (expense)			
Foreign exchange gain		104	123
Interest income		9	2
Interest expense		(84)	(83)
Net financing expense relating to employee benefit liabilities	Note 6	(4)	(19)
Gain on financial instruments recorded at fair value	Note 8	27	2
Other		(5)	(2)
		47	23
Loss before income taxes		**(19)**	**(113)**
Recovery of current income taxes		-	1
Loss for the period		**$ (19)**	**$ (112)**
Income (loss) attributable to:			
Shareholders of Air Canada		**(21)**	**(114)**
Non-controlling interests		**2**	**2**
		$ (19)	**$ (112)**
Loss per share			
Basic and diluted		$ (0.07)	$ (0.41)

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

Consolidated Statement of Comprehensive Income (Loss)

Unaudited (Canadian dollars in millions)		Three months ended March 31 2011	2010 (Note 1)
Comprehensive income (loss)			
Loss for the period		$ (19)	$ (112)
Other comprehensive income, net of taxes:			
Net gain on employee benefit liabilities	Note 6	16	64
Reclassification of net realized losses on fuel derivatives to income	Note 8	-	58
		16	122
Total comprehensive income (loss)		**$ (3)**	**$ 10**
Comprehensive income (loss) attributable to:			
Shareholders of Air Canada		$ **(5)**	$ **8**
Non-controlling interests		**2**	**2**
		$ (3)	**$ 10**

Consolidated Statement of Changes in Equity

Unaudited (Canadian dollars in millions)		Three months ended March 31 2011	2010 (Note 1)
Share capital			
Common shares, beginning of period		$ 846	$ 844
Shares held in trust	Note 7	(6)	-
Total share capital		840	844
Contributed surplus			
Balance, beginning of period		54	53
Fair value of stock options issued to Corporation employees recognized as compensation expense		1	-
Total contributed surplus		55	53
Deficit			
Balance, beginning of period		(2,334)	(2,881)
Loss for the period attributable to shareholders of Air Canada		(21)	(114)
Net gain for the period on employee benefit liabilities	Note 6	16	64
Deficit		(2,339)	(2,931)
Accumulated other comprehensive income (loss)			
Balance, beginning of period		-	(184)
Other comprehensive income	Note 8	-	58
Total accumulated other comprehensive loss		-	(126)
Total deficit and accumulated other comprehensive loss		(2,339)	(3,057)
Total shareholders' equity		**$ (1,444)**	**$ (2,160)**
Non-controlling interests			
Balance, beginning of period		146	148
Distributions related to aircraft special purpose leasing entities		(45)	(3)
Comprehensive income for the period attributable to non-controlling interests		2	2
Total non-controlling interests		103	147
Total equity		**$ (1,341)**	**$ (2,013)**

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

Consolidated Statement of Cash Flow

Unaudited (Canadian dollars in millions)		Three months ended March 31 2011	2010 (Note 1)
Cash flows from (used for)			
Operating			
Loss for the period		$ (19)	$ (112)
Adjustments to reconcile to net cash from operations			
Depreciation, amortization and impairment		185	196
Foreign exchange gain		(118)	(134)
Excess of employee benefit funding over expense		(21)	(2)
Fuel and other derivatives		(35)	35
Change in maintenance provisions		19	20
Changes in non-cash working capital balances		231	257
Other		10	32
		252	**292**
Financing			
Proceeds from borrowings	Note 5	63	100
Reduction of long-term debt and finance lease obligations		(267)	(164)
Other		(31)	(2)
		(235)	**(66)**
Investing			
Short-term investments		90	(244)
Additions to property, equipment and intangible assets		(62)	(77)
Proceeds from sale of assets		1	-
Proceeds from sale-leaseback transactions		-	20
Reduction to Aveos letter of credit		-	23
Other		(34)	22
		(5)	**(256)**
Increase (decrease) in cash and cash equivalents		**12**	**(30)**
Cash and cash equivalents, beginning of period		1,090	1,115
Cash and cash equivalents, end of period		**$ 1,102**	**$ 1,085**
Cash payments of interest		$ 102	$ 73
Cash payments of income taxes		$ -	$ 3

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

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)
(Canadian dollars in millions – except per share amounts)

1. BASIS OF PRESENTATION AND ADOPTION OF IFRS

The accompanying unaudited interim condensed consolidated financial statements (the "financial statements") are of Air Canada (the "Corporation"). Air Canada is incorporated and domiciled in Canada. The address of its registered office is 7373 Côte-Vertu Boulevard West, Saint-Laurent, Quebec. The term "Corporation" refers to, as the context may require, Air Canada and/or one or more of its subsidiaries, including Touram Limited Partnership ("Air Canada Vacations"). These financial statements also include certain aircraft and engine leasing entities and fuel facility corporations, which are consolidated under SIC Interpretation 12 - Consolidation of Special Purpose Entities.

The Corporation prepares its financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part 1 ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), and requires publicly accountable enterprises to apply IFRS effective for years beginning on or after January 1, 2011. Accordingly, the Corporation has commenced reporting on this basis in these financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS and the term "GAAP" refers to generally accepted accounting principles in Canada after the adoption of IFRS.

These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards". Subject to certain transition elections disclosed in Note 3, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the Corporation's reported financial position, statement of operations and cash flows, including the nature and effects of significant changes in accounting policies from those used in the Corporation's consolidated financial statements as at January 1, 2010, for the quarter ended March 31, 2010 and for the year ended December 31, 2010.

The policies applied in these financial statements are based on IFRS effective May 4, 2011, the date the Board of Directors of the Corporation approved the statements. Any subsequent changes to IFRS, that are given effect in the Corporation's annual consolidated financial statements for the year ending December 31, 2011 could result in revisions to these financial statements, including the transition adjustments recognized on change-over to IFRS.

In accordance with GAAP, these financial statements do not include all of the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented. Note 4 provides certain disclosures required in annual financial statements prepared in accordance with IFRS which were not contained in the Corporation's Canadian GAAP annual financial statements and are material to an understanding of these financial statements.

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. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention, except for the revaluation of available-for-sale financial assets, and certain other financial assets and financial liabilities (including derivative instruments) which are measured at fair value. These financial statements for the Corporation are based on the accounting policies as described below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

A) PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of Air Canada and its subsidiaries. Subsidiaries are those entities (including special purpose entities) which Air Canada controls by having the power to govern the financial and operating policies of the entity. All inter-company balances and transactions are eliminated.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity.

Special Purpose Entities

The Corporation has aircraft leasing transactions with a number of special purpose entities. Under SIC Interpretation 12 – Consolidation of Special Purpose Entities, the Corporation controls and consolidates leasing entities covering 39 aircraft (47 as at December 31, 2010).

The Corporation participates in fuel facilities arrangements operated through fuel facility corporations (the "Fuel Facility Corporations"), along with other airlines to contract for fuel services at various major Canadian airports. The Fuel Facility Corporations are entities incorporated under federal or provincial statutes in order to acquire, finance and lease assets used in connection with the fuelling of aircraft and ground support equipment. The Fuel Facilities Corporations operate on a cost recovery basis. Under SIC Interpretation 12 - Consolidation of Special Purpose Entities, the Corporation controls three of the Fuel Facility Corporations in Canada (3 as at December 31, 2010).

B) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, and the results of such estimates form the basis of judgments about carrying values of assets and liabilities. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

Significant estimates made in the preparation of these financial statements include, but are not limited to, the following areas, with further information contained in the applicable accounting policy or note:

- employee future benefits
    - The cost and related liabilities of the Corporation's pensions, other post-retirement and post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions including in relation to discount rates, expected rates of return on assets, future salary increases, mortality rates and future benefit increases. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty.
- income taxes
    - Management uses judgment and estimates in determining the appropriate rates and amounts in recording deferred income taxes, giving consideration to timing and probability of realization. Actual taxes could significantly vary from these estimates as a result of a variety of factors including future events, changes in income tax law or the outcome of reviews by tax authorities and related appeals. The resolution of these uncertainties and the associated final taxes may result in adjustments to the Corporation's deferred and current tax assets and liabilities.

- passenger revenues
  - The Corporation performs regular evaluations on the advance ticket sales liability which may result in adjustments being recognized as revenue. Due to the complex pricing structures; the complex nature of interline and other commercial agreements used throughout the industry; historical experience over a period of many years; and other factors including refunds, exchanges and unused tickets, certain relatively small amounts are recognized as revenue based on estimates. Events and circumstances may result in actual amounts that are different from those estimates.
- amortization period for long-lived assets
  - The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual values of the assets based on the estimated current fair value of the assets, the Corporation's fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense.
- impairment considerations on long-lived assets
  - An impairment test is performed by comparing the carrying amount of the asset or cash-generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Value in use is calculated based upon a discounted cash flow analysis, which requires management to make a number of significant assumptions including assumptions relating to future operating plans, discount rates and future growth rates.
- maintenance provisions
  - The recording of maintenance provisions related to return conditions on aircraft leases requires management to make estimates of the future costs associated with the maintenance events required under the lease return condition and estimates of the expected future maintenance condition of the aircraft at the time of lease expiry. These estimates take into account current cost of these maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Any difference in the actual maintenance cost incurred and the amount of the provision is recorded in maintenance expense in the period.

C) PASSENGER AND CARGO REVENUES

Airline passenger and cargo advance sales are deferred and included in Current liabilities. Advance sales also include the proceeds from the sale of flight tickets to Aeroplan Canada Inc. ("Aeroplan"), a corporation that provides loyalty program services to Air Canada and purchases seats from Air Canada pursuant to the Commercial Participation and Services Agreement between Aeroplan and Air Canada (the "CPSA"). Passenger and cargo revenues are recognized when the transportation is provided, except for revenue on unlimited flight passes which is recognized on a straight-line basis over the period during which the travel pass is valid. The Corporation has formed alliances with other airlines encompassing loyalty program participation, code sharing and coordination of services including reservations, baggage handling and flight schedules. Revenues are allocated based upon formulas specified in the agreements and are recognized as transportation is provided. Passenger revenue also includes revenues from passenger-related services such as ticket changes, seat selection, and excess baggage which are recognized as the services are provided.

D) CAPACITY PURCHASE AGREEMENTS

Air Canada has capacity purchase agreements with Jazz Aviation LP ("Jazz") as well as certain other regional carriers, including those operating aircraft of 18 seats or less, some of which are referred to as Tier III carriers. Under these agreements, Air Canada markets, tickets and enters into other commercial arrangements relating to these flights and records the revenue it earns under Passenger revenue. Operating expenses under capacity purchase agreements include the capacity purchase fees, which, under the capacity purchase agreement between the Corporation and Jazz (the "Jazz CPA"), are based on variable and fixed rates ("CPA

Rates") plus mark-up and pass-through costs. The CPA Rates are periodically set by the parties for rate periods of three years. The parties set the rates through negotiations based on Jazz's forecasted costs for the applicable rate period and an operating plan for the applicable rate period provided by Air Canada. Pass-through costs are non-marked-up costs charged to the Corporation and include fuel, airport and user fees and other costs. These expenses are recorded in the applicable category within Operating expenses.

Refer to Note 9 for the expenses and pass-through costs under the capacity purchase arrangements for the three months ended March 31, 2010 and 2011.

E) AEROPLAN LOYALTY PROGRAM

Air Canada is an Aeroplan partner providing certain of Air Canada's customers with Aeroplan Miles®, which can be redeemed by customers for air travel or other rewards acquired by Aeroplan.

Under the CPSA, Aeroplan purchases passenger tickets from Air Canada to meet its obligation for the redemption of Aeroplan Miles® for air travel. The proceeds from the sale of passenger tickets to Aeroplan are included in Advance ticket sales. Revenue related to these passenger tickets is recorded in passenger revenues when transportation is provided.

For Aeroplan Miles® earned by Air Canada customers, Air Canada purchases Aeroplan Miles® from Aeroplan in accordance with the terms of the CPSA. The cost of purchasing Aeroplan Miles® from Aeroplan is accounted for as a sales incentive and charged against passenger revenues when the points are issued, which occurs upon the qualifying air travel being provided to the customer.

F) OTHER REVENUES

Other revenue includes revenues from the sale of the ground portion of vacation packages, ground handling services and other airline related services. Vacation package revenue is recognized as services are provided over the period of the vacation. Other airline related service revenues are recognized as the products are sold to passengers or the services are provided.

Other revenue also includes revenue related to the lease or sublease of aircraft to third parties. Lease or sublease revenues are recognized on a straight line basis over the term of the lease or sublease.

In certain subleases of aircraft to Jazz, the Corporation reports the sublease revenues net against aircraft rent expense as the terms of the sublease match the terms of the Corporation's lease. The Corporation acts as lessee and sublessor in these matters.

The Corporation provides certain services to former related parties consisting principally of administrative services in relation to information technology, human resources, finance and accounting, treasury and tax services, corporate real estate, and environmental affairs. Administrative service revenues are recognized as services are provided. Real estate rental revenues are recognized on a straight line basis over the term of the lease.

G) EMPLOYEE BENEFITS

The cost of pensions, other post-retirement and post-employment benefits earned by employees is actuarially determined annually as at December 31. The cost is determined using the projected unit credit method, market interest rates, and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and health care costs. The expected return on plan assets is based on market expectations at the beginning of the period for returns over the entire life of the related obligation.

Past service costs are recognized immediately in income unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case these past service costs are amortized on a straight line basis over the vesting period. Gains and losses on curtailments or settlements are recognized in the period in which the curtailment or settlement occurs.

Net actuarial gains and losses are recognized immediately in other comprehensive income without subsequent reclassification to income. The current service cost and recognized element of any past service cost of employee benefits expense is recorded in Wages, salaries and benefits. The expected return on plan assets and interest arising on the benefit obligations are presented net in Net financing expense relating to employee benefit liabilities.

Certain of the Corporation's Canadian pension plans are subject to minimum funding requirements. The liability in respect of minimum funding requirements is determined using the projected minimum funding requirements, based on management's best estimates of the actuarially determined funded status of the plan, market discount rates and salary escalation estimates. The liability in respect of the minimum funding requirement and any subsequent remeasurement of that liability are recognized immediately in other comprehensive income without subsequent reclassification to income.

As described in Note 8 to the 2010 annual consolidated financial statements of the Corporation, certain Corporation employees perform work for Aveos Fleet Performance Inc. ("Aveos"), a former related party, and are members of Corporation-sponsored defined benefit pension plans and also participate in Corporation-sponsored health, life and disability benefit plans. These consolidated financial statements include all of the assets and liabilities of all sponsored plans of the Corporation. Pension and other employee benefits expenses are recorded net of costs recovered from Aveos pertaining to employees contractually assigned by the Corporation to Aveos based on an agreed upon formula. The cost recovery reduces the Corporation's benefit cost.

H) EMPLOYEE PROFIT SHARING PLANS

The Corporation has employee profit sharing plans. Payments are calculated annually on full calendar year results and an expense recorded throughout the year as a charge to salary and wage expense based on the estimated annual payment under the plan.

I) SHARE-BASED COMPENSATION PLANS

Certain employees of the Corporation participate in Air Canada's Long-Term Incentive Plan, which provides for the grant of stock options and performance share units ("PSUs"), as further described in Note 10 to the 2010 annual consolidated financial statements of the Corporation. Performance share units are notional share units which are exchangeable, on a one-to-one basis, for, as determined by the Board of Directors, Air Canada shares, or the cash equivalent. Fifty percent of all options vest over four years. The remaining options and PSUs will vest based upon performance conditions.

The fair value of stock options with a graded vesting schedule is determined based on different expected lives for the options that vest each year, as it would be if the award were viewed as several separate awards, each with a different vesting date, and it is accounted for over the respective vesting period taking into consideration forfeiture estimates. For a stock option award attributable to an employee who is eligible to retire at the grant date, the fair value of the stock option award is expensed on the grant date. For a stock option award attributable to an employee who will become eligible to retire during the vesting period, the fair value of the stock option award is recognized over the period from the grant date to the date the employee becomes eligible to retire. The Corporation recognizes compensation expense and a corresponding adjustment to Contributed surplus equal to the fair value of the equity instruments granted using an option pricing model taking into consideration forfeiture estimates. Compensation expense is adjusted for subsequent changes in management's estimate of the number of PSUs that are expected to vest.

For grants of PSUs that are accounted for as equity settled instruments, the Corporation recognizes compensation expense and a corresponding adjustment to Contributed surplus equal to the market value of an Air Canada common share at the date of grant on a straight line basis over the applicable vesting period taking into consideration forfeiture estimates. Compensation expense is adjusted for subsequent changes in management's estimate of the number of PSUs that are expected to vest. For grants of PSUs that are accounted for as cash settled instruments, the Corporation recognizes compensation expense and a corresponding adjustment to Other long-term liabilities equal to the fair value of an Air Canada common share using an option pricing model at the date of grant on a straight line basis over the applicable vesting period taking into consideration forfeiture estimates. Compensation expense is adjusted for subsequent changes in the market value of Air Canada common shares and management's estimate of the number of PSUs that are expected to vest. Refer to Note 15 to the 2010 annual consolidated financial statements of the Corporation for a description of derivative instruments used by the Corporation to hedge the cash flow exposure to PSUs.

Air Canada also maintains an employee share purchase plan. Under this plan, contributions by the Corporation's employees are matched to a specific percentage by the Corporation. Employees must remain with the Corporation until March 31 of the subsequent year for vesting of the Corporation's contributions. These contributions are expensed in Wages, salaries, and benefits expense over the vesting period.

J) MAINTENANCE AND REPAIRS

Maintenance and repair costs for both leased and owned aircraft are charged to operating expenses as incurred, with the exception of maintenance and repair costs related to return conditions on aircraft under operating lease, which are accrued over the term of the lease, and major maintenance expenditures on owned and finance leased aircraft, which are capitalized as described below in Note 2T.

Maintenance and repair costs related to return conditions on aircraft leases are recorded over the term of the lease for the end of lease maintenance return condition obligations within the Corporation's operating leases, offset by a prepaid maintenance asset to the extent of any related power-by-the-hour maintenance service agreements or any recoveries under aircraft subleasing arrangements. The provision is recorded using a discount rate specific to the liability over the remaining term of the lease. Interest accretion on the provision is recorded in Other non-operating expense. For aircraft under operating leases which are subleased to third parties, the expense relating to the provision is presented net of the amount recognized for a reimbursement on the income statement. The reimbursement is recognized when it is virtually certain that reimbursement will be received when the Corporation settles the obligation. Any difference in the actual maintenance cost incurred and the amount of the provision is recorded in maintenance expense in the period.

K) OTHER OPERATING EXPENSES

Included in Other operating expenses are expenses related to building rent and maintenance, terminal handling, professional fees and services, crew meals and hotels, advertising and promotion, insurance costs, ground costs for Air Canada Vacations packages, and other expenses. Expenses are recognized as incurred.

L) FINANCIAL INSTRUMENTS

Under the Corporation's risk management policy, derivative financial instruments are used only for risk management purposes and not for generating trading profits.

Financial assets and financial liabilities, including derivatives, are recognized on the Consolidated Statement of Financial Position when the Corporation becomes a party to the contractual provisions of the financial instrument or derivative contract. All financial instruments are required to be measured at fair value on initial recognition. The Corporation's own credit risk and the credit risk of the counterparty are taken into consideration in determining the fair value of financial assets and financial liabilities, including derivative instruments. Measurement in subsequent periods is dependent upon the classification of the financial instrument. The Corporation classifies its financial assets as either fair value through profit or loss, loans and receivables, held to maturity or available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

Management determines the classification of its financial assets at initial recognition. Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Held-to-maturity financial assets are non-derivatives that have fixed and determinable payments and the entity has the ability and intent to hold the asset until maturity. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. For financial instruments classified as other than held-for-trading, transaction costs are added to the initial fair value of the related financial instrument. Financial assets and financial liabilities classified as held-for-trading are measured at fair value with changes in those fair values recognized in Non-operating income (expense). Financial assets classified as held-to-maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest rate method.

The Corporation enters into interest rate, foreign currency, fuel derivatives and share forward contracts to manage the associated risks. Derivative instruments are recorded on the Consolidated Statement of Financial Position at fair value, including those derivatives that are embedded in financial or non-financial contracts. Changes in the fair value of derivative instruments are recognized in Non-operating income (expense) with the exception of fuel derivatives designated as effective cash flow hedges, as further described below. These contracts are included in the Consolidated Statement of Financial Position at fair value in Prepaid expenses and other current assets, Deposits and other assets, Accounts payable and accrued liabilities, or Other long-term liabilities based on the terms of the contractual agreements. All cash flows associated with purchasing and selling derivatives are classified as operating cash flows in the Consolidated Statement of Cash Flow.

The Corporation has implemented the following classifications:

- Cash and cash equivalents and Short-term investments are classified as held-for-trading and any period change in fair value is recorded through Interest income in the Consolidated Statement of Operations.

- Restricted cash is classified as held-for-trading and any period change in fair value is recorded through Interest income in the Consolidated Statement of Operations.

- Aircraft related and other deposits are classified as held-to-maturity investments and are measured at amortized cost using the effective interest rate method. Interest income is recorded in the Consolidated Statement of Operations, as applicable.

- Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method. Interest income is recorded in the Consolidated Statement of Operations, as applicable.

- Accounts payable, credit facilities, and bank loans are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the Consolidated Statement of Operations, as applicable.

- Investments in equity instruments are recorded as available-for-sale financial assets within Deposits and other assets; available-for-sale financial assets are measured at fair value with gains or losses recorded in Other comprehensive income.

Fuel Derivatives

Prior to discontinuing hedge accounting for all fuel derivatives effective the third quarter of 2009 as described below, the Corporation had designated certain of its fuel derivatives as cash flow hedges. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in Other comprehensive income ("OCI") while the ineffective portion is recognized in Non-operating income (expense). The effective gains and losses previously recognized in Accumulated OCI ("AOCI") are recorded in fuel expense when the forecasted hedge transaction occurs.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item. The amounts previously recognized in AOCI are reclassified to fuel expense during the periods when the previously forecasted hedge transaction occurs. Refer to Note 8 for the impact of fuel derivatives during the period.

After considering the costs and benefits specific to the application of cash flow hedge accounting, the Corporation elected to discontinue hedge accounting for all fuel derivatives effective the third quarter of 2009. The derivative instruments continue to be recorded at fair value in each period with both realized and unrealized changes in fair value recognized immediately in earnings in non-operating income (expense). Amounts deferred to AOCI for derivatives previously designated under hedge accounting were taken into fuel expense in the period in which the previously forecasted hedge transaction occurred. As at December 31, 2010, there is no remaining balance in AOCI related to fuel hedging contracts.

M) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the Consolidated Statement of Financial Position. Non-monetary assets and liabilities, revenues and expenses arising from transactions denominated in foreign currencies, are translated at the historical exchange rate or the average exchange rate during the period, as applicable. Adjustments to the Canadian dollar equivalent of foreign denominated monetary assets and liabilities due to the impact of exchange rate changes are recognized in Foreign exchange gain (loss).

N) INCOME TAXES

The tax expense for the period comprises current and deferred income tax. Tax is recognized in the Consolidated Statement of Operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the tax is netted with such items.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Corporation and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

O) EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to the shareholders of Air Canada by the weighted average number of common shares outstanding during the period. Shares held in trust for employee share-based compensation awards are treated as treasury shares and excluded from basic shares outstanding in the calculation of basic EPS.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive potential common shares. The Corporation's potentially dilutive common shares comprise stock options, certain performance share units granted to employees, warrants, and any shares held in trust for employee share-based compensation awards. The number of shares included with respect to options, performance share units, and warrants is computed using the treasury stock method unless they are anti-dilutive. Under this method, the proceeds from the exercise of such instruments are assumed to be used to purchase Class B Voting Shares at the average market price for the period and the difference between the number of shares and the number of shares assumed to be purchased are included in the calculation.

P) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments with original maturities of three months or less. Investments include bankers' acceptances and bankers' discount notes, which may be liquidated promptly and have original maturities of three months or less.

Q) SHORT-TERM INVESTMENTS

Short-term investments, comprised of bankers' acceptances and bankers' discount notes, have original maturities over three months, but not more than one year.

R) RESTRICTED CASH

The Corporation has recorded Restricted cash under Current assets representing funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance ticket sales, recorded under Current liabilities, for certain travel related activities.

Restricted cash with maturities greater than one year from the balance sheet date is recorded in Deposits and other assets. This restricted cash relates to funds on deposit with various financial institutions as collateral for letters of credit and other items.

S) AIRCRAFT FUEL INVENTORY AND SPARE PARTS AND SUPPLIES INVENTORY

Inventories of aircraft fuel and spare parts, other than rotables, and supplies are measured at the lower of cost and net realizable value, with cost being determined using a weighted average formula.

T) PROPERTY AND EQUIPMENT

In accordance with IFRS 1, the Corporation elected to value its aircraft and spare engines at the date of transition to IFRS on January 1, 2010 at their fair value and to use this fair value as deemed cost. Subsequent to transition, Property and equipment is recognized using the cost model. The Corporation has a policy of not revaluing property and equipment. Property under finance leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments.

The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each component. Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Aircraft and flight equipment are componentized into airframe, engine, and cabin interior equipment and modifications. Airframe and engines are depreciated over 20 to 25 years, with 10% to 20% estimated residual values. Cabin interior equipment and modifications are depreciated over the lesser of 5 years or the remaining useful life of the aircraft. Spare engines and related parts ("rotables") are depreciated over the average remaining useful life of the fleet to which they relate with 10% to 20% estimated residual values. Cabin interior equipment and modifications to aircraft on operating leases are amortized over the term of the lease. Major maintenance of airframes and engines, including replacement spares and labour costs, are capitalized and amortized over the average expected life between major maintenance events. Major maintenance events typically consist of more complex inspections and servicing of the aircraft. All maintenance of fleet assets provided under power-by-the-hour contracts are charged to operating expenses in the income statement as incurred, respectively.

Buildings and building leasehold improvements are depreciated on a straight-line basis over their useful lives not exceeding 50 years or the term of any related lease, whichever is less. Leasehold improvements are amortized over the lesser of the lease term or 5 years. Ground and other equipment is depreciated over 3 to 25 years.

Residual values are reviewed at least annually against prevailing market values for equivalently aged assets and depreciation rates adjusted accordingly on a prospective basis. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of non-operating gains and losses in the consolidated statement of operations.

U) INTEREST CAPITALIZED

Borrowing costs are expensed as incurred, except for interest directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, in which case they are capitalized as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized up to the date when the project is completed and is available for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined at the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Corporation that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

V) LEASES

Leases are classified as finance leases when the lease arrangement transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Gains and losses on sale and operating leaseback transactions are recognized immediately in the statement of operations when it is clear that the transactions are established at fair value. If the sale price is below fair value, any loss shall be recognized immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the gain shall be deferred and amortized over the period for which the asset is expected to be used. In the context of sale and finance leaseback transactions, any gain on the sale is deferred and recognized as interest income over the lease term.

W) INTANGIBLE ASSETS

Intangible assets are initially recorded at cost. Indefinite life assets are not amortized while assets with finite lives are amortized on a straight line basis to nil over their estimated useful lives.

	Estimated Useful Life
International route rights and slots	Indefinite
Marketing based trade names	Indefinite
Contract and customer based intangible assets	10 years
Technology based intangible assets	5 years

Development costs that are directly attributable to the design and testing of identifiable software products are recognized as technology based intangible assets if certain criteria, including technical feasibility and intent and ability to develop and use the technology to generate probable future economic benefits are met; otherwise they are expensed as incurred. Directly attributable costs that are capitalized as part of the technology based intangible assets include the software development employee costs and an appropriate portion of relevant overhead.

X) GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Corporation's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is tested for impairment at the operating segment level.

Y) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets include property and equipment, definite lived intangible assets, indefinite lived intangible assets and goodwill. Assets that have an indefinite useful life, including goodwill are tested annually for impairment or when events or circumstances indicate that the carrying value may not be recoverable. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment test is performed by comparing the carrying amount of the asset or group of assets to their recoverable amount. Recoverable amount is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). Management has determined that the appropriate level for assessing impairments is at the North American and international fleet levels for aircraft and related assets supporting the operating fleet. Parked aircraft not used in operations and aircraft leased or subleased to third parties are assessed for impairment at the individual asset level. Value in use is calculated based upon a discounted cash flow analysis. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Long-lived assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Z) NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

AA) PROVISIONS

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. If the effect is significant, the expected cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense within Other non-operating expense.

Asset Retirement Provisions

The Corporation records an asset and related provision for the costs associated with the retirement of long-lived tangible assets when a legal or constructive obligation to retire such assets exists. The provision is measured as the best estimate of the expenditure required to settle the present obligation at each reporting period. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement provision is adjusted for the passage of time through charges to Other non-operating expense. Any change in the amount of the underlying cash flows, due to changes in the discount rate or changes in the estimate of the expenditure required to settle the present obligation, adjusts both the asset retirement provision and the related asset.

BB) AIRCRAFT LEASE PAYMENTS IN EXCESS OF OR LESS THAN RENT EXPENSE

Total aircraft operating lease rentals over the lease term are amortized to operating expense on a straight-line basis. Included in Deposits and other assets and Other long-term liabilities are the differences between the straight line aircraft rent expense and the payments as stipulated under the lease agreement.

CC) RELATED PARTY TRANSACTIONS

Related party transactions not in the normal course of operations are measured at the exchange amount when the change in ownership interest in the item transferred is substantive and the exchange amount is supported by independent evidence. Related party transactions in the normal course of operations are measured at the exchange amount.

DD) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Chief Executive Officer. Air Canada is managed as one operating segment based on how financial information is produced internally for the purposes of making operating decisions.

EE) ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

The following is an overview of an accounting standard change that the Corporation will be required to adopt in future years:

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Corporation continues to evaluate the impact of IFRS 9 on its consolidated statement of operations and financial position.

3. TRANSITION TO IFRS

For all periods up to and including the year ended December 31, 2010, the Corporation previously prepared its consolidated financial statements in accordance with Canadian GAAP. These financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting".

Accordingly, the Corporation has prepared these financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2011 and the significant accounting policies to meet those requirements are disclosed in Note 2. In preparing these financial statements, the Corporation has started from an opening consolidated statement of financial position as at January 1, 2010, the Corporation's IFRS transition date, and made those changes in accounting policies and other adjustments required by IFRS 1 "First-time adoption of international financial reporting standards" ("IFRS 1") for the first time adoption of IFRS. This note explains the principal adjustments made by the Corporation in transitioning its Canadian GAAP consolidated statement of financial position at the transition date on January 1, 2010 and its previously published Canadian GAAP financial statements for the year ended December 31, 2010 and the quarter ended March 31, 2010.

In preparing these financial statements in accordance with IFRS 1, the Corporation has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

Exemptions and exceptions applied

IFRS 1 allows first-time adopters certain exemptions from the general requirements contained in IFRS. The Corporation has elected to apply the following optional exemptions from full retrospective application:

- business combinations;
    - The Corporation has elected not to apply IFRS 3 (as amended in 2008) retrospectively to business combinations that occurred before January 1, 2010, the date of transition to IFRS.
- fair value or revaluation as deemed cost;
    - The Corporation has elected to measure owned and finance leased aircraft and engines at January 1, 2010 at fair value and use that fair value as deemed cost at that date. Under Canadian GAAP, the Corporation applied fresh start reporting on September 30, 2004. As a result, all consolidated assets and liabilities of Air Canada were reported at fair values, except for future income taxes. As permitted under IFRS 1, the Corporation has elected to apply those fair values as deemed cost for IFRS as at the date of the revaluation, with the exception of (i) owned and finance leased aircraft and engines, which are being measured at fair value as at January 1, 2010 as described above, and (ii) intangible assets and goodwill, which, in such case, would be measured at historical cost without the application of the fresh start fair values. Refer to "Fresh start reporting" below for additional information.
- employee benefits;
    - The Corporation has elected to recognize all cumulative actuarial gains and losses on pension and other post-retirement benefit plans as at January 1, 2010 directly in the Deficit.
- borrowing costs.
    - The Corporation has applied IAS 23R for annual periods beginning on or after January 1, 2010, the date of transition to IFRS. Under Canadian GAAP, the Corporation had an accounting policy of capitalizing interest. Accordingly, the Corporation did not reverse any previously capitalized borrowing costs recognized under Canadian GAAP.

Reconciliations

A reconciliation of how the transition from Canadian GAAP to IFRS has affected the equity of the Corporation, its financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity as at January 1, 2010, March 31, 2010 and December 31, 2010

(Canadian dollars in millions)		December 31 2010	March 31 2010	January 1 2010
Non-controlling interest				
Balance in accordance with Canadian GAAP		$ -	$ -	$ -
Reclassification of non-controlling interest to equity	Note i	169	171	201
Consolidation of special purpose entities	Note i	(23)	(24)	(53)
Non-controlling interest in accordance with IFRS		146	147	148
Share capital				
Balance in accordance with Canadian GAAP		534	532	532
Reclassification of 2004 fresh start reporting adjustment from the deficit	Note v	312	312	312
Share capital in accordance with IFRS		846	844	844
Contributed surplus				
Balance in accordance with Canadian GAAP		1,826	1,825	1,825
Reclassification of related party transactions to the deficit	Note v	(1,747)	(1,747)	(1,747)
Reclassification of warrants to the deficit	Note v	(25)	(25)	(25)
Contributed surplus in accordance with IFRS		54	53	53
Deficit				
Balance in accordance with Canadian GAAP		(620)	(812)	(727)
Deferred tax adjustment	Note v	49	(18)	-
Aircraft fair value and consolidation adjustments	Note i &iii	(338)	(276)	(295)
Recognition of deferred gains on sale and leaseback transactions	Note iv	62	67	69
Pension and other employee future benefits	Note ii	(2,877)	(2,800)	(2,777)
Defined benefit plan gains	Note ii	580	64	-
Intangible assets and goodwill adjustment	Note v	(230)	(234)	(236)
Recognition of additional provisions	Note vi	(420)	(382)	(375)
Reclassification of 2004 fresh start reporting adjustment to share capital	Note v	(312)	(312)	(312)
Reclassification of related party transactions and warrants from contributed surplus	Note v	1,772	1,772	1,772
Deficit in accordance with IFRS		(2,334)	(2,931)	(2,881)
Accumulated other comprehensive income (loss)				
Balance in accordance with Canadian GAAP		-	(126)	(184)
Accumulated other comprehensive income (loss) in accordance with IFRS		-	(126)	(184)
Total deficit and accumulated other comprehensive income (loss) in accordance with IFRS		(2,334)	(3,057)	(3,065)
Total equity in accordance with IFRS		**$ (1,288)**	**$ (2,013)**	**$ (2,020)**

Reconciliation of the Consolidated Statement of Operations for the quarter ended March 31, 2010

(Canadian dollars in millions except per share figures)		Three months ended March 31, 2010 Canadian GAAP	Adjustment	IFRS
Operating revenues				
Passenger		$ 2,095	$	$ 2,095
Cargo		104		104
Other		320		320
Total revenues		2,519	-	2,519
Operating expenses				
Aircraft fuel		619		619
Wages, salaries and benefits	Note ii	470	4	474
Airport and navigation fees		226		226
Capacity purchase agreements		235		235
Depreciation, amortization and impairment	Note iii & v	176	20	196
Aircraft maintenance	Note iii &vi	202	(16)	186
Sales and distribution costs		142		142
Food, beverages and supplies		74		74
Communications and information technology		49		49
Aircraft rent	Note iv	88	2	90
Other		364		364
Total operating expenses		2,645	10	2,655
Operating loss		**(126)**	**(10)**	**(136)**
Non-operating income (expense)				
Foreign exchange gain	Note i & vi	100	23	123
Interest income		2		2
Interest expense	Note i	(78)	(5)	(83)
Net financing expense relating to employee benefit liabilities	Note ii	-	(19)	(19)
Gain on financial instruments recorded at fair value		2		2
Other	Note vi	(1)	(1)	(2)
		25	(2)	23
Loss before the following items		**(101)**	**(12)**	**(113)**
Non-controlling interest	Note i	(3)	3	-
Recovery of income taxes				
Current		1		1
Deferred	Note v	18	(18)	-
Loss for the period		**$ (85)**	**$ (27)**	**$ (112)**

Reconciliation of the Consolidated Statement of Comprehensive Income (Loss) for the quarter ended March 31, 2010

(Canadian dollars in millions)		Three months ended March 31, 2010 Canadian GAAP	Adjustment	IFRS
Comprehensive income (loss)				
Loss for the period		$ (85)	$ (27)	$ (112)
Other comprehensive income, net of taxes:				
Net gain on employee benefit liabilities	Note ii	-	64	64
Reclassification of net realized losses on fuel derivatives to income		58		58
		58	64	122
Total comprehensive income (loss)		**$ (27)**	**$ 37**	**$ 10**

Reconciliation of the Consolidated Statement of Operations for the year ended December 31, 2010

(Canadian dollars in millions except per share figures)		Year ended December 31, 2010 Canadian GAAP	Adjustment	IFRS
Operating revenues				
Passenger		$ 9,427	$	$ 9,427
Cargo		466		466
Other		893		893
Total revenues		10,786	-	10,786
Operating expenses				
Aircraft fuel		2,652		2,652
Wages, salaries and benefits	Note ii	1,885	28	1,913
Airport and navigation fees		961		961
Capacity purchase agreements		971		971
Depreciation, amortization and impairment	Note iii & v	679	122	801
Aircraft maintenance	Note iii &vi	682	(28)	654
Sales and distribution costs		581		581
Food, beverages and supplies		279		279
Communications and information technology		195		195
Aircraft rent	Note iv	346	7	353
Other		1,194	-	1,194
Total operating expenses		10,425	129	10,554
Operating income before under noted item		**361**	**(129)**	**232**
Provision adjustment for cargo investigations, net		46		46
Operating income		407	(129)	278
Non-operating income (expense)				
Foreign exchange gain	Note i,ii&vi	145	39	184
Interest income		19		19
Interest expense	Note i	(378)	(19)	(397)
Net financing expense relating to employee benefit liabilities	Note ii	-	(75)	(75)
Interest capitalized		1		1
Loss on assets	Note iii	(7)	6	(1)
Loss on financial instruments recorded at fair value		(3)		(3)
Other	Note vi	(20)	(11)	(31)
		(243)	(60)	(303)
Income (loss) before the following items		**164**	**(189)**	**(25)**
Non-controlling interest	Note i	(9)	9	-
Recovery of (provision for) income taxes				
Current		4		4
Deferred	Note v	(52)	49	(3)
Net income (loss) for the year		**$ 107**	**$ (131)**	**$ (24)**

Reconciliation of the Consolidated Statement of Comprehensive Income (Loss) for the year ended December 31, 2010

		Year ended December 31, 2010		
(Canadian dollars in millions)		**Canadian GAAP**	**Adjustment**	**IFRS**
Comprehensive income (loss)				
Net income (loss) for the year		$ 107	$ (131)	$ (24)
Other comprehensive income, net of taxes:				
Net gain on employee benefit liabilities	Note ii	-	580	580
Reclassification of net realized losses on fuel derivatives to income		184		184
		184	580	764
Total comprehensive income		**$ 291**	**$ 449**	**$ 740**

Explanation of adjustments restating equity from Canadian GAAP to IFRS as at January 1, 2010

i) Principles of Consolidation

Accounting policy differences

Under Canadian GAAP, consolidation is based on a controlling financial interest model. For variable interest entities, consolidation is based on an analysis of the primary beneficiary. For non-variable interest entities, consolidation of an entity is based on the continuing power to govern the financial and operating policies of an entity so as to obtain benefits from its activities and be exposed to related risks. Non-controlling interest is initially measured at the non-controlling shareholders' interest in the historical cost of the subsidiary's net assets. Non-controlling interest is presented outside of liabilities and equity on the balance sheet and as a reduction to net income on the income statement.

Under IFRS, consolidation is based on a control model. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This control model also applies to interests in special purpose entities.

Non-controlling interest is initially measured at either the non-controlling shareholders' fair value or at the non-controlling shareholders' interest's proportionate share of the net identifiable assets of the subsidiary. Non-controlling interest is presented as a component of equity separate from the equity from the owners of the parent on the balance sheet and net income and comprehensive income attributable to the owners of the parent and to the non-controlling interests.

Impact

Certain special purpose entities ("SPEs") that were not consolidated under Canadian GAAP, as the Corporation was determined not to be the primary beneficiary, will be consolidated under IFRS based on judgements applied. This relates to aircraft leasing entities covering seven A319 aircraft, six A340 aircraft and eight A330 aircraft.

The impact arising from the change is summarized as follows:

- Consolidated Statement of Financial Position
    - This adjustment increased Property and equipment by $212 (based upon the fair value of the aircraft as at January 1, 2010 and included in the IFRS 1 Property and equipment impacts further discussed below), an increase to Long-term debt of $259, a decrease to non-controlling interest of $53 and a credit to the Deficit of $6. The additional debt consolidated in the SPEs relates to third party debt in the SPE leasing entities with a weighted average effective interest rate of approximately 8%.
    - Non-controlling interest of $201 at January 1, 2010 as determined under Canadian GAAP has been reclassified to Equity.

- Consolidated Statement of Operations
    - Interest expense increased $5 for the three months ended March 31, 2010 and $19 for the year ended December 31, 2010 related to the debt consolidated from the SPEs increased at an average effective interest rate of approximately 8% per year.
    - The non-controlling interests' share of net income, as adjusted, is reclassified to Income (loss) attributable to non-controlling interests in the Consolidated statement of operations.
    - Foreign exchange gains under Canadian GAAP for the three months ended March 31, 2010 and the year ended December 31, 2010 increased by $11 and $15, respectively, as the additional long-term debt is denominated in USD.
    - Refer to Property and Equipment section below for a discussion of changes to depreciation expense.

ii) Employee benefits

Optional exemption applied

As indicated above, the Corporation has elected to recognize all cumulative actuarial gains and losses on pension and other post-retirement benefit plans as at January 1, 2010 directly in the Deficit.

Accounting policy differences

<u>Actuarial gains and losses</u>

Under Canadian GAAP, cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets at the beginning of the year were amortized over the expected remaining service life of active employees.

Under IFRS, the Corporation has elected an accounting policy to recognize net actuarial gains and losses immediately in other comprehensive income without subsequent reclassification to income.

<u>Fair value of plan assets versus market-related value of plan assets</u>

Under Canadian GAAP, a market-related valuation method was used to value plan assets for the purpose of calculating the expected return on plan assets. Under the selected method, the differences between investment returns during a given year and the expected investment returns were amortized on a straight line basis over four years.

Under IFRS, the expected return on plan assets is based on market expectations at the beginning of the period for returns over the entire life of the related obligation.

<u>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</u>

IFRIC 14 "IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" ("IFRIC 14") addresses the application of paragraph 58 of IAS 19 which limits the measurement of a defined benefit asset to "the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan" plus past service cost.

IFRIC 14 provides guidance regarding (a) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19, (b) how a minimum funding requirement might affect the availability of reductions in future contributions and (c) when a minimum funding requirement might give rise to a liability. The Corporation has determined that it must record an additional liability associated with the minimum funding requirements in its registered pension plans. The additional liability is computed by discounting the minimum funding requirements from the actuarial funding valuations by the discount rate as defined by IAS 19.

There is Canadian GAAP guidance related to the limit on the carrying amount of an accrued benefit asset and recognition of a related valuation allowance. However, IFRS and Canadian GAAP have different methods of calculating the defined benefit asset limit. Furthermore, Canadian GAAP did not address accounting for an additional liability due to minimum funding requirements.

Impact

The impact arising from the change is summarized as follows:

- Consolidated Statement of Financial Position

    - At January 1, 2010, this adjustment increased Pension and other benefit liabilities by $2,777 with a corresponding charge to the Deficit.

	Pension Benefits	Other Employee Future Benefits	Total
Net benefit obligation - Canadian GAAP	$ 120	$ 1,109	$ 1,229
Recognize all cumulative actuarial gains and losses on transition	1,098	(258)	840
Additional minimum funding liability under IFRIC 14	1,937	-	1,937
Net benefit obligation - IFRS	**$ 3,155**	**$ 851**	**$ 4,006**
Current portion	-	(66)	(66)
Pension and other benefit liabilities - long-term	**$ 3,155**	**$ 785**	**$ 3,940**

- Consolidated Statement of Operations

    - Wages, salaries and benefits expense under Canadian GAAP of $470 for the three months ended March 31, 2010 and $1,885 for the year ended December 31, 2010 increased by $4 and $28, respectively.

    - Net financing expense on employee benefits related to the expected return on plan assets and interest arising on defined benefit obligations of $19 for the three months ended March 31, 2010 and $75 for the year ended December 31, 2010 has been recognized under IFRS.

    - Foreign exchange gain under Canadian GAAP for the three months ended March 31, 2010 and the year ended December 31, 2010 increased by nil and $3, respectively.

- Consolidated Statement of Comprehensive Income (Loss)

    - Net gains of $64 for the three months ended March 31, 2010 and $580 for the year ended December 31, 2010 have been recognized in Other comprehensive income under IFRS.

iii) Property and Equipment

Optional exemption applied

As indicated above, the Corporation has elected to measure owned and finance leased aircraft and engines at January 1, 2010 at fair value and use that fair value as deemed cost at that date.

Accounting policy differences

Under Canadian GAAP, maintenance and repair costs for both leased and owned aircraft, including line maintenance, component maintenance, and maintenance checks, are charged to Operating expenses as incurred, with the exception of maintenance and repair costs related to return conditions on operating leases, which are accrued over the term of the lease.

Under IFRS, major maintenance events on finance leased and owned airframes and major maintenance of finance leased and owned engines, including replacement spares and labour costs, are capitalized and amortized over the average expected life between major maintenance events. Major maintenance events typically consist of more complex inspections and servicing of the aircraft. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under power-by-the-hour contracts) are charged to operating expenses in the income statement on consumption or as incurred. Maintenance and repair costs related to return conditions on operating leases are accrued over the term of the lease.

Impact

The impact arising from the change is summarized as follows:

- Consolidated Statement of Financial Position
    - At January 1, 2010, Property and equipment decreased by $301, with a corresponding charge to the Deficit. This includes the impact of the fair value adjustment to aircraft and spare engines as at January 1, 2010 as described above, and the impact of componentizing the aircraft including capitalized engine and airframe maintenance events. The adjustment excludes the impact of the consolidation of special purpose entities (“SPEs”) as described in section i) Principles of Consolidation.
- Consolidated Statement of Operations
    - Depreciation and amortization under Canadian GAAP for the three months ended March 31, 2010 and for the year ended December 31, 2010 increased by $22 and $128, respectively, including the impact of the impairment charge as described below.
    - Under IFRS, impairment charges of $49 were recognized on A340-300 and 767-200 aircraft in the fourth quarter of 2010. Under Canadian GAAP, in the fourth quarter of 2010, the Corporation had recorded an impairment charge of $7 in Loss on assets on its fleet of retired 767-200 aircraft which was reversed under IFRS.
    - Aircraft maintenance for the three months ended March 31, 2010 and for the year ended December 31, 2010 decreased by $32 and $84, respectively.

iv) Leases

Accounting policy differences

Under Canadian GAAP, immediate gain recognition from the sale and leaseback of an asset does not occur unless the leaseback is classified as an operating lease and the seller-lessee retains the rights to use only a minor portion of the asset sold.

Under IFRS, immediate gain recognition from the sale and leaseback of an asset depends on whether or not the sale takes place at fair value, and whether the leaseback is classified as an operating lease or a finance lease.

Impact

The impact arising from the change is summarized as follows:

- Consolidated Statement of Financial Position
    - At January 1, 2010, this adjustment decreased Other long-term liabilities by $69 with a corresponding decrease to the Deficit resulting from the recognition of previously deferred gains on sale-leaseback transactions under IFRS.
- Consolidated Statement of Operations
    - Aircraft rent under Canadian GAAP has been increased by $2 for the three months ended March 31, 2010 and $7 for the year ended December 31, 2010.

v) Fresh start reporting

Accounting policy differences

Under IFRS, there are no explicit standards related to fresh start reporting or when an entity undertakes a financial reorganization.

Under Canadian GAAP, the Corporation applied fresh start reporting on September 30, 2004. As a result, all consolidated assets and liabilities of Air Canada were reported at fair values, except for deferred income taxes. Goodwill is not recognized upon adoption of fresh start reporting. Under fresh start reporting, retained earnings and contributed surplus were reset to zero.

As outlined under IFRS 1 exemptions above, the majority of the Corporation's intangible assets under Canadian GAAP were carried in the balance sheet on the basis of valuations performed on September 30, 2004 following the application of fresh start reporting. In accordance with IFRS 1, the Corporation has elected to reverse the intangible assets that were established in accordance with Section 1625 of the CICA Handbook, Comprehensive Revaluation of Assets and Liabilities ("CICA 1625").

Under Canadian GAAP, the benefit of deferred income taxes that existed at fresh start, and for which a valuation allowance was recorded, were recognized first to reduce to nil any remaining intangible assets that were recorded upon fresh start reporting. The benefit of deferred income tax assets that arose after fresh start was recognized in the Consolidated Statement of Operations.

Under IFRS, the subsequent realization of unrecorded deferred income tax assets are recognized in the income statement and other comprehensive income providing dollar-for-dollar offset to any income tax expense charged.

Impact

The impact arising from the change is summarized as follows:

- Consolidated Statement of Financial Position
    - At January 1, 2010, Goodwill, which was reported by Air Canada prior to the application of fresh start reporting under Canadian GAAP of $311, was reinstated with a corresponding decrease to the Deficit.
    - Adjustments to the Deficit and Contributed surplus related to the impact of fresh start reporting were undone with a corresponding adjustment to Share capital. At January 1, 2010, Share capital increased by $312, Contributed surplus decreased by $1,772 and the Deficit decreased by $1,460.
    - At January 1, 2010, Intangible assets decreased by $587, representing the derecognition of Canadian GAAP intangible assets that were established in accordance with fresh start reporting. The associated deferred income tax liability on the intangibles with indefinite lives decreased by $40, with a corresponding charge to the Deficit. The deferred income tax liability of $48 as at December 31, 2010 is recorded within Other long-term liabilities.
- Consolidated Statement of Operations
    - Depreciation and amortization under Canadian GAAP have been decreased by $2 for the three months ended March 31, 2010 and $6 for the year ended December 31, 2010.

vi) Provisions and contingent liabilities (including Asset Retirement Provisions)

Provisions

Accounting policy differences

IFRS requires a provision to be recognized when: there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation. "Probable" in this context means more likely than not. Under IFRS, there are a number of different estimation techniques to arrive at the best estimate, including the single most likely outcome, the weighted average of all possible outcomes or the midpoint where there is a range of equally possible outcomes.

Under Canadian GAAP, the criterion for recognition of a provision in the financial statements is "likely", which is a higher threshold than "probable". Where there is a range of equally possible outcomes, the provision is recorded at the low point of the range.

Asset Retirement Provisions

Accounting policy differences

Measurement of Asset Retirement Provisions under IFRS is based on the best estimate of the expenditure required to settle the present obligation at each reporting period discounted to present value using a discount rate specific to the liability.

Measurement of an Asset Retirement Obligation under Canadian GAAP is based on the fair value of the obligation (which takes market assumptions into account). Cash flow estimates are discounted to present value using a credit risk adjusted discount rate.

Lease return conditions

Maintenance costs for lease return conditions are recorded only for short term operating leases under the Corporation's accounting policies under Canadian GAAP.

Under IFRS, a provision will be recorded over the term of the lease for the end of lease maintenance return condition obligations within the Corporation's operating leases, offset by a prepaid maintenance asset to the extent of any related power by the hour maintenance service agreements or any recoveries under aircraft subleasing arrangements.

The provision is recorded using a discount rate specific to the liability. Interest accretion on the provision is recorded in other non-operating expense. For aircraft under operating leases which are subleased to third parties, the provision expense on the income statement is recorded net of the recovery under the sublease, as applicable.

Maintenance expense will include the accrual for maintenance provisions associated with lease return conditions, while other non-operating expense will include the accretion of the obligation over the life of the lease. Actual maintenance costs related to the end of lease return conditions will be charged against the provision. Any difference in the actual maintenance cost incurred and the amount of the provision is recorded in maintenance expense in the period.

Impact

The impact arising from the change is summarized as follows:

- Consolidated Statement of Financial Position
    - At January 1, 2010, Property & Equipment increased by $7, Other long-term liabilities increased by $12 and the Deficit was increased by $5 relating to asset retirement provisions associated with the various property leases and the fuel facilities arrangements.
    - At January 1, 2010, Deposits and other assets increased by $77 relating to prepayments under power by the hour arrangements, Other long-term liabilities increased by $447 relating to provisions for lease return conditions and the deficit is increased by $370.

- Consolidated Statement of Operations
    - Aircraft maintenance for the three months ended March 31, 2010 and for the year ended December 31, 2010 increased by $16 and $56, respectively.
    - Other non-operating expense relating to finance charges on provisions for the three months ended March 31, 2010 and for the year ended December 31, 2010 increased by $3 and $11, respectively.
    - Foreign exchange gain under Canadian GAAP for the three months ended March 31, 2010 and the year ended December 31, 2010 increased by $12 and $21, respectively.

vii) Long-term Debt

Accounting policy differences on presentation

In August 2010, the Corporation concluded a credit agreement with GE Japan Corporation, PK Airfinance Japan ("GE Japan") for a senior secured term loan (the "Facility") to refinance amounts related to sixteen aircraft. Under Canadian GAAP, as a result of the Facility, the amounts due under the existing debt maturities within the next 12 months that would be refinanced by the commitment on a long-term basis, amounting to $106, had been classified as long-term at December 31, 2010. Under IFRS, the existing debt maturities refinanced by the Facility can not be reclassified to long-term debt and are included in the current portion of long-term debt as at December 31, 2010.

4. ADDITIONAL IFRS INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2010

The following provides certain disclosures required in annual financial statements prepared in accordance with IFRS which were not contained in the Corporation's Canadian GAAP annual financial statements and are material to an understanding of these financial statements.

Property and equipment

	Year ended December 31, 2010				
	Flight equipment	Buildings, including leasehold improvements	Ground and other equipment	Purchase deposits, including capitalized interest	Total
Net book value					
At January 1, 2010:					
Cost	$ 5,861	$ 794	$ 150	$ 38	$ 6,843
Accumulated depreciation	(276)	(218)	(62)	-	(556)
	$ 5,585	$ 576	$ 88	$ 38	$ 6,287
At January 1, 2010	$ 5,585	$ 576	$ 88	$ 38	$ 6,287
Additions	98	7	16	48	169
Reclassifications	37	14	-	(51)	-
Disposals	(66)	(5)	-	-	(71)
Depreciation	(646)	(47)	(14)	-	(707)
Impairment	(49)	-	-	-	(49)
At December 31, 2010	$ 4,959	$ 545	$ 90	$ 35	$ 5,629
At December 31, 2010:					
Cost	$ 5,882	$ 809	$ 165	$ 35	$ 6,891
Accumulated depreciation	(923)	(264)	(75)	-	(1,262)
	$ 4,959	$ 545	$ 90	$ 35	$ 5,629

Maintenance provisions – lease return conditions

	Year ended December 31, 2010
At January 1, 2010	$ 461
Accretion expense recorded in other non-operating expense	13
Additional provisions recorded in maintenance expense	69
Changes in estimates affecting the provision	(5)
Maintenance charges recorded against the provision	(20)
Foreign exchange	(25)
At December 31, 2010	**$ 493**

Compensation of key management

Key management includes Air Canada's Board of Directors, President and Chief Executive Officer, Executive Vice-President and Chief Operating Officer, Executive Vice-President and Chief Financial Officer, and Executive Vice-President and Chief Commercial Officer. Compensation awarded to key management is summarized as follows:

	Year ended December 31, 2010
Salaries and other benefits	$ 7
Post-employment benefits	1
Share-based compensation	2
	$ 10

5. FINANCING ACTIVITIES

Credit agreement

During the first quarter of 2011, the Corporation received net financing proceeds of $63 (US$63), after financing fees of $1, through draws on the Facility with GE Japan which is further described above in Note 3(vii) and in Note 6(f) to the 2010 annual consolidated financial statements of the Corporation. The draws on the Facility were utilized to refinance amounts related to four Airbus A319 aircraft and two Boeing B767-300ER aircraft, operated by Air Canada and previously leased from special purpose leasing entities, with refinanced terms of seven and four years respectively. The credit agreement bears interest at a rate of one month US LIBOR plus 5.50% (5.75% - 5.76% as at March 31, 2011). Financing fees totaling $1 were recorded for these borrowings.

For the remainder of 2011, an amount of US$65 from the Facility will be available for four Airbus A319 aircraft and two Boeing B767-300ER aircraft. The Facility will also be available in 2012 to refinance up to US$42 of the amount related to four Airbus A319 aircraft.

6. PENSIONS AND OTHER BENEFIT EXPENSE

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

	Three Months Ended March 31	
	2011	2010
Consolidated Statement of Operations		
Operating expenses		
Wages, salaries and benefits		
Current service cost of		
Pension benefits	$ 52	$ 40
Other employee benefits	17	12
	$ 69	$ 52
Non-operating income (expense)		
Net financing expense relating to employee benefit liabilities		
Pension benefit liabilities	$ 10	$ (6)
Other employee benefit liabilities	(14)	(13)
	$ (4)	$ (19)
Consolidated Other Comprehensive Income (Loss)		
Net gain (loss) on employee benefit liabilities		
Pension benefits	$ 1	$ 120
Other employee benefits	15	(56)
	$ 16	$ 64

7. SHARE-BASED COMPENSATION

During the first quarter of 2011, the Board of Directors approved a special one-time Employee Recognition Award in the form of Air Canada shares granted to all eligible unionized and certain non-unionized employees worldwide, where permitted. Under the award, eligible employees were granted an aggregate of approximately 3.3 million shares with a grant date fair value of $11. Half of these shares vested immediately upon issuance and the other half will vest over three years. Pursuant to the award, the Corporation purchased approximately 3.3 million shares for $11, of which half were distributed to the eligible employees and the other half are held in trust over the vesting period. The shares held in trust are recorded at cost of $6 and are reported net against Share capital. Compensation expense for these shares will be recognized over the vesting period.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	Three Months Ended March 31	
	2011	2010
Fuel derivatives	$ 36	$ 1
Interest rate swaps	(3)	1
Share forward contracts	(3)	-
Other	(3)	-
Gain on financial instruments recorded at fair value	**$ 27**	**$ 2**

Fuel price risk management

As of March 31, 2011, approximately 29% of the Corporation's anticipated purchases of jet fuel for the remainder of 2011 are hedged at an average West Texas Intermediate ("WTI") capped price of US$100 per barrel and approximately 7% is subject to an average floor price of US$85 per barrel. The Corporation's contracts to hedge anticipated jet fuel purchases over the 2011 period are crude-oil based contracts comprised of call options, collars, call spreads and 3-way option structures. The Corporation has also hedged approximately 1% of its 2012 anticipated jet fuel purchases in crude-oil based contracts hedged at an average capped price of US$119 per barrel. The fair value of the fuel derivatives portfolio at March 31, 2011 is $68 in favour of the Corporation ($33 in favour of the Corporation as at December 31, 2010) and is recorded within Prepaid expenses and other current assets.

The following information summarizes the impact of fuel derivatives on the Consolidated Statement of Operations and Other Comprehensive Income:

		Three Months Ended March 31	
		2011	2010
Consolidated Statement of Operations			
Operating expenses			
Aircraft fuel	Realized effective loss on derivatives designated under hedge accounting	n/a	$ (58)
Non-operating income (expense)			
Gain on financial instruments recorded at fair value	Fair market value gain on economic hedges	$ 36	$ 1
Consolidated Other Comprehensive Income			
	Reclassification of net realized loss on fuel derivatives designated under hedge accounting to Aircraft fuel expense	n/a	$ 58
	Tax on reclassification	n/a	$ -

<u>Interest Rate Risk</u>

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Commencing in the second quarter of 2011, certain payments based upon aircraft rental amounts will be based on medium-term US interest rates at the time of delivery. To hedge against the exposure to increases in interest rate until the expected delivery date, during the first quarter of 2011 the Corporation entered into forward start interest rate swaps with an aggregate notional value of US$234. The swaps have contractual terms of maturity that coincide with the term of the rental agreements. However, the derivatives will be settled on each expected delivery date of the aircraft with maturities ranging from May 2011 to July 2012. The fair value of these contracts as at March 31, 2011 is $4 in favour of the counterparties, with the loss recorded in Gain (loss) on financial instruments.

9. CAPACITY PURCHASE AGREEMENTS

As described in Note 2D, Air Canada has capacity purchase agreements with Jazz and certain other regional carriers. The following table outlines the capacity purchase fees and pass-through expenses under these agreements for the periods presented:

	Three months ended March 31	
	2011	**2010**
Capacity purchase fees	$ 242	$ 235
Pass-through fuel expense	88	66
Pass-through airport expense	47	46
Pass-through other expenses	10	14
	$ 387	**$ 361**

10. COMMITMENTS

Boeing

The Corporation has outstanding purchase commitments with The Boeing Company ("Boeing") for the acquisition of 37 Boeing 787 aircraft. Refer to Note 14 to the 2010 annual consolidated financial statements for further information.

Boeing notified the Corporation that the first seven deliveries of its Boeing 787 aircraft, previously scheduled to be delivered in the second half of 2013, are now targeted for delivery during the fourth quarter of 2013 and the first half of 2014. This represents an average delay of between five and seven months from the previous schedule. Boeing has indicated that they continue to evaluate the schedule for deliveries of the Corporation's remaining 30 firm orders for Boeing 787 aircraft and would provide the Corporation with an update when available. The impact of this delay on capital purchase commitments beyond 2013 is not yet determinable.

Capital Commitments

Capital purchase commitments as at March 31, 2011 are as follows:

	Remainder of 2011	2012	2013	Thereafter	Total
Capital Commitments	$ 83	$ 142	$ 213	$ 3,681	$ 4,119

Capital purchase commitments in the table above exclude maintenance events. US dollar amounts are converted using the March 31, 2011 closing day rate of CDN$0.9696.

Maturity Analysis

Principal and interest repayment requirements as at March 31, 2011 on Long-term debt and finance lease obligations are as follows:

	Remainder of 2011	2012	2013	2014	2015	Thereafter	Total
Principal	$ 292	$ 380	$ 579	$ 289	$ 1,233	$ 1,603	$ 4,376
Interest	222	274	244	215	160	201	1,316
	$ 514	**$ 654**	**$ 823**	**$ 504**	**$ 1,393**	**$ 1,804**	**$ 5,692**

Principal repayments in the table above exclude transaction costs and discounts of $76 which are offset against Long-term debt and finance leases in the Consolidated Statement of Financial Position.

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 March 31, 2011 and does not include the impact of any remaining proceeds under the loan facility with GE Japan as described in Note 6 to the 2010 annual consolidated financial statements of the Corporation and Note 5 above. If drawn upon, the loan facility will reduce the net cash flows by the amount of the related debt maturities refinanced in the remainder of 2011 and 2012 of $39 and $41, respectively, offset by the principal and interest repayments under the loan facility.

11. AVEOS CERTIFICATION ORDER

Aveos Certification Order

On January 31, 2011, the Canada Industrial Relations Board issued an order (the "Order") determining that the sale of Air Canada's former aircraft, engine and component maintenance and repair business had occurred within the meaning of the Canada Labour Code, and establishing Aveos as a distinct employer, bound by separate collective agreements. The issuance of the order triggers the commencement of the process by which certain employees will transition from Air Canada to employment with Aveos.

Pursuant to the Order and a related separation program, Air Canada may be required to provide up to a maximum of 1,500 separation packages to IAMAW-represented Aveos employees employed in airframe maintenance activities as of the date of the Order (with each package including up to a maximum of 52 weeks of pay), in the event that such employees are permanently laid off or terminated as a direct result of Aveos ceasing to be the exclusive provider of airframe maintenance services to Air Canada prior to June 30, 2015. These packages will also be made available at any time up to June 30, 2013, in the event of an insolvency, liquidation or bankruptcy involving Aveos resulting in the cancellation of Air Canada-Aveos contracts and in the termination or permanent layoff of any airframe, engine or component IAMAW-represented employees. The current expiry date of the airframe maintenance services agreement is June 30, 2013.

An employee benefit liability is recognized related to this separation program. The liability is measured based on the number of employees expected to be paid the benefits and discounted to reflect the estimated timing of the benefits. The amount of the liability is not significant. Any changes in the estimate will be reflected in Wages, salaries and benefits.

12. SHAREHOLDER RIGHTS PLAN

In March 2011, the Board of Directors of Air Canada adopted a shareholder rights plan agreement (the “Plan”) designed to foster fair treatment of all shareholders in connection with any take-over bid for Air Canada. While the Plan came into effect immediately, it is subject to shareholder ratification within six months of its adoption. Air Canada will seek shareholder ratification of the Plan at the next annual and special shareholder meeting to be held on May 5, 2011.

The Plan has been designed to give the Board and shareholders more time to fully consider any take-over bid and to provide the Board with more time to pursue, if appropriate, other alternatives to maximize shareholder value. Under the terms of the Plan, one right (a “Right”) has been issued with respect to each Class B Voting Share and each Class A Variable Voting Share (each a “Share”) of Air Canada issued and outstanding as of the close of business on March 30, 2011 or subsequently issued. These Rights would become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the outstanding Class A Variable Voting Shares, or 20% or more of the outstanding Class B Voting Shares of Air Canada, without complying with the “Permitted Bid” provisions of the Plan or, in certain cases, without the approval of the Board. Until such time, the Rights are not separable from the shares, are not exercisable and no separate rights certificates are issued.

To qualify as a “Permitted Bid” under the Plan, a bid must, among other things: (i) be made to all holders of Shares, (ii) remain open for a period of not less than 60 days, (iii) provide that no Shares shall be taken up unless more than 50% of the then outstanding Class A Variable Voting Shares and Class B Voting Shares, on a combined basis, other than the Shares held by the person pursuing the acquisition and parties related to it, have been tendered and not withdrawn, and (iv) provide that if such 50% condition is satisfied, the bid will be extended for at least 10 business days to allow other shareholders to tender.

Following the occurrence of an event which triggers the right to exercise the Rights and subject to the terms and conditions of the Plan, each Right would entitle the holders thereof, other than the acquiring person or any related persons, to exercise their Rights and purchase from Air Canada $200 worth of Class A Variable Voting Shares or Class B Voting Shares for $100 (i.e. at a 50% discount to the market price at that time). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Class B Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Class A Variable Voting Shares.

The Plan is scheduled to expire at the close of business on the date immediately following the date of Air Canada's annual meeting of shareholders to be held in 2014, unless terminated earlier in accordance with the terms of the Plan.