## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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<th>June 30, 2012</th>
<th>December 31, 2011</th>
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<td>Spare parts and supplies inventory</td>
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<td>Prepaid expenses and other current assets</td>
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<td>Deposits and other assets</td>
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<td>$ 9,622</td>
<td>$ 9,633</td>
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<td>Total liabilities and equity</td>
<td>$ 9,622</td>
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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)

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<th>Six Months Ended</th>
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<tr>
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<td>$46</td>
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<td>$65</td>
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<tr>
<td></td>
<td>(55)</td>
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<td>$46</td>
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<tr>
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<td>$306</td>
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<td>(47)</td>
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<tr>
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<td>(308)</td>
<td>(68)</td>
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<tr>
<td></td>
<td>$ (96)</td>
<td>$ (46)</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>$ (306)</td>
<td>$ (65)</td>
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<td>$ (1.11)</td>
<td>$ (0.25)</td>
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The accompanying notes are an integral part of the condensed consolidated financial statements.
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

**Unaudited**  
(Canadian dollars in millions)

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<th></th>
<th>Six Months Ended June 30</th>
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<td>2011</td>
<td>2012</td>
<td>2011</td>
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<td>$ (46)</td>
<td>$ (306)</td>
<td>$ (65)</td>
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<td>$ (264)</td>
<td>$ (111)</td>
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<td>$ (109)</td>
<td>$ (266)</td>
<td>$ (114)</td>
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<td>Total comprehensive loss attributable to shareholders of Air Canada</td>
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<td>$ (111)</td>
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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**Unaudited**  
(Canadian dollars in millions)

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<th>Contributed surplus</th>
<th>Deficit</th>
<th>Total shareholders’ equity</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
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<td><strong>January 1, 2011</strong></td>
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<td>$ 54</td>
<td>$ (2,334)</td>
<td>$ (1,434)</td>
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<td>(46)</td>
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<td>(46)</td>
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<td>Total comprehensive income (loss)</td>
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<table>
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<td>–</td>
<td>–</td>
<td>42</td>
<td>42</td>
<td>–</td>
<td>42</td>
</tr>
<tr>
<td>Total comprehensive income (loss)</td>
<td>–</td>
<td>–</td>
<td>$ (266)</td>
<td>$ (266)</td>
<td>2</td>
<td>(264)</td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>2</td>
</tr>
<tr>
<td>Distributions</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(19)</td>
<td>(19)</td>
</tr>
<tr>
<td><strong>June 30, 2012</strong></td>
<td>$ 840</td>
<td>$ 60</td>
<td>$ (5,249)</td>
<td>$ (4,349)</td>
<td>$ 62</td>
<td>(4,287)</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the condensed consolidated financial statements.
# CONSOLIDATED STATEMENT OF CASH FLOW

Unaudited

<table>
<thead>
<tr>
<th>(Canadian dollars in millions)</th>
<th>Six months ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
</tr>
</tbody>
</table>

## Cash flows from (used for)

### Operating

- **Net loss for the period**  
  - 2012: $(306)  
  - 2011: $(65)

### Adjustments to reconcile to net cash from operations

- **Depreciation, amortization and impairment**  
  - 2012: 349  
  - 2011: 369

- **Foreign exchange gain**  
  - 2012: (7)  
  - 2011: (139)

- **Excess of employee benefit funding over expense**  
  - 2012: (76)  
  - 2011: 58

- **Fuel and other derivatives**  
  - Note 7  
  - 2012: (8)  
  - 2011: 26

- **Loss on investments in Aveos**  
  - Note 3  
  - 2012: 65  
  - 2011: -

- **Discontinued operations - Aveos**  
  - Note 3  
  - 2012: 55  
  - 2011: -

- **Change in maintenance provisions**  
  - 2012: 3  
  - 2011: 32

- **Changes in non-cash working capital balances**  
  - 2012: 568  
  - 2011: 383

- **Provision for cargo investigations**  
  - Note 6  
  - 2012: (8)  
  - 2011: (29)

- **Other**  
  - 2012: (14)  
  - 2011: 16

**Net cash flows from operating activities**  
- 2012: 621  
- 2011: 535

## Financing

- **Proceeds from borrowings**  
  - Note 4  
  - 2012: 150  
  - 2011: 125

- **Reduction of long-term debt and finance lease obligations**  
  - 2012: (238)  
  - 2011: (411)

- **Distributions related to aircraft special purpose leasing entities**  
  - 2012: (16)  
  - 2011: (52)

**Net cash flows used in financing activities**  
- 2012: (104)  
- 2011: (338)

## Investing

- **Short-term investments**  
  - 2012: (265)  
  - 2011: (189)

- **Additions to property, equipment and intangible assets**  
  - 2012: (253)  
  - 2011: (104)

- **Proceeds from sale of assets**  
  - 2012: 15  
  - 2011: 3

- **Other**  
  - 2012: 5  
  - 2011: (29)

**Net cash flows used in investing activities**  
- 2012: (498)  
- 2011: (319)

## Increase (decrease) in cash and cash equivalents

- 2012: 19  
- 2011: (122)

**Cash and cash equivalents, beginning of period**  
- 2012: 848  
- 2011: 1,090

**Cash and cash equivalents, end of period**  
- 2012: $867  
- 2011: $968

| Cash payments of interest | 2012: $142 | 2011: $142 |
| Cash payments of income taxes | 2012: $1 | 2011: $ |
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(CANADIAN DOLLARS IN MILLIONS – EXCEPT PER SHARE AMOUNTS)

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The accompanying unaudited interim condensed consolidated financial statements (the “financial statements”) are of Air Canada. 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 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”) which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 “Interim Financial Reporting”. 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 annual consolidated financial statements for the year ended December 31, 2011. In management’s opinion, these financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented. Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

These financial statements were approved for issue by the Board of Directors of the Corporation on August 7, 2012.

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. ACCOUNTING POLICIES

These financial statements are based on the accounting policies consistent with those disclosed in Note 3 to the 2011 annual consolidated financial statements, except as described below. Refer to Note 3 to the 2011 annual consolidated financial statements for information on new accounting standards and amendments not yet effective.

Carbon Emissions Accounting Policy
The European Union passed legislation for an Emissions Trading System which includes carbon emissions from aviation commencing January 2012, including for flights operated between Canada and countries within the European Union. The legislation requires aircraft operators to monitor and report on fuel use and emissions data. The Corporation began accounting for the terms of the Emissions Trading Scheme (“ETS”) in January 2012. A cost of settlement accounting model is adopted whereby emission allowances granted by the European Union are recorded in Intangible assets and are measured at fair value at the date of initial recognition with an offset to deferred income as a government grant. Purchased emission allowances are recorded at cost and also recognized in Intangible assets. The intangible assets are subsequently measured using the cost model in IAS 38, Intangible Assets and will be de-recognized at the end of each emission compliance period as an offset to the Corporation’s provision for emissions obligations. The intangible assets are subject to the Corporation’s impairment of long-lived assets accounting policy. The government grant, measured based on the fair value of emission allowances at the date of initial recognition, is amortized as an offset to other operating expenses over the emission compliance period based on volume of emissions generated during the period compared to the expected volume of emissions during the emission compliance period. A provision to deliver emission allowances is recognized, with an offset to other operating expense, as carbon emissions are made using a weighted average cost model per unit of emission expected to be incurred for the emission compliance period as a whole. The emission allowances, net of the provision to deliver emission allowances, at June 30, 2012 are $11 and are recorded within Intangible assets. The deferred credit related to the government grant is $11 and is recorded within Accounts payable and accrued liabilities.
3. INVESTMENTS IN AVEOS

On March 18, 2012, Aveos Fleet Performance Inc. ("Aveos") announced that it had ceased operating its airframe maintenance facilities in Montreal, Winnipeg and Vancouver. On March 19, 2012, Aveos filed for court protection pursuant to the Companies’ Creditors Arrangements Act ("CCAA") and on March 20, 2012, issued a notice of termination to all of its employees.

As a result of the above, during the first quarter of 2012, Air Canada reduced the carrying value of its investment in Aveos Holding Company, Aveos' parent company, as well as the carrying value of a long term note receivable from Aveos to nil and recorded an aggregate loss on investments of $65. In addition, during the first quarter of 2012, Air Canada recorded a liability of $55, which was charged to Discontinued Operations, related to Air Canada's commitment under a separation program. Refer to sections below for additional information on these items.

Operating amounts owing between Air Canada and Aveos, including disputed invoices, may be subject to Aveos' CCAA proceedings and are being reported on a net basis. The ultimate settlement of such amounts may be dependent on resolution by the court process. As such, certain balances recorded are based on a number of estimates and assumptions and it is not possible to predict the outcome of the claims between the parties. Given the uncertainty as to the ultimate resolution, additional provisions or charges may be required.

Discontinued Operations

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 triggered the commencement of the process by which certain employees transitioned from Air Canada to employment with Aveos effective July 14, 2011.

Pursuant to the Order and a related separation program, Air Canada has a commitment to provide up to a maximum of 1,500 separation packages to IAMAW-represented Aveos employees employed as of the date of the Order (with each package including up to a maximum of 52 weeks of pay), in the event that 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 are also to 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 IAMAW-represented employees. A liability of $55 related to the total estimated cost in relation to these separation packages has been recorded in Accounts payable and accrued liabilities and charged to Discontinued Operations during the first quarter of 2012. There is no impact to cash flows relating to Discontinued Operations during the six months ended June 30, 2012.

Subsequent to Aveos’ CCAA filing, Aveos and Air Canada entered into an agreement pursuant to which all agreements by which Aveos was performing maintenance services for Air Canada airframes and other aircraft equipment may terminate. As a result, the agreements pursuant to which Aveos was performing maintenance services for Air Canada airframes, engines, auxiliary power units, as well as certain other ancillary maintenance services were terminated. Also, as part of this agreement, Air Canada agreed to arrangements to assist Aveos to find potential purchasers for its engine and component business. As part of these arrangements, Aveos and Air Canada entered into an exclusive contract until 2018 for engine maintenance at current market rates of certain engine types used by Air Canada. This new contract would become effective upon assignation by Aveos to a purchaser that is among five parties identified by Air Canada to be equally acceptable in terms of operational requirements.

Investments in Aveos

In 2010, Aveos reached an agreement with its lenders and equity holders on the terms of a consensual restructuring plan to recapitalize the company. As part of this recapitalization, Air Canada and Aveos entered into agreements to settle certain issues and modify the terms of certain contractual arrangements in exchange for Air Canada receiving a minority equity interest in Aveos and a Term Note with a face value of $22. As a result of these agreements, Air Canada's equity investment in Aveos was recorded at $49, based upon its estimated fair value, and $2 for legal fees. A Term Note of $22 was recorded at its estimated fair value of $11, based on the present value of expected cash flows on a discounted basis. Prior to Aveos filing for CCAA, the carrying value of the Term Note was $14.
As a result of Aveos’ CCAA filing, during the first quarter of 2012, the share investment and Term Note were adjusted to their estimated fair value of nil with an aggregate charge of $65 recorded in Non-operating expense.

Pension and Benefits Agreement
As described in Note 10 to the 2011 annual consolidated financial statements, Air Canada and Aveos are parties to a Pension and Benefits Agreement covering the transfer of certain pension and benefit assets and obligations to Aveos. On July 14, 2011 (the “Certification Date”), certain unionized employees of Air Canada elected to become employees of Aveos. The Pension and Benefits Agreement provides that, subject to regulatory approval by the Office of the Superintendent of Financial Institutions (“OSFI”), where required, the assets and obligations under the pension, other post-retirement and post-employment benefits plans pertaining to the transferred unionized employees are to be transferred to Aveos, with Air Canada to provide compensation payments to be paid quarterly to Aveos over a period not exceeding five years once determined after the transfer. As part of the arrangements, a letter of credit in the amount of $20 was issued by Air Canada in favour of Aveos to secure the payment of all compensation payments owing by Air Canada to Aveos in respect of pension, disability, and retiree liabilities for which Air Canada would be liable under the Pension and Benefits Agreement. This amount is recorded in Deposits and other assets.

The financial statements do not reflect the determination, pursuant to the terms of the Pension and Benefits Agreement, of the solvency liabilities or the amount of pension assets which would be transferred to Aveos and the resulting compensation amount which would be paid by Air Canada to Aveos. During the second quarter of 2012, OSFI ordered the termination of Aveos’ defined benefit pension plans and, as a result, it is expected that the assets and liabilities accruing prior to the Certification Date in respect of transferred employees will not be transferred to Aveos’ plans and will remain under Air Canada’s pension plans. In addition, obligations under the other post-retirement and post-employment benefits plans pertaining to the transferred unionized employees, for accounting purposes, continue to be included in these financial statements but their final determination may be subject to Aveos’ CCAA proceedings.

In light of the uncertainty relating to Aveos’ CCAA filing, no final determination as to the impact of Aveos’ CCAA filing on transfers and compensation amounts between Air Canada and Aveos has been made and the ultimate settlement of such amounts may be dependent on the resolution by the court process under Aveos’ CCAA proceedings.
4. **LONG-TERM DEBT AND FINANCE LEASES**

<table>
<thead>
<tr>
<th>Final Maturity</th>
<th>Weighted Average Interest Rate (%)</th>
<th>June 30 2012</th>
<th>December 31 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft financing (a)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed rate US dollar financing</td>
<td>2012 – 2021</td>
<td>7.50</td>
<td>$ 1,391</td>
</tr>
<tr>
<td>Floating rate US dollar financing</td>
<td>2015 – 2021</td>
<td>2.69</td>
<td>706</td>
</tr>
<tr>
<td>Floating rate Japanese yen financing</td>
<td>2020</td>
<td>0.33</td>
<td>180</td>
</tr>
<tr>
<td>Floating rate CDN dollar financing</td>
<td>2012</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Senior secured notes – US dollar</td>
<td>2015 – 2016</td>
<td>9.94</td>
<td>815</td>
</tr>
<tr>
<td>Senior secured notes – CDN dollar</td>
<td>2015</td>
<td>10.13</td>
<td>300</td>
</tr>
<tr>
<td>Other secured financing – US dollar (b)</td>
<td>2013 – 2015</td>
<td>6.42</td>
<td>278</td>
</tr>
<tr>
<td>Other secured financing – CDN dollar (b)</td>
<td>2012 – 2032</td>
<td>5.33</td>
<td>245</td>
</tr>
<tr>
<td><strong>Long-term debt</strong></td>
<td></td>
<td></td>
<td>3,915</td>
</tr>
<tr>
<td>Finance lease obligations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total debt and finance leases</td>
<td></td>
<td></td>
<td>4,313</td>
</tr>
<tr>
<td>Unamortized discount</td>
<td></td>
<td>(11)</td>
<td>(12)</td>
</tr>
<tr>
<td>Unamortized debt issuance costs</td>
<td></td>
<td>(48)</td>
<td>(53)</td>
</tr>
<tr>
<td>Current portion</td>
<td></td>
<td>(481)</td>
<td>(424)</td>
</tr>
<tr>
<td><strong>Long-term debt and finance leases</strong></td>
<td></td>
<td></td>
<td>$ 3,773</td>
</tr>
</tbody>
</table>

The terms and conditions of the instruments are consistent with those disclosed in Note 9 to the 2011 annual consolidated financial statements of the Corporation, except for the following events during the six months ended June 30, 2012.

(a) The Corporation received net financing proceeds of $41 (US$42), after financing fees of $1, through the final amounts available under a credit agreement to refinance amounts related to four Airbus A319 aircraft, with refinanced terms of five years.

(b) An additional net amount of $107 was drawn under a revolving loan facility, consisting of $44 Canadian dollar and $63 US dollar financing.

Refer to Note 6 for the Corporation’s principal and interest repayment requirements as at June 30, 2012.
5. PENSIONS AND OTHER BENEFIT LIABILITIES

Pension and Other Employee Future Benefit Expense

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Six Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30 2012</td>
<td>June 30 2011</td>
</tr>
<tr>
<td><strong>Consolidated Statement of Operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages, salaries and benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension benefits</td>
<td>$55</td>
<td>$53</td>
</tr>
<tr>
<td>Other employee benefits</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>$69</td>
<td>$70</td>
</tr>
<tr>
<td>Non-operating income (expense)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net financing expense relating to employee benefit liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension benefits</td>
<td>$8</td>
<td>$10</td>
</tr>
<tr>
<td>Other employee benefits</td>
<td>(14)</td>
<td>(14)</td>
</tr>
<tr>
<td></td>
<td>(6)</td>
<td>(4)</td>
</tr>
<tr>
<td>Consolidated Other Comprehensive Income (Loss)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net gain (loss) on employee benefit liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension benefits</td>
<td>$19</td>
<td>(50)</td>
</tr>
<tr>
<td>Other employee benefits</td>
<td>(46)</td>
<td>(12)</td>
</tr>
<tr>
<td></td>
<td>(27)</td>
<td>(62)</td>
</tr>
</tbody>
</table>

In June 2012, Air Canada and the International Association of Machinists and Aerospace Workers ("IAMAW") received the decision of the arbitrator in the final offer selection arbitration conducted in accordance with the process legislated by the federal government in the Protecting Air Service Act. The arbitrator’s final offer selection concludes a new five-year collective agreement with the IAMAW which is in effect until March 31, 2016. The new collective agreement preserves defined benefit pension plans for current employees and introduces a new IAMAW multi-employer pension plan for new employees hired after the date of the decision, which will be accounted for as a defined contribution plan. The collective agreement also includes amendments to the defined benefit pension plans of current IAMAW members which are subject to regulatory approval by OSFI and will be accounted for at the time this approval has been received.

On July 30, 2012, Air Canada and the Air Canada Pilots Association ("ACPA") received the decision of the arbitrator in the final offer selection arbitration conducted in accordance with the Protecting Air Service Act. The arbitrator’s final offer selection concludes a new five-year collective agreement with ACPA which is in effect until April 1, 2016. This new collective agreement preserves defined benefit pension plans for current employees and introduces a defined contribution pension plan for new employees hired after July 30, 2012. The collective agreement also includes amendments to the defined benefit pension plans of current ACPA members which are subject to regulatory approval by OSFI and will be accounted for at the time this approval has been received.

Also in June 2012, Air Canada concluded an agreement with Aimia Canada Inc. (formerly Aeroplan) through which Air Canada will transfer to the Aeroplan defined benefit pension plan all the pension plan assets and obligations related to pension benefits accrued by employees who were Air Canada employees and who chose to transition to employment at Aeroplan in 2009. The transfer is subject to approval by OSFI and will be accounted for at the time this approval has been received. Based on the most recent actuarial valuation report, the solvency deficit and related compensation for transferred employees is not material.

Refer to Note 3 for information on the Pension and Benefits Agreement relating to certain pension and benefit matters relating to Aveos.
6. COMMITMENTS AND CONTINGENCIES

Boeing
In the first quarter of 2012, the Corporation exercised purchase rights for three Boeing 777 aircraft with scheduled deliveries towards the end of 2013 and the first quarter of 2014. Following the exercise of these purchase rights, the Corporation has outstanding purchase commitments with The Boeing Company (“Boeing”) for the acquisition of 37 Boeing 787 aircraft and five Boeing 777 aircraft. Refer to Note 17 to the 2011 annual consolidated financial statements for further information.

Capital Commitments
The estimated aggregate cost of the future firm Boeing aircraft deliveries and other capital purchase commitments as at June 30, 2012 approximates $5,612 (of which $3,114 is subject to committed financing, subject to the fulfillment of certain terms and conditions). US dollar amounts are converted using the June 30, 2012 closing rate of CDN$1.0181. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation and, where applicable, deferred price delivery payment interest calculated based on the 90-day US LIBOR rate at June 30, 2012.

<table>
<thead>
<tr>
<th>Principal</th>
<th>Remainder of 2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital commitments</td>
<td>$154</td>
<td>$596</td>
<td>$894</td>
<td>$577</td>
<td>$1,020</td>
<td>$2,371</td>
<td>$5,612</td>
</tr>
</tbody>
</table>

Maturity Analysis
Principal and interest repayment requirements as at June 30, 2012 on Long-term debt and finance lease obligations are as follows:

<table>
<thead>
<tr>
<th>Principal</th>
<th>Remainder of 2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt obligations</td>
<td>$168</td>
<td>$542</td>
<td>$268</td>
<td>$1,377</td>
<td>$463</td>
<td>$1,097</td>
<td>$3,915</td>
</tr>
<tr>
<td>Finance lease obligations</td>
<td>29</td>
<td>61</td>
<td>57</td>
<td>52</td>
<td>25</td>
<td>174</td>
<td>398</td>
</tr>
<tr>
<td>Total</td>
<td>$197</td>
<td>$603</td>
<td>$325</td>
<td>$1,429</td>
<td>$488</td>
<td>$1,271</td>
<td>$4,313</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principal</th>
<th>Remainder of 2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt obligations</td>
<td>$120</td>
<td>$232</td>
<td>$203</td>
<td>$143</td>
<td>$51</td>
<td>$104</td>
<td>$853</td>
</tr>
<tr>
<td>Finance lease obligations</td>
<td>19</td>
<td>34</td>
<td>28</td>
<td>22</td>
<td>18</td>
<td>66</td>
<td>187</td>
</tr>
<tr>
<td>Total</td>
<td>$139</td>
<td>$266</td>
<td>$231</td>
<td>$165</td>
<td>$69</td>
<td>$170</td>
<td>$1,040</td>
</tr>
</tbody>
</table>

Contingencies and Litigation Provisions

Investigations by Competition Authorities and Other Proceedings Relating to Cargo
In the first quarter of 2012, the Corporation entered into a settlement agreement relating to class action proceedings in the United States concerning alleged anti-competitive cargo pricing activities. This settlement, for which final court approval was obtained during the third quarter of 2012, was made without any admission of liability. As a result of the settlement agreement, a payment of $8 was made during the first quarter of 2012 to settle the class action proceedings in the United States.

Other provisions
During the first quarter of 2012, a liability of $18 was recorded in Wages, salaries and benefits related to employee profit sharing payments. The liability is an estimate based upon a number of assumptions and the Corporation’s assessment as to the constructive obligation related to this matter. Adjustments to the amounts recorded may occur.
7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended June 30</th>
<th>Six Months Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2011</td>
</tr>
<tr>
<td>Fuel derivatives</td>
<td>$ (23)</td>
<td>$ (45)</td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>-</td>
<td>- (7)</td>
</tr>
<tr>
<td>Share forward contracts</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Loss on financial instruments recorded at fair value</strong></td>
<td>$ (23)</td>
<td>$ (52)</td>
</tr>
</tbody>
</table>

**Fuel Price Risk Management**

During the second quarter of 2012, the Corporation recorded a loss of $23 in Loss on financial instruments recorded at fair value related to fuel derivatives ($31 loss for the six months ended June 30, 2012). During the second quarter of 2012, the Corporation purchased crude-oil and refined products-based call options covering a portion of 2012 and 2013 fuel exposure. The cash premium related to these contracts was $13 ($28 for the six months ended June 30, 2012).

As of June 30, 2012, approximately 40% of the Corporation’s anticipated purchases of jet fuel for the remainder of 2012 are hedged at an average West Texas Intermediate (“WTI”) equivalent capped price of US$111 per barrel. The Corporation’s contracts to hedge anticipated jet fuel purchases over the 2012 period are comprised of call options. The Corporation has also hedged approximately 5% of its 2013 anticipated jet fuel purchases at an average capped price of US$104 per barrel. The fair value of the fuel derivatives portfolio at June 30, 2012 is $8 in favour of the Corporation ($11 in favour of the Corporation as at December 31, 2011) and is recorded within Prepaid expenses and other current assets.

The following table outlines the notional volumes per barrel along with the WTI equivalent weighted average capped price by type of derivative instruments as at June 30, 2012. The Corporation is expected to generate fuel hedging gains if oil prices increase above the average capped price.

<table>
<thead>
<tr>
<th>Derivative Instruments</th>
<th>Term</th>
<th>Volume (bbis)</th>
<th>WTI Weighted Average Capped Price (US$/bbi)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call options</td>
<td>2012</td>
<td>5,127,954</td>
<td>$ 111</td>
</tr>
<tr>
<td>Call options</td>
<td>2013</td>
<td>1,345,500</td>
<td>$ 104</td>
</tr>
</tbody>
</table>

**Covenants in Credit Card Agreements**

As described in Note 18 to the 2011 annual consolidated financial statements, the Corporation has various agreements with companies that process customer credit card transactions. During the second quarter of 2012, the Corporation transitioned its principal credit card processing agreements for credit card processing services in North America to a new service provider. The terms of the new agreements are for five years each and the agreements contain triggering events upon which the Corporation is required to provide the credit card processor with deposits. The obligation to provide deposits and the required amount of deposits are each based upon a matrix measuring, on a quarterly basis, both a fixed charge coverage ratio for the Corporation and the unrestricted cash and short-term investments of the Corporation.
8. CAPACITY PURCHASE AGREEMENTS

Air Canada has capacity purchase agreements with Jazz Aviation LP and certain other regional carriers. The following table outlines the capacity purchase fees and pass-through expenses under these agreements for the periods presented:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended June 30</th>
<th>Six Months Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2011</td>
</tr>
<tr>
<td>Capacity purchase fees</td>
<td>$266</td>
<td>$249</td>
</tr>
<tr>
<td>Pass-through fuel expense</td>
<td>106</td>
<td>106</td>
</tr>
<tr>
<td>Pass-through airport expense</td>
<td>52</td>
<td>49</td>
</tr>
<tr>
<td>Pass-through other expenses</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>$430</td>
<td>$412</td>
</tr>
</tbody>
</table>