



**First Quarter 2017**  
**INTERIM UNAUDITED**  
**Condensed Consolidated**  
**Financial Statements and Notes**  
**May 5, 2017**



A STAR ALLIANCE MEMBER 

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<b>Unaudited (Canadian dollars in millions)</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,270	\$ 787
Short-term investments	2,354	2,192
Total cash, cash equivalents and short-term investments	3,624	2,979
Restricted cash	83	126
Accounts receivable	785	707
Aircraft fuel inventory	80	79
Spare parts and supplies inventory	110	107
Prepaid expenses and other current assets	239	349
Total current assets	4,921	4,347
Property and equipment	8,845	8,520
Pension assets <span style="float: right;">Note 4</span>	1,007	1,153
Intangible assets	312	315
Goodwill	311	311
Deposits and other assets	468	468
<b>Total assets</b>	<b>\$ 15,864</b>	<b>\$ 15,114</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,753	\$ 1,644
Advance ticket sales	2,683	2,073
Current portion of long-term debt and finance leases <span style="float: right;">Note 3</span>	825	707
Total current liabilities	5,261	4,424
Long-term debt and finance leases <span style="float: right;">Note 3</span>	5,959	5,911
Pension and other benefit liabilities <span style="float: right;">Note 4</span>	2,559	2,436
Maintenance provisions	961	922
Other long-term liabilities	199	202
<b>Total liabilities</b>	<b>\$ 14,939</b>	<b>\$ 13,895</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	791	797
Contributed surplus	72	83
Hedging reserve	(2)	3
Retained earnings	64	336
Total shareholders' equity	925	1,219
<b>Total liabilities and shareholders' equity</b>	<b>\$ 15,864</b>	<b>\$ 15,114</b>

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

**CONSOLIDATED STATEMENT OF OPERATIONS**

<b>Unaudited</b> <b>(Canadian dollars in millions except per share figures)</b>	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating revenues</b>		
Passenger	\$ 3,095	\$ 2,864
Cargo	134	116
Other	413	363
<b>Total revenues</b>	<b>3,642</b>	<b>3,343</b>
<b>Operating expenses</b>		
Aircraft fuel	659	446
Regional airlines expense	632	569
Wages, salaries and benefits	Note 4	608
Airport and navigation fees	210	198
Aircraft maintenance	228	221
Depreciation, amortization and impairment	228	182
Sales and distribution costs	205	182
Ground package costs	256	231
Aircraft rent	122	112
Food, beverages and supplies	85	77
Communications and information technology	71	67
Special items	Note 9	-
Other	326	296
<b>Total operating expenses</b>	<b>3,696</b>	<b>3,189</b>
<b>Operating income (loss)</b>	<b>(54)</b>	<b>154</b>
<b>Non-operating income (expense)</b>		
Foreign exchange gain	Note 8	50
Interest income	12	10
Interest expense	(79)	(96)
Interest capitalized	9	23
Net financing expense relating to employee benefits	Note 4	(18)
Loss on financial instruments recorded at fair value	Note 8	(10)
Gain on sale and leaseback of assets	Note 10	-
Loss on debt settlements	Note 3	(6)
Other	(5)	(6)
<b>Total non-operating income (expense)</b>	<b>17</b>	<b>(53)</b>
<b>Income (loss) before income taxes</b>	<b>(37)</b>	<b>101</b>
Income taxes	-	-
<b>Net income (loss) for the period</b>	<b>\$ (37)</b>	<b>\$ 101</b>
<b>Net income (loss) per share attributable to shareholders of Air Canada</b>	Note 6	
Basic earnings (loss) per share	\$ (0.14)	\$ 0.36
Diluted earnings (loss) per share	\$ (0.14)	\$ 0.35

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

<b>Unaudited</b> <b>(Canadian dollars in millions)</b>	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Comprehensive income (loss)</b>		
<b>Net income (loss) for the period</b>	\$ (37)	\$ 101
<b>Other comprehensive income (loss), net of taxes of nil:</b>		
Items that will not be reclassified to net income		
Remeasurements on employee benefit liabilities	Note 4	(819)
Items that will be reclassified to net income		
Fuel derivatives designated as cash flow hedges, net	Note 8	3
<b>Total comprehensive loss</b>	<b>\$ (245)</b>	<b>\$ (715)</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

<b>Unaudited</b> <b>(Canadian dollars in millions)</b>	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Hedging reserve</b>	<b>Retained earnings (deficit)</b>	<b>Total shareholders' equity</b>	<b>Non-controlling interests</b>	<b>Total equity</b>
January 1, 2016	: 825	: 76	\$ (11)	\$ (877)	: 13	\$ 27	: 40
Net income	-	-	-	101	101	-	101
Remeasurements on employee benefit liabilities	-	-	-	(819)	(819)	-	(819)
Fuel derivatives designated as cash flow hedges, net	-	-	3	-	3	-	3
Total comprehensive income (loss)	-	-	3	(718)	(715)	-	(715)
Share-based compensation	-	4	-	-	4	-	4
Shares purchased and cancelled under issuer bid	(13)	-	-	(21)	(34)	-	(34)
Distributions	-	-	-	-	-	(27)	(27)
March 31, 2016	: 812	: 80	\$ (8)	\$ (1,616)	: (732)	\$ -	: (732)
January 1, 2017	: 797	: 83	\$ 3	\$ 336	: 1,219	\$ -	: 1,219
Net income (loss)	-	-	-	(37)	(37)	-	(37)
Remeasurements on employee benefit liabilities	-	-	-	(203)	(203)	-	(203)
Fuel derivatives designated as cash flow hedges, net	-	-	(5)	-	(5)	-	(5)
Total comprehensive income (loss)	-	-	(5)	(240)	(245)	-	(245)
Share-based compensation	-	(2)	-	(4)	(6)	-	(6)
Shares issued	1	-	-	-	1	-	1
Shares purchased and cancelled under issuer bid	(7)	-	-	(26)	(33)	-	(33)
Reclassification of equity settled award to cash settled award (Note 2)	-	(9)	-	(2)	(11)	-	(11)
March 31, 2017	: 791	: 72	\$ (2)	\$ 64	: 925	\$ -	\$ 925

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

**CONSOLIDATED STATEMENT OF CASH FLOW**

<b>Unaudited</b> <b>(Canadian dollars in millions)</b>	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from (used for)</b>		
<b>Operating</b>		
Net income (loss) for the period	\$ (37)	\$ 101
Adjustments to reconcile to net cash from operations		
Depreciation, amortization and impairment	235	187
Foreign exchange (gain) loss	(64)	(77)
Gain on sale and leaseback of assets	Note 10 (26)	-
Loss on debt settlements	-	6
Employee benefit funding less than expense	Note 4 66	36
Financial instruments recorded at fair value	Note 8 8	18
Change in maintenance provisions	34	36
Changes in non-cash working capital balances	810	656
Other	1	11
<b>Net cash flows from operating activities</b>	<b>1,027</b>	<b>974</b>
<b>Financing</b>		
Proceeds from borrowings	371	616
Reduction of long-term debt and finance lease obligations	(152)	(230)
Shares purchased for cancellation	Note 5 (33)	(34)
Distributions related to aircraft special purpose leasing entities	-	(32)
Issue of shares	1	-
Financing fees	(3)	(1)
<b>Net cash flows from financing activities</b>	<b>184</b>	<b>319</b>
<b>Investing</b>		
Short-term investments	(162)	36
Additions to property, equipment and intangible assets	(926)	(1,116)
Proceeds from sale of assets	1	144
Proceeds from sale and leaseback of assets	Note 10 369	-
Other	(6)	-
<b>Net cash flows used in investing activities</b>	<b>(724)</b>	<b>(936)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(4)</b>	<b>(21)</b>
<b>Increase in cash and cash equivalents</b>	<b>483</b>	<b>336</b>
Cash and cash equivalents, beginning of period	787	572
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,270</b>	<b>\$ 908</b>
<b>Cash payments of interest</b>	Note 3 \$ 53	\$ 44
<b>Cash payments of income taxes</b>	\$ 1	\$ -

*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. GENERAL INFORMATION

The accompanying unaudited interim condensed consolidated financial statements (the “financial statements”) are of Air Canada (the “Corporation”). The term “Corporation” also refers to, as the context may require, Air Canada and/or one or more of its subsidiaries, including its principal wholly-owned operating subsidiaries, Touram Limited Partnership doing business under the brand name Air Canada Vacations® (“Air Canada Vacations”) and Air Canada rouge LP doing business under the brand name Air Canada Rouge® (“Air Canada Rouge”). These financial statements also include certain aircraft leasing entities, which are consolidated under IFRS 10 Consolidated Financial Statements.

Air Canada is incorporated and domiciled in Canada. The address of its registered office is 7373 Côte-Vertu Boulevard West, Saint-Laurent, Quebec.

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



## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the CPA Canada Handbook – Accounting ("CPA 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, 2016. 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.

These financial statements were approved for issue by the Board of Directors of the Corporation on May 4, 2017.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2016 annual consolidated financial statements.

As described in Note 2I to the 2016 annual consolidated financial statements, performance share units ("PSUs") and restricted share units ("RSUs") were accounted for as equity settled instruments. A prospective change in accounting was made in 2017 from equity settled to cash settled instruments based on settlement experience. In accounting for cash settled instruments, compensation expense is adjusted for subsequent changes in the fair value of the PSUs and RSUs taking into account forfeiture estimates. The liability related to cash settled PSUs and RSUs is recorded in Other long-term liabilities.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

### 3. LONG-TERM DEBT AND FINANCE LEASES

	<b>Final Maturity</b>	<b>Weighted Average Interest Rate (%)</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Aircraft financing				
Fixed rate U.S. dollar financing	2017 – 2027	4.59	\$ 3,510	\$ 3,598
Floating rate U.S. dollar financing	2018 – 2027	2.63	724	457
Floating rate CDN dollar financing	2026 – 2027	1.60	357	366
Fixed rate Japanese yen financing	2027	1.84	70	-
Floating rate Japanese yen financing	2020	0.12	67	70
Senior secured notes – CDN dollar	2023	4.75	200	200
Senior unsecured notes – U.S. dollar	2021	7.75	532	537
Other secured financing – U.S. dollar	2018 – 2023	4.02	1,164	1,175
Other secured financing – CDN dollar	2018	8.15	-	44
<b>Long-term debt</b>		<b>4.30</b>	<b>6,624</b>	<b>6,447</b>
Finance lease obligations	2018 – 2033	9.58	263	275
<b>Total debt and finance leases</b>		<b>4.50</b>	<b>6,887</b>	<b>6,722</b>
Unamortized debt issuance costs			(103)	(104)
Current portion			(825)	(707)
<b>Long-term debt and finance leases</b>			<b>\$ 5,959</b>	<b>\$ 5,911</b>

The above table provides terms of instruments disclosed in Note 7 to the 2016 annual consolidated financial statements of the Corporation as well as terms of instruments concluded during the three months ended March 31, 2017 and described below.

In connection with the acquisition of two Boeing 787 aircraft in the first quarter of 2017, principal of US\$225 is included in floating rate U.S. dollar financing and JPY¥5,878 is included in fixed rate Japanese yen financing in the table above, maturing in 2027. These financings were secured using Japanese Operating Leases with a Call Option (“JOLCO”) structures with the transactions recorded as loans and owned aircraft for accounting purposes in the Corporation’s consolidated financial statements.

During the first quarter of 2016, principal of US\$40 was prepaid relating to the financing of five Embraer 190 aircraft. An amount of \$6 is included in Loss on debt settlements related to the prepayment of such fixed rate debt.



**Maturity Analysis**

Principal and interest repayment requirements as at March 31, 2017 on Long-term debt and finance lease obligations are as follows. U.S. dollar amounts are converted using the March 31, 2017 closing rate of CDN\$1.3299.

<b>Principal</b>	<b>Remainder of 2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>	<b>Total</b>
Long-term debt obligations	\$ 577	\$ 652	\$ 534	\$ 541	\$ 888	\$ 3,432	<b>\$ 6,624</b>
Finance lease obligations	31	49	46	49	17	71	<b>263</b>
	<b>\$ 608</b>	<b>\$ 701</b>	<b>\$ 580</b>	<b>\$ 590</b>	<b>\$ 905</b>	<b>\$ 3,503</b>	<b>\$ 6,887</b>

<b>Interest</b>	<b>Remainder of 2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Thereafter</b>	<b>Total</b>
Long-term debt obligations	\$ 204	\$ 230	\$ 214	\$ 185	\$ 140	\$ 364	<b>\$ 1,337</b>
Finance lease obligations	17	19	14	10	6	18	<b>84</b>
	<b>\$ 221</b>	<b>\$ 249</b>	<b>\$ 228</b>	<b>\$ 195</b>	<b>\$ 146</b>	<b>\$ 382</b>	<b>\$ 1,421</b>

#### 4. 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:

	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Consolidated Statement of Operations</b>		
<b>Operating expenses</b>		
<b>Wages, salaries and benefits</b>		
Pension benefits	\$ 71	\$ 62
Other employee benefits	5	4
	<b>\$ 76</b>	<b>\$ 66</b>
<b>Non-operating income (expense)</b>		
<b>Net financing expense relating to employee benefit liabilities</b>		
Pension benefits	\$ (3)	\$ (5)
Other employee benefits	(13)	(13)
	<b>\$ (16)</b>	<b>\$ (18)</b>
<b>Consolidated Other Comprehensive Income (Loss)</b>		
<b>Remeasurements on employee benefit liabilities</b>		
Pension benefits	\$ (165)	\$ (761)
Other employee benefits	(38)	(58)
	<b>\$ (203)</b>	<b>\$ (819)</b>

The funding of employee benefits as compared to the expense recorded in the consolidated statement of operations is summarized in the table below.

	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Net defined pension and other future employee benefits expense recorded in the consolidated statement of operations</b>		
Wages, salaries and benefits	\$ 76	\$ 66
Net financing expense relating to employee benefit liabilities	16	18
	<b>\$ 92</b>	<b>\$ 84</b>
<b>Employee benefit funding by Air Canada</b>		
Pension benefits	\$ 16	\$ 37
Other employee benefits	10	11
	<b>\$ 26</b>	<b>\$ 48</b>
<b>Employee benefit funding less than expense</b>	<b>\$ 66</b>	<b>\$ 36</b>

## 5. SHARE CAPITAL

### **Issuer Bid**

In May 2016, the Corporation received TSX approval and implemented a normal course issuer bid, authorizing, between May 30, 2016 and May 29, 2017, the purchase of up to 22,785,511 Shares, representing 10 percent of the public float as at May 16, 2016.

In the first quarter of 2017, the Corporation purchased, for cancellation, 2,397,200 Shares at an average cost of \$13.62 per Share for aggregate consideration of \$33. The excess of the cost over the average book value of \$26 was charged to retained earnings. At March 31, 2017, a total of 15,935,911 Shares remained available for repurchase under the issuer bid.

## 6. EARNINGS PER SHARE

The following table outlines the calculation of basic and diluted earnings per share.

<b>(in millions, except per share amounts)</b>	<b>Three months ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Numerator:</b>		
<b>Numerator for basic and diluted earnings per share:</b>		
Net income (loss) attributable to shareholders of Air Canada	\$ (37)	\$ 101
<b>Denominator:</b>		
<b>Weighted-average shares</b>	273	282
Effect of potential dilutive securities:		
Stock options	6	5
Total potential dilutive securities	6	5
Remove anti-dilutive impact	(6)	-
<b>Adjusted denominator for diluted earnings per share</b>	273	287
<b>Basic earnings (loss) per share</b>	<b>\$ (0.14)</b>	<b>\$ 0.36</b>
<b>Diluted earnings (loss) per share</b>	<b>\$ (0.14)</b>	<b>\$ 0.35</b>

The calculation of earnings per share is based on whole numbers and not on rounded millions. As a result, the above amounts may not be recalculated to the per Share amount disclosed above.

Excluded from the calculation of diluted earnings per share were outstanding options where the options' exercise prices were greater than the average market price of the Shares for the period.

## 7. COMMITMENTS

### Capital Commitments

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. 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 U.S. LIBOR rate at March 31, 2017. U.S. dollar amounts are converted using the March 31, 2017 closing rate of CDN\$1.3299. Minimum future commitments under these contractual arrangements are shown below.

	Remainder of 2017	2018	2019	2020	2021	Thereafter	Total
Capital commitments	\$ 1,324	\$ 1,771	\$ 1,394	\$ 1,425	\$ 1,048	\$ 597	<b>\$ 7,559</b>

## 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer also to Note 15 to the 2016 annual consolidated financial statements for information on the Corporation's risk management strategy.

### Summary of loss on financial instruments recorded at fair value

	Three months ended March 31	
	2017	2016
Share forward contracts	-	(5)
Prepayment option on senior secured notes	-	(5)
<b>Loss on financial instruments recorded at fair value</b>	<b>\$ -</b>	<b>\$ (10)</b>

### Fuel Price Risk Management

During the first quarter of 2017:

- Hedging gains on the settlement of fuel derivatives of \$4 and the associated premium costs of \$9, for a net hedging loss of \$5 were reclassified from other comprehensive income to Aircraft fuel expense (loss of \$10 reclassified from other comprehensive income to Aircraft fuel expense for the three month period ended March 31, 2016). No hedging ineffectiveness was recorded.
- The Corporation purchased crude-oil call options covering a portion of its 2017 fuel exposure. The cash premium related to these contracts was \$1 (\$14 in 2016 for 2016 exposures).
- Fuel derivative contracts cash settled with a fair value of \$4 in favour of the Corporation (nil value in 2016).

As of March 31, 2017, approximately 3% of the Corporation's anticipated purchases of jet fuel for the remainder of 2017 are hedged at an average West Texas Intermediate ("WTI") equivalent capped price of US\$55 per barrel for WTI prices up to US\$60 per barrel and an average equivalent capped price of US\$60 per barrel for WTI prices above US\$64 per barrel. The Corporation's contracts to hedge anticipated jet fuel purchases over the remainder of 2017 are comprised of call options with notional volumes of 750,000 barrels. The fair value of the fuel derivatives portfolio at March 31, 2017 is \$1 in favour of the Corporation (\$14 in favour of the Corporation as at December 31, 2016) and is recorded within Prepaid expenses and other current assets.

**Foreign Exchange Risk Management**

Based on the notional amount of currency derivatives outstanding at March 31, 2017, as further described below, approximately 81% of net U.S. cash outflows are hedged for the remainder of 2017 and 32% for 2018, resulting in derivative coverage of 57% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 68% coverage over the next 18 months.

As at March 31, 2017, the Corporation had outstanding foreign currency options and swap agreements, settling in 2017 and 2018, to purchase at maturity \$2,782 (US\$2,093) of U.S. dollars at a weighted average rate of \$1.2940 per US\$1.00 (as at December 31, 2016 – \$2,612 (US\$1,946) with settlements in 2017 and 2018 at a weighted average rate of \$1.2898 per \$1.00 U.S. dollar). The Corporation also has protection in place to sell a portion of its excess Euros, Sterling, YEN, YUAN, and AUD (EUR €81, GBP £25, JPY ¥3,932, CNY ¥101, and AUD \$41) which settle in 2017 at weighted average rates of €1.0997, £1.2992, ¥0.0093, ¥0.1482, and \$0.7572 per \$1.00 U.S. dollar respectively (as at December 31, 2016 - EUR €82, GBP £69, JPY ¥2,334, CNY ¥53, and AUD \$33 with settlement in 2017 at weighted average rates of €1.1059, £1.2589, ¥0.0096, ¥0.1522 and \$0.7500 respectively per \$1.00 U.S. dollar).

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at March 31, 2017 was \$11 in favour of the Corporation (as at December 31, 2016 – \$5 in favour of the Corporation). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During the first quarter of 2017, a gain of \$22 was recorded in Foreign exchange gain (loss) related to these derivatives (\$264 loss in the first quarter of 2016). In the first quarter of 2017, foreign exchange derivative contracts cash settled with a net fair value of \$16 in favour of the Corporation (\$2 in the first quarter of 2016 in favour of the Corporation). The total combined gain, related to U.S. cash, investments and foreign derivatives recorded by the Corporation in the three months ended March 31, 2017 was \$18 (\$306 loss in the three months ended March 31, 2016).

The Corporation also holds U.S. cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash and short-term investment balances as at March 31, 2017 amounted to \$899 (US\$680) (\$560 (US\$416) as at December 31, 2016). During the three months ended March 31, 2017, a loss of \$4 (three months ended March 31, 2016 – loss of \$47) was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash and short-term investment balances held.

**Financial Instrument Fair Values in the Consolidated Statement of Financial Position**

The carrying amounts reported in the consolidated statement of financial position for short term financial assets and liabilities, which includes Accounts receivable and Accounts payable and accrued liabilities, approximate fair values due to the immediate or short-term maturities of these financial instruments.

The carrying amounts of derivatives are equal to their fair value, which is based on the amount at which they could be settled based on estimated market rates at March 31, 2017.

Management estimated the fair value of its long-term debt based on valuation techniques including discounted cash flows, taking into account market information and traded values where available, market rates of interest, the condition of any related collateral, the current conditions in credit markets and the current estimated credit margins applicable to the Corporation based on recent transactions. Based on significant unobservable inputs (Level 3 in the fair value hierarchy), the estimated fair value of debt and finance leases is \$6,850 compared to its carrying value of \$6,784.

The following is a classification of fair value measurements recognized in the consolidated statement of financial position using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. There are no changes in classifications or methods of measuring fair value from those disclosed in Note 15 to the 2016 annual consolidated financial statements. There were no transfers within the fair value hierarchy during the three months ended March 31, 2017.

	March 31, 2017	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Financial Assets</b>				
Held-for-trading securities				
Cash equivalents	\$ 167	\$ -	\$ 167	\$ -
Short-term investments	2,354	-	2,354	-
Derivative instruments				
Fuel derivatives	1	-	1	-
Share forward contracts	30	-	30	-
Foreign exchange derivatives	23	-	23	-
<b>Total</b>	<b>2,575</b>	<b>-</b>	<b>2,575</b>	<b>-</b>
<b>Financial Liabilities</b>				
Derivative instruments				
Foreign exchange derivatives	12	-	12	-
<b>Total</b>	<b>\$ 12</b>	<b>\$ -</b>	<b>\$ 12</b>	<b>\$ -</b>

Financial assets held by financial institutions in the form of cash and restricted cash have been excluded from the fair value measurement classification table above as they are not valued using a valuation technique.



## 9. CONTINGENCIES AND LITIGATION PROVISIONS

### **Investigations by Competition Authorities Relating to Cargo**

As described in Note 16 to the 2016 annual consolidated financial statements, in 2010, the European Commission rendered a decision finding that 12 air cargo carriers (including groups of related carriers) had infringed European Union competition law in the setting of certain cargo charges and rates for various periods between 1999 and 2006. Air Canada was among the carriers subject to the decision and a fine of 21 Euros (approximately \$29 at that time) was imposed on Air Canada. Air Canada appealed the decision and paid the fine, as required, pending the outcome of its appeal. On December 16, 2015, the European General Court granted Air Canada's appeal and annulled the decision of the European Union with regard to Air Canada and certain other airlines. As a result of the European General Court's decision, the European Commission was required to refund to Air Canada the fine of 21 Euros (\$30).

In March 2017, the European Commission issued a new decision imposing the same fine of 21 Euros (\$30) initially levied against Air Canada in 2010. Air Canada recorded the charge as a Special item in the first quarter of 2017, and will pay the fine as required, pending the outcome of its appeal. While Air Canada cannot predict with certainty the outcome of its appeal or any related proceedings, Air Canada believes it has reasonable grounds to challenge the European Commission's ruling.

## 10. SALE-LEASEBACK

In the three months ended March 31, 2017, the Corporation took delivery of two 787 aircraft that were financed under sale-leaseback transactions with proceeds of \$369. The sales were at fair value and accordingly the resulting gain on sale of \$26 was recognized in non-operating income. The leases are accounted for as operating leases with 12 year terms, paid monthly.