

AIR CANADA



International Financial Reporting Standards (“IFRS”) Transition

Information Session

February 25, 2011

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Air Canada's public communications may include written or oral forward-looking statements within the meaning of applicable securities laws. Such statements are included in this presentation and Air Canada's 2010 MD&A dated February 10, 2011 and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements may be based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

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The forward-looking statements contained in this presentation represent Air Canada's expectations as of February 9, 2011 (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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Important Notice

- The information relating to International Financial Reporting Standards ("IFRS") is provided solely for the purpose of allowing investors and others to obtain a better understanding of Air Canada's IFRS changeover plan and the resulting expected effects on Air Canada's financial statements and operating performance measures. Readers are cautioned that it may not be appropriate to use such information for any other purpose.
- The accounting policy differences identified in this presentation should not be considered as complete or final as further changes, or other effects and other policy differences may be identified. In addition, the information provided reflects the Corporation's assumptions, estimates and expectations as of February 9, 2011, all of which are subject to change. Circumstances may arise, including changes in IFRS, regulations or economic conditions, which could change these assumptions, estimates or expectations or the information provided.
- Air Canada is continuing to assess the impact of IFRS on accounting for income taxes.
- All figures presented are subject to the completion of an external audit or review.
- Air Canada cannot provide any further estimates of the future impact of adopting IFRS at this time.
- For additional information, see Air Canada's 2010 MD&A dated February 10, 2011, available on Air Canada's website at www.aircanada.com or on SEDAR at www.sedar.com.

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Outline

- Background
- Key Messages
- Key Disclosures in MD&A
- Estimated Adjustments on Adoption of IFRS:
 - Consolidated Statement of Changes in Shareholders' Equity
 - Consolidated Statement of Financial Position
 - Consolidated Statement of Operations

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Background

- Historically, Air Canada reported its financial statements in accordance with Canadian GAAP.
- Effective January 1, 2011, Air Canada will begin reporting its results in accordance with IFRS, with retroactive restatement of 2010 comparative figures.
- Management's Discussion and Analysis for 2010 includes:
 - a discussion of key accounting policy changes expected under IFRS;
 - estimated adjustments to Air Canada's consolidated statement of financial position as at January 1, 2010;
 - estimated adjustments to Air Canada's consolidated statement of operations for 2010, on both an annual and quarterly basis.

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Key Messages

- IFRS uses a conceptual framework similar to Canadian GAAP, however, there are certain differences in recognition, measurement and disclosures.
- IFRS has **no direct impact** on Air Canada's:
 - business strategy
 - business operations
 - cash flow generation
 - future cash flows or balances
 - capital management policy

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Key Disclosures in MD&A

Pension and other employee future benefits

- **Expected impact to the opening balance sheet**
 - As at January 1, 2010, all cumulative actuarial gains and losses on pension and other employee future benefit plans amounting to \$839 million will be recognized directly into the Deficit.
 - An additional minimum funding requirement liability of \$1,937 million is recorded.
 - Resulting balance sheet liability for the registered pension plans represents approximately the expected present value of solvency payments on the deficit taking into account the funding regulations, including the Air Canada 2009 Pension Regulations.
- **Ongoing implications**
 - Air Canada will recognize actuarial gains and losses in other comprehensive income going forward.
 - Current service costs will continue to be recorded in operating expenses.
 - Interest cost and the expected return on plan assets will be presented net in non-operating expenses.
 - » Under IFRS, the expected return on plan assets is based on actual plan assets. The income related to the return on plan assets is expected to be subject to more volatility as it is based on actual plan assets as opposed to a smoothed value.

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Key Disclosures in MD&A

Pension and Other Employee Future Benefits Opening Balance Sheet Adjustments As at January 1, 2010 - Canadian dollars in millions

	<u>Pension Benefits</u>	<u>Other Employee Future Benefits</u>	<u>Total</u>
Net benefit obligation - Canadian GAAP	\$ 120	\$ 1,109	\$ 1,229
Recognize all cumulative actuarial gains and losses on transition and other	1,097	(258)	839
Additional minimum funding liability under IFRIC 14	<u>1,937</u>	<u>-</u>	<u>1,937</u>
Net benefit obligation - IFRS	3,154	851	4,005
Less current portion	<u>-</u>	<u>66</u>	<u>66</u>
Pension and other benefit liabilities - long-term	<u>\$ 3,154</u>	<u>\$ 785</u>	<u>\$ 3,939</u>

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Key Disclosures in MD&A

Pension and Other Employee Future Benefits Costs for the year ended December 31 Canadian dollars in millions

	Canadian GAAP 2010	IFRS 2010	Change 2010	IFRS 2011 - Expected
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net periodic benefit cost				
Pension benefits	\$ 95	\$ 158	\$ 63	
Other employee future benefits	84	47	(37)	
Total cost included in benefits expense	<u>179</u>	<u>205</u>	<u>26</u>	<u>265</u>
Net interest cost on employee future benefits	-	76	76	To be determined
Total benefit cost impacting income	<u>\$ 179</u>	<u>\$ 281</u>	<u>\$ 102</u>	<u>To be determined</u>

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Key Disclosures in MD&A

Principles of consolidation

- Certain special purpose entities (“SPEs”) that were not consolidated under Canadian GAAP as the arrangement was accounted for as a capital lease will be consolidated under IFRS.
- The SPEs relate to aircraft leasing entities covering seven A319 aircraft, six A340 aircraft and eight A330 aircraft.
- The additional debt consolidated in the SPEs relates to third party guarantees in the SPE leasing entities.
- This adjustment is expected to result in an increase to Property and equipment of \$212 million, an increase to Long-term debt of \$259 million, a decrease to non-controlling interest of \$53 million and a credit to the Deficit of \$6 million.
- Interest expense is expected to increase due to the non-cash accretion on the debt consolidated from the SPEs. The interest expense is recorded at an average effective interest rate of approximately 8% per year.

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Key Disclosures in MD&A

Property & equipment

- The Corporation has elected to fair value owned and capital leased aircraft as of January 1, 2010.
- The adjustment includes:
 - the impact of the fair value adjustment to aircraft and spare engines as at January 1, 2010; and
 - the impact of componentizing the aircraft and adjusting the fair values based upon the estimated remaining life of each component, including capitalized engine and airframe overhaul costs.
- The net adjustment is an expected decrease to Property and equipment of \$301 million, offset by a charge to the Deficit. This excludes the impact of the consolidation of SPEs as described in the previous slide, which would have the effect of increasing Property and equipment by \$212 million for a net decrease of \$89 million to Property and equipment.

Property & Equipment – Capitalized Airframe and Engine Maintenance

Capitalized Maintenance

- Major overhaul expenditure is capitalized and amortized over the average expected life between major overhauls.
- Applies to airframes and engines which are owned, finance leased or consolidated through a SPE.
- Capitalized Airframe Maintenance
 - Average expected life between major overhauls ranges from approximately 1.5 years to 6.5 years depending on the fleet type.
- Capitalized Engine Maintenance
 - Average expected life between major overhauls is approximately 5 years depending on the engine type.
 - Engine maintenance provided under power-by-the-hour arrangements is charged to the income statement as incurred.

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Key Disclosures in MD&A

Leases – Maintenance return provisions

- It is expected that 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.
- The provision is recorded using a discount rate specific to the liability, which approximates the risk free rate over the remaining term of the lease. Interest accretion on the provision is recorded in Other non-operating expense.
- For aircraft under power-by-the-hour maintenance service agreements or where aircraft sublease arrangements provide for maintenance recoveries, a prepaid maintenance asset is recorded in Other assets.
- Deposits and other assets are expected to increase by \$77 million relating to prepayments under power-by-the-hour arrangements, Other long-term liabilities are expected to increase by \$447 million relating to provisions for lease return conditions and equity is expected to be reduced by approximately \$370 million.

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Key Disclosures in MD&A

Intangible assets and goodwill

- Reset of intangible assets and goodwill to historical cost of \$329 million and \$311 million, respectively, as at January 1, 2010.
- Decrease of \$6 million to amortization expense in 2010.
- Impairment testing of long-lived assets is performed at the cash-generating unit level. Air Canada is expected to have two primary cash generating units: North American Operations and International.

Estimated Expected Adjustments to the Consolidated Statement of Changes in Shareholders' Equity on Adoption of IFRS

Shareholders' Equity on Transition to IFRS

January 1, 2010

Canadian dollars in millions

Canadian GAAP Shareholders' Equity	\$	1,446
Reclassification of non-controlling interest to shareholders' equity		201
Consolidation of SPEs		(47)
Aircraft fair value adjustment excluding consolidation of SPEs		(301)
Recognition of deferred gains on sale and leaseback transactions		69
Recognition of expected present value of solvency payments on the deficit - Pension and other employee future benefits		(2,776)
Reset of intangible assets and goodwill to historical cost		(236)
Recognition of expected end of lease maintenance return condition obligations within operating leases		(369)
Recognition of expected additional asset retirement obligations associated with the various property leases and the fuel facilities arrangements		(6)
IFRS Shareholders' Equity	\$	(2,019)

Estimated Expected Adjustments to the Consolidated Statement of Financial Position on Adoption of IFRS

Unaudited As at January 1, 2010 (Canadian dollars in millions)	Canadian GAAP January 1, 2010	Property & equipment (IAS 16)	Leases (IAS 17)	Pension benefits (IAS 19)	Other employee future benefits (IAS 19)	Fresh Start Reporting (IFRS 1)	Provisions (IAS 37)	Other	IFRS January 1, 2010
ASSETS									
Current assets	\$ 2,651								\$ 2,651
Property and equipment	6,369	(89)					7		6,287
Intangible assets	916					(587)			329
Goodwill	-					311			311
Deposits and other assets	470						77		547
	\$ 10,406	(89)	-	-	-	(276)	84	-	\$ 10,125
LIABILITIES									
Current liabilities	\$ 3,002								\$ 3,002
Long-term debt and capital leases	4,054	259							4,313
Future income taxes	85					(40)			45
Pension and other benefit liabilities	1,163			3,034	(258)				3,939
Other long-term liabilities	455		(69)				459		845
	8,759	259	(69)	3,034	(258)	(40)	459	-	12,144
Non-controlling interest	201							(201)	-
SHAREHOLDERS' EQUITY									
Non-controlling interest		(53)						201	148
Share capital	532							314	846
Contributed surplus	1,825							(1,773)	52
Deficit	(727)	(295)	69	(3,034)	258	(236)	(375)	1,459	(2,881)
Accumulated other comprehensive loss	(184)								(184)
	1,446	(348)	69	(3,034)	258	(236)	(375)	201	(2,019)
	\$ 10,406	(89)	-	-	-	(276)	84	-	\$ 10,125

Estimated Expected Adjustments to the Consolidated Statement of Operations on Adoption of IFRS

Unaudited For the year ended December 31 (Canadian dollars in millions)	Canadian GAAP 2010	Property & equipment (IAS 16)	Leases (IAS 17)	Consolidation of SPEs	Pension benefits (IAS 19)	Other employee future benefits (IAS 19)	Provisions (IAS 37)	Intangible assets (IAS 38)	IFRS 2010
Operating revenues									
Passenger	\$ 9,427								\$ 9,427
Cargo	466								466
Other	893								893
	10,786	-	-	-	-	-	-	-	10,786
Operating expenses									
Aircraft fuel	2,652								2,652
Wages, salaries and benefits	1,885				63	(37)			1,911
Airport and navigation fees	961								961
Capacity purchase with Jazz	934								934
Depreciation and amortization	679	128						(6)	801
Aircraft maintenance	677	(84)					56		649
Food, beverages and supplies	280								280
Communications and information technology	316								316
Aircraft rent	346		7						353
Commissions	259								259
Other	1,436								1,436
	10,425	44	7	-	63	(37)	56	(6)	10,552
Operating income before under noted item	361	(44)	(7)	-	(63)	37	(56)	6	234
Provision adjustment for cargo investigations, net	46								46
Operating income	407	(44)	(7)	-	(63)	37	(56)	6	280
Non-operating income (expense)									
Net interest expense	(358)			(19)					(377)
Other	(30)	6			(23)	(53)	(12)		(112)
	(388)	6	-	(19)	(23)	(53)	(12)	-	(489)
Income (loss) before the following items	19	(38)	(7)	(19)	(86)	(16)	(68)	6	(209)
Non-controlling interest	(9)			9					-
Foreign exchange gain	145			15			22		182
Income (loss) before income taxes	\$ 155	(38)	(7)	5	(86)	(16)	(46)	6	\$ (27)

Estimated Expected Adjustments to the Consolidated Statement of Operations on Adoption of IFRS

Unaudited (Canadian dollars in millions)	Q1 2010		Q2 2010		Q3 2010		Q4 2010		2010	
	CGAAP	IFRS	CGAAP	IFRS	CGAAP	IFRS	CGAAP	IFRS	CGAAP	IFRS
Operating revenues										
Passenger	\$ 2,095	\$ 2,095	\$ 2,314	\$ 2,314	\$ 2,722	\$ 2,722	\$ 2,296	\$ 2,296	\$ 9,427	\$ 9,427
Cargo	104	104	115	115	123	123	124	124	466	466
Other	320	320	196	196	181	181	196	196	893	893
	2,519	2,519	2,625	2,625	3,026	3,026	2,616	2,616	10,786	10,786
Operating expenses										
Aircraft fuel	619	619	660	660	733	733	640	640	2,652	2,652
Wages, salaries and benefits	470	474	474	479	471	473	470	485	1,885	1,911
Airport and navigation fees	226	226	236	236	270	270	229	229	961	961
Capacity purchase with Jazz	226	226	230	230	247	247	231	231	934	934
Depreciation and amortization	176	196	172	193	166	185	165	227	679	801
Aircraft maintenance	200	179	146	150	158	141	173	179	677	649
Food, beverages and supplies	74	74	75	75	77	77	54	54	280	280
Communications and information technology	80	80	79	79	76	76	81	81	316	316
Aircraft rent	88	90	86	88	88	89	84	86	346	353
Commissions	60	60	62	62	72	72	65	65	259	259
Other	426	426	330	330	341	341	339	339	1,436	1,436
	2,645	2,650	2,550	2,582	2,699	2,704	2,531	2,616	10,425	10,552
Operating income (loss) before under noted item	(126)	(131)	75	43	327	322	85	-	361	234
Provision adjustment for cargo investigations, net	-	-	-	-	-	-	46	46	46	46
Operating income (loss)	(126)	(131)	75	43	327	322	131	46	407	280
Non-operating income (expense)										
Interest income	2	2	4	4	4	4	9	9	19	19
Interest expense	(78)	(83)	(133)	(138)	(86)	(90)	(81)	(86)	(378)	(397)
Interest capitalized	-	-	-	-	-	-	1	1	1	1
Gain (loss) on assets	(1)	-	-	(1)	2	1	(8)	(1)	(7)	(1)
Gain (loss) on financial instruments recorded at fair value	2	2	(18)	(18)	5	5	8	8	(3)	(3)
Other	-	(22)	-	(22)	-	(23)	(20)	(41)	(20)	(108)
	(75)	(101)	(147)	(175)	(75)	(103)	(91)	(110)	(388)	(489)
Income (loss) before the following items	(201)	(232)	(72)	(132)	252	219	40	(64)	19	(209)
Non-controlling interest	(3)	-	(3)	-	(1)	-	(2)	-	(9)	-
Foreign exchange gain (loss)	100	123	(156)	(189)	90	115	111	133	145	182
Income (loss) for the period before income taxes	\$ (104)	\$ (109)	\$ (231)	\$ (321)	\$ 341	\$ 334	\$ 149	\$ 69	\$ 155	\$ (27)

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Q&A and Wrap-up