AIR CANADA

First Quarter 2013

Management's Discussion and Analysis of Results of Operations and Financial Condition

May 3, 2013

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1. HIGHLIGHTS

The financial and operating highlights for Air Canada for the periods indicated are as follows.

	First Quarter		
(Canadian dollars in millions, except where indicated)	**2013**	**2012**	**Change $**
Financial Performance Metrics			
Operating revenues	2,952	2,961	(9)
Operating loss	(106)	(91)	(15)
Non-operating expense	(154)	(128)	(26)
Loss before income taxes and discontinued operations	(260)	(219)	(41)
Net loss from continuing operations	(260)	(219)	(41)
Net loss from discontinued operations - Aveos	-	(55)	55
Net loss	(260)	(274)	14
Adjusted net loss [1]	(143)	(162)	19
Operating margin %	(3.6)%	(3.1)%	(0.5) pp
EBITDAR [2]	145	174	(29)
EBITDAR margin % [2]	4.9%	5.8%	(1.0) pp
Cash, cash equivalents and short-term investments	2,056	2,185	(129)
Free cash flow [3]	147	140	7
Adjusted net debt [4]	3,987	4,233	(246)
Net loss per share – basic and diluted	$ (0.95)	$ (0.99)	$ 0.04
Adjusted net loss per share – diluted [1]	$ (0.52)	$ (0.58)	$ 0.06
Operating Statistics [5]			**Change %**
Revenue passenger miles (millions) (RPM)	13,087	12,946	1.1
Available seat miles (millions) (ASM)	16,164	16,344	(1.1)
Passenger load factor %	81.0%	79.2%	1.8 pp
Passenger revenue per RPM ("Yield") (cents)	19.0	19.2	(1.1)
Passenger revenue per ASM ("RASM") (cents)	15.4	15.2	1.1
Operating revenue per ASM (cents)	18.3	18.1	0.8
Operating expense per ASM ("CASM") (cents)	18.9	18.7	1.3
Adjusted CASM (cents) [6]	12.5	12.3	1.4
Average number of full-time equivalent (FTE) employees (thousands) [7]	24.5	24.0	2.2
Aircraft in operating fleet at period end	350	352	(0.6)
Average fleet utilization (hours per day)	10.0	9.9	1.1
Aircraft frequencies (thousands)	134	135	(0.9)
Average aircraft flight length (miles)	826	832	(0.6)
Economic fuel cost per litre (cents) [8]	92.4	91.7	0.8
Fuel litres (millions)	953	977	(2.5)
Revenue passengers carried (millions) [9]	8.5	8.3	1.8

(1) Adjusted net income (loss) and adjusted net income (loss) per share – diluted are non-GAAP financial measures. Refer to section 15 "Non-GAAP Financial Measures" of this MD&A for additional information.

(2) EBITDAR (earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent) is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of this MD&A for additional information.

(3) Free cash flow (cash flows from operating activities less additions to property, equipment and intangible assets) is a non-GAAP financial measure. Refer to section 6.5 of this MD&A for additional information.

(4) Adjusted net debt (total debt less cash, cash equivalents and short-term investments plus capitalized operating leases) is a non-GAAP financial measure. Refer to section 6.3 of this MD&A for additional information.

(5) Operating statistics (except for average number of FTE employees) include third party carriers (such as Jazz Aviation LP ("Jazz")) operating under capacity purchase agreements with Air Canada.

(6) Adjusted CASM is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of this MD&A for additional information.

(7) Reflects FTE employees at Air Canada. Excludes FTE employees at third party carriers (such as Jazz) operating under capacity purchase agreements with Air Canada.

(8) Includes fuel handling expenses. Economic fuel price per litre is a non-GAAP financial measure. Refer to section 4 of this MD&A for additional information.

(9) Revenue passengers are counted on a flight number basis which is consistent with the IATA definition of revenue passengers carried.

2. INTRODUCTION AND KEY ASSUMPTIONS

In this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A"), the "Corporation" refers, as the context may require, to Air Canada and/or one or more of Air Canada's subsidiaries, including Touram Limited Partnership ("Air Canada Vacations") and 8165343 Canada Inc. ("Air Canada *rouge*™"). Air Canada *rouge*™ is scheduled to begin flight operations on July 1, 2013. This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the first quarter of 2013. This MD&A should be read in conjunction with Air Canada's interim unaudited condensed consolidated financial statements and notes for the first quarter of 2013 and Air Canada's annual audited consolidated financial statements and notes and its annual MD&A for 2012 dated February 7, 2013. All financial information has been prepared 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"), except for any financial information specifically denoted otherwise.

The Corporation has adopted new and revised accounting standards, effective January 1, 2013, in accordance with applicable transitional provisions, with certain retrospective adjustments as at January 1, 2012. See section 10 of this MD&A for additional information and references.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 16 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of May 2, 2013. Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of risks relating to Air Canada, refer to section 18 "Risk Factors" of Air Canada's annual MD&A for 2012 dated February 7, 2013 and section 13 "Risk Factors" of this MD&A. Air Canada issued a news release dated May 3, 2013 reporting on its results for the first quarter of 2013. This news release is available on Air Canada's website at **aircanada.com** and on SEDAR's website at **www.sedar.com**. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR at **www.sedar.com**.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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 MD&A 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.

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, employee and labour relations, currency exchange and interest rates, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in section 18 "Risk Factors" of Air Canada's 2012 MD&A dated February 7, 2013 and section 13 "Risk Factors" of this MD&A. The forward-looking statements contained in this MD&A represent Air Canada's expectations as of May 2, 2013 (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.

KEY ASSUMPTIONS

Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its assumptions, Air Canada assumes Canadian GDP growth of 1.25% to 1.75% for 2013. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.02 per U.S. dollar in the second quarter of 2013 and for the full year 2013 and that the price of jet fuel will average 85 cents per litre for the second quarter of 2013 and 86 cents per litre for the full year 2013.

3. OVERVIEW

Air Canada is Canada's largest domestic, U.S. transborder and international airline and the largest provider of scheduled passenger services in the Canadian market, in the Canada-U.S. transborder market and in the international market to and from Canada.

Strategy

Air Canada continues to build on its underlying fundamental strengths and focus on its strategic plan priorities in its continued effort to improve its earnings generation capabilities, strengthen its competitive position and fulfill its strategic vision of building value for customers, shareholders, employees and other stakeholders.

Air Canada's business strategy and key priorities focuses on the following:

- Pursuing revenue generating opportunities and transforming costs to enhance its competitiveness;
- Expanding internationally and increasing connecting traffic through its international gateways;
- Engaging with customers, with a particular emphasis on premium class passengers and products; and
- Fostering positive changes to its culture.

Additional information on Air Canada's business strategy can be found in Air Canada's annual MD&A for 2012 dated February 7, 2013.

Air Canada's results of operations for the first quarter of 2013 and as compared to the first quarter of 2012 are provided in section 4 of this MD&A. The following is an overview of Air Canada's results of operations for the first quarter of 2013 compared to the first quarter of 2012.

First Quarter 2013 Financial Summary

- An operating revenue decrease of $9 million from the first quarter of 2012.
- Passenger revenue growth of $3 million from the first quarter of 2012. Traffic growth of 1.1% was essentially offset by a yield decrease of 1.1%.
- A system ASM capacity decrease of 1.1%* from the first quarter of 2012, reflecting Air Canada having operated one less day in February 2013 than in the February 2012 leap year.
- RASM growth of 1.1%* from the first quarter of 2012, reflecting a 1.8 percentage point improvement in passenger load factor partly offset by a yield decline of 1.1%.
- An operating expense increase of $6 million from the first quarter of 2012. In the first quarter of 2013, adjusted CASM increased 1.4%* from the first quarter of 2012. Refer to section 15 "Non-GAAP Financial Measures" for additional information.
- An operating loss of $106 million* compared to an operating loss of $91 million in the first quarter of 2012, a deterioration of $15 million. The deterioration in Air Canada's operating results was in large part due to flight cancellations caused by severe weather conditions and aircraft deicing service delays at Toronto Pearson International Airport. Air Canada estimates that these events resulted in a $10 million unfavourable net impact on its financial results in the first quarter of 2013.
- A net loss of $260 million* or $0.95 per diluted share compared to a net loss of $274 million or $0.99 per diluted share in the first quarter of 2012, an improvement of $14 million or $0.04 per diluted share.

- EBITDAR of $145 million* compared to EBITDAR of $174 million in the first quarter of 2012, a decrease of $29 million. Refer to section 15 "Non-GAAP Financial Measures" for additional information.

- An adjusted net loss of $143 million* or $0.52 per diluted share compared to an adjusted net loss of $162 million or $0.58 per diluted share in the first quarter of 2012, an improvement of $19 million or $0.06 per diluted share. Refer to section 15 "Non-GAAP Financial Measures" for additional information.

- Free cash flow of $147 million, an increase of $7 million from the first quarter of 2012.

- Adjusted net debt of $3,987 million at March 31, 2013, a decrease of $150 million* from December 31, 2012, reflecting the impact of lower debt balances, a decrease in capitalized operating leases and an increase in cash balances.

- Cash and short-term investments of $2,056 million at March 31, 2013, or 17%* of 12-month trailing operating revenues (March 31, 2012 – $2,185 million, or 18% of 12-month trailing operating revenues).

*These results are in line with those preliminary results disclosed in Air Canada's April 22, 2013 news release.

4. RESULTS OF OPERATIONS – FIRST QUARTER 2013 VERSUS FIRST QUARTER 2012

The following table and discussion compares results of Air Canada for the first quarter of 2013 versus the first quarter of 2012.

	First Quarter		Change	
(Canadian dollars in millions, except per share figures)	**2013**	**2012**	**$**	**%**
Operating revenues				
Passenger	$ 2,527	$ 2,524	$ 3	-
Cargo	111	122	(11)	(9)
Other	314	315	(1)	-
Total revenues	**2,952**	**2,961**	**(9)**	**-**
Operating expenses				
Aircraft fuel	870	889	(19)	(2)
Wages, salaries, and benefits	564	536	28	5
Capacity purchase agreements	272	264	8	3
Airport and navigation fees	232	242	(10)	(4)
Aircraft maintenance	175	182	(7)	(4)
Depreciation, amortization and impairment	170	177	(7)	(4)
Sales and distribution costs	164	166	(2)	(1)
Aircraft rent	81	88	(7)	(8)
Food, beverages and supplies	66	69	(3)	(4)
Communications and information technology	49	49	-	-
Other	415	390	25	6
Total operating expenses	**3,058**	**3,052**	**6**	**-**
Operating loss	**(106)**	**(91)**	**(15)**	
Non-operating income (expense)				
Foreign exchange gain (loss)	(40)	87	(127)	
Interest income	7	9	(2)	
Interest expense	(73)	(80)	7	
Interest capitalized	8	2	6	
Net financing expense relating to employee benefits	(52)	(73)	21	
Loss on financial instruments recorded at fair value	(2)	(7)	5	
Loss on investments in Aveos	-	(65)	65	
Other	(2)	(1)	(1)	
Total non-operating expense	**(154)**	**(128)**	**(26)**	
Loss before income taxes and discontinued operations	**(260)**	**(219)**	**(41)**	
Income taxes	-	-	-	
Net loss from continuing operations	**$ (260)**	**$ (219)**	**$ (41)**	
Net loss from discontinued operations	**$ -**	**$ (55)**	**$ 55**	
Net loss	**$ (260)**	**$ (274)**	**$ 14**	
Adjusted net loss [1]	**$ (143)**	**$ (162)**	**$ 19**	
EBITDAR [2]	**$ 145**	**$ 174**	**$ (29)**	
Basic and diluted loss per share from continuing operations	**$ (0.95)**	**$ (0.79)**	**$ (0.16)**	
Basic and diluted loss per share from discontinued operations - Aveos	**$ -**	**$ (0.20)**	**$ 0.20**	
Net loss per share – basic and diluted	**$ (0.95)**	**$ (0.99)**	**$ 0.04**	
Adjusted net loss per share – diluted [1]	**$ (0.52)**	**$ (0.58)**	**$ 0.06**	

(1) Adjusted net income (loss) and adjusted net income (loss) per share – diluted are non-GAAP financial measures. Refer to section 15 "Non-GAAP Financial Measures" of this MD&A for additional information.

(2) EBITDAR is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of this MD&A for additional information.

System passenger revenues increased 0.1% from the first quarter of 2012

In the first quarter of 2013, system passenger revenues of $2,527 million increased $3 million or 0.1% from 2012 first quarter system passenger revenues of $2,524 million. An overall traffic increase of 1.1% was essentially offset by a yield decrease of 1.1%.

In the first quarter of 2013, system passenger revenues were negatively impacted by a number of factors including:

- Flight cancellations due to severe weather conditions at Air Canada's major Canadian airport hubs and aircraft deicing service delays at Toronto Pearson International Airport (which tend to adversely impact business travel demand more than leisure travel demand contributing to lower overall yields);
- A higher proportion of leisure passengers versus business passengers due, in part, to a shift in the Easter holiday from the first week of April in 2012 to the last week of March in 2013;
- Increased industry capacity and competitive pricing activities on routes linking Toronto and Montreal/Ottawa and on regional routes within Ontario, on U.S. short-haul routes, such as Boston, New York and Washington, D.C., on services to South America, and on routes to traditional leisure destinations;
- An unfavourable impact of a stronger Canadian dollar on foreign currency denominated passenger revenues, which reduced passenger revenues by $13 million in the first quarter of 2013; and
- Having one less calendar day in February 2013 than in February 2012 on account of the leap year.

In the first quarter of 2013, premium cabin revenues decreased $38 million or 6.7% on an 8.4% decrease in traffic partly offset by a yield improvement of 1.8%. The reduction in premium cabin revenues was in part due to a greater number of flight cancellations year-over-year as flight cancellations tend to adversely impact business travel demand more so than leisure travel demand. In addition, as noted above, the Easter holiday shift from the first week of April in 2012 to the last week of March in 2013 resulted in a lower proportion of business travellers year-over-year. The premium cabin yield improvement was achieved in spite of an unfavourable foreign currency impact.

The table below provides passenger revenue by geographic region for the first quarter of 2013 and the first quarter of 2012.

Passenger Revenue	First Quarter 2013 $ Million	First Quarter 2012 $ Million	$ Change	% Change
Canada	957	944	13	1.5
U.S. transborder	589	604	(15)	(2.6)
Atlantic	375	368	7	1.9
Pacific	366	335	31	9.2
Other	240	273	(33)	(12.0)
System	**2,527**	**2,524**	**3**	**0.1**

The table below provides year-over-year percentage changes in passenger revenues and operating statistics for the first quarter of 2013 versus the first quarter of 2012.

First Quarter 2013 Versus First Quarter 2012	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	RASM % Change
Canada	1.5	(0.6)	1.8	2.0	(0.1)	2.3
U.S. transborder	(2.6)	0.4	1.0	0.4	(5.5)	(4.9)
Atlantic	1.9	(2.9)	2.2	3.8	0.8	6.1
Pacific	9.2	4.0	5.4	1.2	4.0	5.5
Other	(12.0)	(8.5)	(7.8)	0.6	(4.7)	(4.0)
System	**0.1**	**(1.1)**	**1.1**	**1.8**	**(1.1)**	**1.1**

The table below provides year-over-year percentage changes in system passenger revenues and operating statistics for the first quarter 2013 and each of the previous four quarters.

System	Year-over-Year by Quarter (% Change)				
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Passenger revenues	9.2	3.3	3.1	5.8	0.1
Capacity (ASMs)	3.1	0.6	0.2	1.3	(1.1)
Traffic (RPMs)	4.8	1.4	0.8	4.2	1.1
Passenger load factor (pp change)	1.3	0.7	0.5	2.3	1.8
Yield	3.3	1.2	1.6	1.2	(1.1)
RASM	5.0	2.0	2.2	4.2	1.1

In the first quarter of 2013, Air Canada's system capacity was 1.1% lower than in the first quarter of 2012. The decrease in capacity from the same quarter in 2012 was mainly due to having one less calendar day in February 2013 versus February 2012.

Components of the year-over-year change in first quarter system passenger revenues included:

- The 1.1% traffic increase, despite the extra leap year day in February 2012, which reflected traffic growth in all markets with the exception of the Other markets.

- The 1.1% yield decrease which was mainly due to increased industry capacity and competitive pricing activities in the U.S. transborder and Other markets and to a lower proportion of higher-yielding passengers due, in part, to a shift in the Easter holiday/timing of traditional school breaks, and to a greater number of flight cancellations which tend to adversely impact business travel demand more than leisure travel demand. An unfavourable currency impact, which reduced passenger revenues by $13 million in the first quarter of 2013, also contributed to the yield decline.

The 1.1% RASM increase was due to a 1.8 percentage point improvement in passenger load factor. RASM improvements were recorded in the domestic, Atlantic and Pacific markets.

Domestic passenger revenues increased 1.5% from the first quarter of 2012

In the first quarter of 2013, domestic passenger revenues of $957 million increased $13 million or 1.5% from the first quarter of 2012 due to traffic growth of 1.8%.

The table below provides year-over-year percentage changes in domestic passenger revenues and operating statistics for the first quarter 2013 and each of the previous four quarters.

Canada	Year-over-Year by Quarter (% Change)				
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Passenger revenues	5.0	0.8	3.6	7.2	1.5
Capacity (ASMs)	2.0	1.1	0.9	0.1	(0.6)
Traffic (RPMs)	3.8	1.7	2.3	3.3	1.8
Passenger load factor (pp change)	1.4	0.5	1.2	2.6	2.0
Yield	0.7	(0.9)	1.1	3.9	(0.1)
RASM	2.6	(0.3)	2.6	7.3	2.3

In the first quarter of 2013, domestic capacity decreased 0.6% from the first quarter of 2012, in part due to having one less calendar day in February 2013 versus February 2012.

Components of the year-over-year change in first quarter domestic passenger revenues included:

- The 1.8% traffic increase, despite the extra leap year day in February 2012, which reflected traffic growth on all major domestic services.

- The 0.1% yield decrease which reflected a lower proportion of higher-yielding passengers due, in part, to a shift in the Easter holiday/timing of traditional school breaks, and to a greater number of flight cancellations which tend to adversely impact business travel demand more than leisure travel demand. Increased industry capacity and competitive pricing activities on routes linking Toronto and Montreal/Ottawa, on regional routes within Ontario and, to a lesser extent, an unfavourable currency impact were also contributing factors to the yield decline year-over-year. These decreases were partly offset by yield improvements on routes to the Maritimes and within central and western Canada and on transcontinental routes, linking Toronto, Montreal and Ottawa with major western Canadian cities, including Winnipeg, Calgary, Edmonton and Vancouver.

The 2.3% RASM increase was due to a 2.0 percentage point improvement in passenger load factor.

U.S. transborder passenger revenues decreased 2.6% from the first quarter of 2012

In the first quarter of 2013, U.S. transborder passenger revenues of $589 million decreased $15 million or 2.6% from the first quarter of 2012 on a 1.0% growth in traffic as yield declined 5.5% year-over-year.

The table below provides year-over-year percentage changes in U.S. transborder passenger revenues and operating statistics for the first quarter 2013 and each of the previous four quarters.

U.S. Transborder	Year-over-Year by Quarter (% Change)				
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Passenger revenues	13.5	2.2	(0.2)	(3.3)	(2.6)
Capacity (ASMs)	6.2	0.8	1.3	2.7	0.4
Traffic (RPMs)	7.3	(0.8)	1.5	4.2	1.0
Passenger load factor (pp change)	0.8	(1.2)	0.2	1.1	0.4
Yield	3.9	(0.8)	(5.4)	(10.0)	(5.5)
RASM	4.9	(2.3)	(5.2)	(8.6)	(4.9)

In the first quarter of 2013, capacity on the U.S. transborder market increased 0.4% from the first quarter of 2012, with capacity growth reflected on routes to the eastern seaboard and to Florida. The capacity increase was partly offset by the impact of having one less calendar day in February 2013 versus February 2012.

Components of the year-over-year change in first quarter U.S. transborder passenger revenues included:

- The 1.0% traffic increase which reflected traffic growth on routes to the eastern seaboard, from western Canada to U.S. long-haul, such as Vancouver and Calgary to Newark, and on routes to Florida. The traffic growth was achieved in spite of having one less calendar day in February 2013 versus February 2012.

- The 5.5% yield decrease which reflected increased industry capacity and aggressive pricing activities on U.S. short-haul routes, such as Boston, New York and Washington, D.C., a lower proportion of higher-yielding passengers due, in part, to a shift in the Easter holiday and to a greater number of flight cancellations which tend to adversely impact business travel demand more than leisure travel demand. A higher proportion of longer-haul leisure flying and an unfavourable currency impact were also contributing factors to the yield decline year-over-year.

The 4.9% RASM decrease was due to the lower yield as passenger load factor improved 0.4 percentage points year-over-year.

Atlantic passenger revenues increased 1.9% from the first quarter of 2012

In the first quarter of 2013, Atlantic passenger revenues of $375 million increased $7 million or 1.9% from the first quarter of 2012 due to traffic growth of 2.2% and a yield improvement of 0.8%.

The table below provides year-over-year percentage changes in Atlantic passenger revenues and operating statistics for the first quarter 2013 and each of the previous four quarters.

Atlantic	Year-over-Year by Quarter (% Change)				
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Passenger revenues	6.0	2.3	(0.4)	12.5	1.9
Capacity (ASMs)	3.3	(0.2)	(1.7)	0.1	(2.9)
Traffic (RPMs)	5.9	2.5	(2.0)	5.6	2.2
Passenger load factor (pp change)	1.8	2.2	(0.3)	4.1	3.8
Yield	(0.8)	0.1	1.9	7.8	0.8
RASM	1.7	2.8	1.6	13.7	6.1

In the first quarter of 2013, Atlantic capacity decreased 2.9% from the first quarter of 2012. Capacity increases on services to Brussels, Copenhagen and Frankfurt were more than offset by capacity reductions on services to the U.K., France and Switzerland. The capacity decrease was in part due to having one less calendar day in February 2013 versus February 2012.

Components of the year-over-year change in first quarter Atlantic passenger revenues included:

- The 2.2% traffic increase which reflected traffic growth on all major Atlantic services with the exception of services to the U.K., where traffic however did not decrease as much as the capacity reduction. The traffic growth was achieved in spite of having one less calendar day in February 2013 versus February 2012.

- The 0.8% yield increase which, despite a lower proportion of premium cabin demand due to the Easter holiday shift and an unfavourable currency impact, reflected yield improvements in both the economy and premium class cabins on all Atlantic services.

The 6.1% RASM increase was due to a 3.8 percentage point improvement in passenger load factor and to the higher yield.

Pacific passenger revenues increased 9.2% from the first quarter of 2012

In the first quarter of 2013, Pacific passenger revenues of $366 million increased $31 million or 9.2% from the first quarter of 2012 primarily due to traffic growth of 5.4% and a yield improvement of 4.0%.

The table below provides year-over-year percentage changes in Pacific passenger revenues and operating statistics for the first quarter 2013 and each of the previous four quarters. Revenues and related statistical data associated with Australia, which were previously classified within the Other category, have been reclassified into Pacific services, including the comparative figures.

Pacific	Year-over-Year by Quarter (% Change)				
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Passenger revenues	17.3	17.1	12.6	11.8	9.2
Capacity (ASMs)	2.2	2.7	(0.4)	2.9	4.0
Traffic (RPMs)	3.8	3.9	0.8	5.0	5.4
Passenger load factor (pp change)	1.3	1.0	1.1	1.7	1.2
Yield	12.1	12.7	11.7	6.7	4.0
RASM	13.9	14.0	13.1	8.9	5.5

In the first quarter of 2013, Pacific capacity increased 4.0% from the first quarter of 2012, with capacity growth reflected on all services with the exception of Korea. The capacity increase was partly offset by the impact of having one less calendar day in February 2013 versus February 2012.

Components of the year-over-year change in first quarter Pacific passenger revenues included:

- The 5.4% traffic increase which reflected traffic growth on all services with the exception of Korea. The traffic growth was achieved in spite of having one less calendar day in February 2013 versus February 2012.

- The 4.0% yield increase which reflected yield growth on all major Pacific services with the exception of Australia and Japan. The overall Pacific yield improvement was in part due to the introduction of Tango® fares, with reduced Aeroplan® Miles offered, which, in turn, produced strong buy-up to higher-yielding Tango® Plus fares. The yield improvement was achieved in spite of an unfavourable currency impact which reduced Pacific passenger revenues by $5 million in the first quarter of 2013. The unfavourable currency impact on Pacific passenger revenues was mainly driven by a weaker Japanese Yen when compared to the same quarter in 2012.

The 5.5% RASM increase was due to the yield growth and a 1.2 percentage point improvement in passenger load factor.

Other passenger revenues decreased 12.0% from the first quarter of 2012

In the first quarter of 2013, Other passenger revenues (comprised of routes to the Caribbean, Mexico and Central and South America) of $240 million decreased $33 million or 12.0% from the first quarter of 2012 due to a decrease in traffic of 7.8% and a yield decline of 4.7%.

The table below provides year-over-year percentage changes in Other passenger revenues and operating statistics for the first quarter 2013 and each of the previous four quarters.

Other	Year-over-Year by Quarter (% Change)				
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Passenger revenues	10.4	(2.1)	1.1	(2.4)	(12.0)
Capacity (ASMs)	1.8	(4.4)	5.1	2.0	(8.5)
Traffic (RPMs)	3.3	(5.5)	6.0	2.1	(7.8)
Passenger load factor (pp change)	1.2	(0.9)	0.7	0.1	0.6
Yield	6.0	2.9	(5.2)	(4.9)	(4.7)
RASM	7.5	1.7	(4.4)	(4.8)	(4.0)

In the first quarter of 2013, the 8.5% capacity reduction was driven by capacity decreases on all major services in the Other markets, in part due to having one less calendar day in February 2013 versus February 2012.

Components of the year-over-year change in first quarter Other passenger revenues included:

- The overall 7.8% traffic decrease which reflected traffic declines on all major services in the Other markets. The traffic decrease was in part due to having one less calendar day in February 2013 versus February 2012.

- The overall 4.7% yield decrease which reflected the impact of increased industry capacity and more aggressive pricing activities led by U.S. carriers on services to South America, increased industry capacity and competitive pricing on routes to traditional leisure destinations and, to a lesser extent, an unfavourable currency impact.

The overall 4.0% RASM decline was mainly due to the lower yield as passenger load factor improved 0.6 percentage points year-over-year.

Cargo revenues decreased 8.8% from the first quarter of 2012

In the first quarter of 2013, cargo revenues of $111 million decreased $11 million or 8.8% from the first quarter of 2012 due to a decrease in traffic of 5.1% and a decrease in yield of 3.8%.

The table below provides cargo revenue by geographic region for the first quarter of 2013 and the first quarter of 2012.

Cargo revenue	First Quarter 2013 $ Million	First Quarter 2012 $ Million	$ Change	% Change
Canada	14	15	(1)	(7.0)
U.S. transborder	4	5	(1)	(7.1)
Atlantic	41	46	(5)	(9.6)
Pacific	41	44	(3)	(7.6)
Other	11	12	(1)	(12.7)
System	**111**	**122**	**(11)**	**(8.8)**

The table below provides year-over-year percentage changes in system cargo revenues and operating statistics for the first quarter 2013 and each of the previous four quarters.

System	Year-over-Year by Quarter (% Change)				
	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13
Cargo revenues	5.0	3.0	(2.8)	1.3	(8.8)
Capacity (ETMs)	3.1	(0.1)	(1.1)	1.2	(2.4)
Revenue per ETM	2.8	2.4	(1.7)	0.1	(6.5)
Traffic (RTMs)	5.0	5.3	4.5	5.1	(5.1)
Yield per RTM	1.3	(2.9)	(6.9)	(3.6)	(3.8)

The table below provides year-over-year percentage changes in cargo revenues and operating statistics for the first quarter of 2013 versus the first quarter of 2012.

First Quarter 2013 Versus First Quarter 2012	Cargo Revenue % Change	Capacity (ETMs) % Change	Rev / ETM % Change	Traffic (RTMs) % Change	Yield / RTM % Change
Canada	(7.0)	(4.1)	(3.0)	(8.4)	1.5
U.S. transborder	(7.1)	(2.6)	(4.6)	(4.3)	(2.9)
Atlantic	(9.6)	(3.0)	(6.8)	(6.2)	(3.7)
Pacific	(7.6)	3.6	(10.8)	(4.2)	(3.4)
Other	(12.7)	(14.5)	2.1	(3.5)	(9.5)
System	**(8.8)**	**(2.4)**	**(6.5)**	**(5.1)**	**(3.8)**

Components of the year-over-year change in first quarter cargo revenues included:

- The 5.1% traffic decrease which reflected traffic decreases in all markets. The reduction in traffic was mainly due to weaker demand for cargo services overall, an increase in flight cancellations due to unfavourable weather conditions and aircraft deicing service delays at Toronto Pearson International Airport, a temporary change in the allocation of available capacity for cargo and the impact of having one less calendar day in February 2013 versus February 2012.

- The 3.8% yield decrease which reflected declines in all markets with the exception of the domestic market. The overall yield decrease was mainly due to increased competitive pricing activities, lower fuel surcharges year-over-year and, to a lesser extent, an unfavourable currency impact.

Other revenues decreased $1 million from the first quarter of 2012

Other revenues consist primarily of revenues from the sale of the ground portion of vacation packages, ground handling services, and other airline-related services, as well as revenues related to the lease or sublease of aircraft to third parties.

In the first quarter of 2013, Other revenues of $314 million decreased $1 million from the first quarter of 2012. Higher ground package revenues at Air Canada Vacations and an increase in passenger-related fees, such as cancellation and change fees, were more than offset by decreases in property lease revenues following Aveos' closure and in revenues from the sublease of aircraft to third parties. The reduction in aircraft sublease revenues year-over-year was mainly due to a decrease in the number of aircraft leased to third parties.

CASM increased 1.3% from the first quarter of 2012. Adjusted CASM increased 1.4% from the first quarter of 2012

The following table compares Air Canada's first quarter 2013 and first quarter 2012 CASM.

	First Quarter		Change	
(cents per ASM)	**2013**	**2012**	**cents**	**%**
Aircraft fuel	5.38	5.44	(0.06)	(1.1)
Wages and salaries	2.54	2.48	0.06	2.4
Benefits	0.95	0.8	0.15	18.8
Capacity purchase agreements	1.68	1.61	0.07	4.3
Airport and navigation fees	1.43	1.48	(0.05)	(3.4)
Aircraft maintenance	1.08	1.11	(0.03)	(2.7)
Depreciation, amortization and impairment	1.05	1.08	(0.03)	(2.8)
Sales and distribution costs	1.02	1.01	0.01	1.0
Aircraft rent	0.50	0.54	(0.04)	(7.4)
Food, beverages and supplies	0.41	0.42	(0.01)	(2.4)
Communications and information technology	0.30	0.30	-	-
Other	2.58	2.40	0.18	7.5
CASM	**18.92**	**18.67**	**0.25**	**1.3**
Remove:				
Fuel expense, the cost of ground packages at Air Canada Vacations and unusual items [1]	(6.46)	(6.38)	(0.08)	1.3
Adjusted CASM [2]	**12.46**	**12.29**	**0.17**	**1.4**

(1) In the first quarter of 2013, Air Canada recorded an impairment charge of $24 million related to Airbus A340-300 aircraft.

(2) Adjusted CASM is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of this MD&A for additional information.

Operating expenses increased $6 million from the first quarter of 2012

In the first quarter of 2013, operating expenses of $3,058 million increased $6 million from the first quarter of 2012. All major line categories recorded expense reductions with the exception of wages, salaries and benefits, capacity purchase agreements and "other".

Fuel expense decreased 2% from the first quarter of 2012

In the first quarter of 2013, fuel expense of $870 million decreased $19 million or 2% from the first quarter of 2012. The decrease in fuel expense was mainly due to a lower volume of fuel consumed, which accounted for a decrease of $21 million, and to the favourable impact of a stronger Canadian dollar versus the U.S. dollar in the first quarter of 2013 when compared to the first quarter of 2012, which accounted for a decrease of $6 million. The lower volume of fuel consumed was largely due to having one less calendar day in February 2013 versus February 2012 and to a greater number of flight cancellations due to unfavourable weather conditions and aircraft deicing service delays at Toronto Pearson International Airport. Partly offsetting these decreases was the impact of higher jet fuel prices year-over-year, which accounted for an increase of $8 million.

The table below provides Air Canada's fuel cost per litre and economic fuel cost per litre for the periods indicated.

(Canadian dollars in millions, except where indicated)	First Quarter		Change	
	2013	2012	$	%
Aircraft fuel expense – GAAP	$ 870	$ 889	(19)	(2)
Add: Net cash payments on fuel derivatives [1]	11	7	4	57
Economic cost of fuel – Non-GAAP [2]	**$ 881**	**$ 896**	**(15)**	**(2)**
Fuel consumption (thousands of litres)	953,282	977,451	(24,169)	(2)
Fuel cost per litre (cents) – GAAP	91.3	91.0	0.3	-
Economic fuel cost per litre (cents) – Non-GAAP [2]	92.4	91.7	0.7	1

(1) Includes net cash settlements on maturing fuel derivatives and premium costs associated with those derivatives.

(2) The economic cost of fuel is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, and may not be comparable to similar measures presented by other public companies. Air Canada uses this measure to calculate its cash cost of fuel. It includes the actual net cash settlements from maturing fuel derivative contracts during the period and premium costs associated with those derivatives.

Wages, salaries and benefits expense amounted to $564 million in the first quarter of 2013, an increase of $28 million or 5% from the first quarter of 2012

In the first quarter of 2013, wages and salaries expense of $410 million increased $5 million or 1% from the first quarter of 2012. The increase in wages and salaries expense was largely due to the impact of higher average salaries year-over-year, an increase of 2.2% in the average number of full-time equivalent ("FTE") employees and the impact of a higher Air Canada share price on stock-based compensation programs. These increases were largely offset by the impact of Air Canada having recorded a liability of $18 million related to prior years' employee profit sharing payments in the first quarter of 2012 while no such charge was recorded in the first quarter of 2013.

In the first quarter of 2013, employee benefits expense of $154 million increased $23 million or 18% from the first quarter of 2012, mainly reflecting the impact of lower discount rates which increase the service cost of pension and other employee benefits.

Capacity purchase costs increased 3% from the first quarter of 2012

In the first quarter of 2013, capacity purchase costs of $272 million increased $8 million or 3% from the first quarter of 2012, mainly due to higher rates under Air Canada's capacity purchase agreement with Jazz (the "Jazz CPA") and an increase in block hours flown by Sky Regional Airlines Inc. ("Sky Regional") under its capacity purchase agreement with Air Canada.

Airport and navigation fees decreased 4% from the first quarter of 2012

In the first quarter of 2013, airport and navigation fees of $232 million decreased $10 million or 4% from the first quarter of 2012, mainly due to more favourable airport user fee rates versus the first quarter of 2012 and to a decrease in aircraft frequencies year-over-year.

Aircraft maintenance expense decreased 4% from the first quarter of 2012

In the first quarter of 2013, aircraft maintenance expense of $175 million decreased $7 million or 4% from the first quarter of 2012. The decrease in aircraft maintenance expense year-over-year was largely due to Air Canada having recorded favourable accrual adjustments of $15 million in the first quarter of 2013 as certain previously estimated costs did not materialize. The impact of lower rates for airframe and component maintenance and a decrease in maintenance provisions related to revised estimates on aircraft lease terminations were also contributing factors to the year-over-year decrease in aircraft maintenance expense. These decreases were largely offset by a higher volume of engine and airframe activity, and an increase in aircraft deicing expenses due to harsher weather.

Depreciation, amortization and impairment expense decreased 4% from the first quarter of 2012

In the first quarter of 2013, depreciation, amortization and impairment expense of $170 million decreased $7 million or 4% from the first quarter of 2012. In the first quarter of 2013, Air Canada recorded an impairment charge of $24 million related to certain A340-300 aircraft (none of which are operated by Air Canada) while no such charge was recorded in the first quarter of 2012. Certain of the lease agreements relating to the A340-300 aircraft have expired or are expiring during 2013 and these aircraft are being prepared for return or other disposition. The impairment charge is based upon the net proceeds expected upon the return or other disposition of these aircraft. More than offsetting this increase was the impact of certain engine and airframe maintenance events becoming fully amortized and a decrease in depreciation expense related to the airline's interior refurbishment programs.

Aircraft rent expense decreased 8% from the first quarter of 2012

In the first quarter of 2013, aircraft rent expense of $81 million decreased $7 million or 8% from the first quarter of 2012. The decline in aircraft rent expense year-over-year was mainly due to aircraft lease terminations (none of the aircraft were operated by Air Canada) and the favourable impact of a stronger Canadian dollar versus the U.S. dollar in the first quarter of 2013 when compared to the first quarter of 2012.

Other operating expenses increased 6% from the first quarter of 2012

In the first quarter of 2013, other operating expenses of $415 million increased $25 million or 6% from the first quarter of 2012, mainly due to an increase of $25 million or 26% in Remaining other expenses. The increase in Remaining other expenses in the first quarter of 2013 included one-time startup expenses related to the transfer of Embraer 175 aircraft to Sky Regional and higher engine and rotable equipment rental expenses. In addition, Air Canada recorded unfavourable adjustments on foreign currency translation of $2 million in the first quarter of 2013 compared to favourable adjustments on foreign currency translation of $8 million in the first quarter of 2012, an unfavourable variance of $10 million.

The following table provides a breakdown of the more significant items included in other expenses:

	First Quarter		Change	
(Canadian dollars in millions)	**2013**	**2012**	**$**	**%**
Air Canada Vacations' land costs	$ 150	$ 153	$ (3)	(2)
Terminal handling	46	47	(1)	(2)
Building rent and maintenance	33	32	1	3
Crew cycle	30	28	2	7
Miscellaneous fees and services	34	33	1	3
Remaining other expenses	122	97	25	26
Other operating expenses	**$ 415**	**$ 390**	**$ 25**	**6**

Non-operating expense amounted to $154 million in the first quarter of 2013 compared to non-operating expense of $128 million in the first quarter of 2012

The following table provides a breakdown of Non-operating income (expense) for the periods indicated:

(Canadian dollars in millions)	First Quarter		Change
	2013	2012	$
Foreign exchange gain (loss)	$ (40)	$ 87	$ (127)
Interest income	7	9	(2)
Interest expense	(73)	(80)	7
Interest capitalized	8	2	6
Net financing expense relating to employee benefits	(52)	(73)	21
Loss on financial instruments recorded at fair value	(2)	(7)	5
Loss on investments in Aveos	-	(65)	65
Other	(2)	(1)	(1)
Total non-operating expense	**$ (154)**	**$ (128)**	**$ (26)**

Factors contributing to the year-over-year change in first quarter non-operating income (expense) included:

- Losses on foreign exchange amounted to $40 million in the first quarter of 2013 compared to gains of $87 million in the first quarter of 2012. The losses in the first quarter of 2013 were mainly attributable to a weaker Canadian dollar at March 31, 2013 when compared to December 31, 2012. The March 31, 2013 closing exchange rate was US$1 = C$1.016 while the December 31, 2012 closing exchange rate was US$1 = C$0.9949.

- A decrease in interest expense of $7 million which was mainly due to lower debt levels.

- A decrease in net financing expense relating to employee benefits of $21 million which was mainly due to a decrease in the discount rate as well as the impact of lower pension and other benefit liabilities.

- Losses related to fair value adjustments on derivative instruments which amounted to $2 million in the first quarter of 2013 versus losses of $7 million in the first quarter of 2012. Refer to section 8 of this MD&A for additional information.

- In the first quarter of 2012, Air Canada recorded a loss of $65 million on its investments in Aveos' parent holding company. Air Canada also recorded a liability of $55 million related to its commitment under a separation program which is reflected in Net loss from discontinued operations – Aveos on Air Canada's consolidated statement of operations.

5. FLEET

The following table provides the number of aircraft in Air Canada's operating fleet as at March 31, 2013, and December 31, 2012, as well as Air Canada's expected operating fleet, including aircraft expected to be operated by Air Canada *rouge*™, as at December 31, 2013, 2014 and 2015.

	Actual			Planned					
	December 31, 2012	First Quarter 2013 Fleet Changes	March 31, 2013	Remainder of 2013 Fleet Changes	December 31, 2013	2014 Fleet Changes	December 31, 2014	2015 Fleet Changes	December 31, 2015
Mainline									
Boeing 787	**-**	-	**-**	-	**-**	7	**7**	5	**12**
Boeing 777-300	**12**	-	**12**	4	**16**	1	**17**	-	**17**
Boeing 777-200	**6**	-	**6**	-	**6**	-	**6**	-	**6**
Boeing 767-300	**30**	-	**30**	(3)	**27**	(6)	**21**	(4)	**17**
Airbus A330-300	**8**	-	**8**	-	**8**	-	**8**	-	**8**
Airbus A321	**10**	-	**10**	-	**10**	-	**10**	-	**10**
Airbus A320	**41**	-	**41**	-	**41**	-	**41**	-	**41**
Airbus A319	**38**	-	**38**	(8)	**30**	(17)	**13**	(5)	**8**
EMBRAER 190	**45**	-	**45**	-	**45**	-	**45**	-	**45**
EMBRAER 175	**15**	(2)	**13**	(13)	**-**	-	**-**	-	**-**
Total Mainline	**205**	(2)	**203**	(20)	**183**	(15)	**168**	(4)	**164**
Air Canada *rouge*™									
Boeing 767-300	**-**	-	**-**	2	**2**	6	**8**	4	**12**
Airbus A319	**-**	-	**-**	8	**8**	17	**25**	5	**30**
Total Air Canada *rouge*™	**-**	-	**-**	10	**10**	23	**33**	9	**42**
Total Mainline and Air Canada *rouge*™	**205**	**(2)**	**203**	**(10)**	**193**	**8**	**201**	**5**	**206**

The table above reflects two of the Embraer 175 aircraft that have been transferred to Sky Regional. An additional two Embraer 175 aircraft were transferred after the end of the first quarter 2013. The transfer of these two Embraer 175 aircraft are not reflected in the table provided above. The transfer of the remaining 11 Embraer 175 aircraft from the mainline fleet to Sky Regional, subject to certain conditions, is expected to be completed by the end of 2013.

The following table provides, as at March 31, 2013, the number of aircraft operated by Jazz, Sky Regional and other airlines operating flights on behalf of Air Canada under the Air Canada Express banner pursuant to capacity purchase agreements with Air Canada.

	As at March 31, 2013			
	Jazz	Sky Regional	Other	Total
EMBRAER 175	–	2	–	**2**
CRJ-100	4	–	–	**4**
CRJ-200	25	–	–	**25**
CRJ-705	16	–	–	**16**
Dash 8-100	34	–	–	**34**
Dash 8-300	26	–	–	**26**
Dash 8-400	18	5	–	**23**
Beech 1900	–	–	17	**17**
Total	**123**	**7**	**17**	**147**

The following table provides the planned number of aircraft, as at December 31, 2013, which will be operated by Jazz, Sky Regional and other airlines operating flights on behalf of Air Canada under the Air Canada Express banner pursuant to capacity purchase agreements with Air Canada.

	Planned			
	December 31, 2013			
	Jazz	Sky Regional	Other	Total
EMBRAER 175	-	15	–	**15**
CRJ-200	25	–	–	**25**
CRJ-705	16	–	–	**16**
Dash 8-100	34	–	–	**34**
Dash 8-300	26	–	–	**26**
Dash 8-400	21	5	–	**26**
Beech 1900	–	–	17	**17**
Total	**122**	**20**	**17**	**159**

On July 12, 2012, Chorus Aviation Inc. ("Chorus") announced that it had exercised six of 15 options it held to acquire additional Dash 8-400 ("Q400") aircraft to be operated by its subsidiary, Jazz, under the Air Canada Express banner. Chorus announced that the six optioned 74-seat Q400 aircraft were contracted to be delivered at a rate of two per month in February, March and April 2013, and would be placed in operation the subsequent month. As a result, nine 50-seat CRJ-100 aircraft have now been removed from the fleet covered under the Jazz CPA. As at the date of this MD&A, under the Jazz CPA, the number of covered aircraft has been reduced to 122 and the overall seating capacity has remained relatively unchanged.

6. FINANCIAL AND CAPITAL MANAGEMENT

6.1. Liquidity

Air Canada manages its liquidity needs through a variety of strategies which include seeking to achieve positive cash from operations, sourcing committed financing for new and existing aircraft, and through other financing activities.

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations (including pension funding obligations), and covenants in credit card and other agreements. Refer to sections 6.6, 6.7 and 6.8 of this MD&A for information on Air Canada's capital commitments, pension funding obligations and contractual obligations.

6.2. Financial Position

The following table provides a condensed consolidated statement of financial position of Air Canada as at March 31, 2013 and as at December 31, 2012.

(Canadian dollars in millions)	March 31, 2013	December 31, 2012	Change $
Assets			
Cash, cash equivalents and short-term investments	$ 2,056	$ 1,973	$ 83
Other current assets	1,162	1,028	134
Current assets	3,218	3,001	217
Property and equipment	4,670	4,711	(41)
Intangible assets	313	314	(1)
Goodwill	311	311	-
Deposits and other assets	509	510	(1)
Total assets	**$ 9,021**	**$ 8,847**	**$ 174**
Liabilities			
Current liabilities	$ 3,668	$ 3,259	$ 409
Long-term debt and finance leases	3,253	3,259	(6)
Pension and other benefit liabilities	4,583	4,686	(103)
Maintenance provisions	599	571	28
Other long-term liabilities	408	419	(11)
Total liabilities	**12,511**	**12,194**	**317**
Total equity	**(3,490)**	**(3,347)**	**(143)**
Total liabilities and equity	**$ 9,021**	**$ 8,847**	**$ 174**

Movements in current assets and current liabilities are described in section 6.4 of this MD&A. Long-term debt and finance leases are discussed in sections 6.3 and 6.5 of this MD&A.

At March 31, 2013, Property and equipment amounted to $4,670 million, a reduction of $41 million from December 31, 2012. This reduction in Property and equipment was mainly due to the impact of depreciation and impairment expense of $160 million in the first quarter of 2013, partly offset by additions to property and equipment of $107 million. The additions to Property and equipment included deposits and progress payments on future aircraft deliveries of $23 million and flight equipment purchase (including capitalized maintenance costs) of $60 million.

At March 31, 2013, Pension and other benefit liabilities decreased $103 million from December 31, 2012, with Air Canada having made pension funding payments of $113 million in the first quarter of 2013. Refer to section 6.7 of this MD&A for additional information on Air Canada's pension funding obligations.

6.3. Adjusted Net Debt

The following table reflects Air Canada's adjusted net debt balances as at March 31, 2013 and as at December 31, 2012.

(Canadian dollars in millions)	March 31, 2013	December 31, 2012	Change $
Total long-term debt and finance leases	$ 3,253	$ 3,259	$ (6)
Current portion of long-term debt and finance leases	487	499	(12)
Total long-term debt and finance leases, including current portion	3,740	3,758	(18)
Less cash, cash equivalents and short-term investments	(2,056)	(1,973)	(83)
Net debt	**$ 1,684**	**$ 1,785**	**$ (101)**
Capitalized operating leases [1]	2,303	2,352	(49)
Adjusted net debt	**$ 3,987**	**$ 4,137**	**$ (150)**

(1) Adjusted net debt is a non-GAAP financial measure used by Air Canada and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Air Canada includes capitalized operating leases which is a measure commonly used in the industry to ascribe a value to obligations under operating leases. Common industry practice is to multiply annualized aircraft rent expense by 7.0. This definition of capitalized operating leases is used by Air Canada and may not be comparable to similar measures presented by other public companies. Aircraft rent was $329 million for the twelve months ended March 31, 2013 and $336 million for the twelve months ended December 31, 2012.

At March 31, 2013, total long-term debt and finance leases, including current portion, amounted to $3,740 million, a decrease of $18 million from December 31, 2012. The reduction in long-term debt and finance leases from December 31, 2012 was mainly due to debt repayments of $96 million. These decreases were partly offset by the unfavourable impact of a weaker Canadian dollar as at March 31, 2013 compared to December 31, 2012 on Air Canada's foreign currency denominated debt (mainly U.S. dollars), which accounted for an increase of $58 million.

At March 31, 2013, adjusted net debt of $3,987 million decreased $150 million from December 31, 2012. This reduction in adjusted net debt reflected the impact of lower debt balances, as described above, a decrease in capitalized operating leases of $49 million and an increase in cash balances of $83 million.

6.4. Working Capital

The following table provides information on Air Canada's working capital balances as at March 31, 2013 and as at December 31, 2012.

(Canadian dollars in millions)	March 31, 2013	December 31, 2012	Change $
Cash, cash equivalents and short-term investments	$ 2,056	$ 1,973	$ 83
Accounts receivable	721	550	171
Other current assets	441	478	(37)
Accounts payable and accrued liabilities	(1,199)	(1,161)	(38)
Advance ticket sales	(1,982)	(1,599)	(383)
Current portion of long-term debt and finance leases	(487)	(499)	12
Net working capital	**$ (450)**	**$ (258)**	**$ (192)**

The net negative working capital of $450 million at March 31, 2013 represented a deterioration of $192 million from December 31, 2012. This decline in net working capital was largely due to the impact of capital expenditures of $114 million, pension funding payments of $113 million and net debt repayments of $83 million. The increase in Accounts receivable of $171 million was consistent with the growth in Advance ticket sales. The growth in Advance ticket sales was consistent with the seasonal growth in demand leading into the second and third quarters at Air Canada.

6.5. Consolidated Cash Flow Movements

The following table provides the cash flow movements for Air Canada for the periods indicated:

	First Quarter		
(Canadian dollars in millions)	2013	2012	Change $
Net cash flows from operating activities	**$ 261**	**$ 279**	**$ (18)**
Proceeds from borrowings	13	147	(134)
Reduction of long-term debt and finance lease obligations	(96)	(125)	29
Distributions related to aircraft special purpose leasing entities	-	(16)	16
Net cash flows from (used in) financing activities	**(83)**	**6**	**(89)**
Short-term investments	17	(226)	243
Additions to property, equipment and intangible assets	(114)	(139)	25
Proceeds from sale of assets	4	2	2
Other	10	11	(1)
Net cash flows used in investing activities	**(83)**	**(352)**	**269**
Increase (decrease) in cash and cash equivalents	**95**	**(67)**	**162**
Cash and cash equivalents, beginning of period	754	777	(23)
Cash and cash equivalents, end of period	**$ 849**	**$ 710**	**$ 139**

The following table provides the consolidated calculation of free cash flow for Air Canada for the periods indicated:

	First Quarter		
(Canadian dollars in millions)	**2013**	**2012**	**Change $**
Net cash flows from operating activities	**$ 261**	**$ 279**	**$ (18)**
Additions to property, equipment and intangible assets	(114)	(139)	25
Free cash flow [1]	**$ 147**	**$ 140**	**$ 7**

(1) Free cash flow is a non-GAAP financial measure used by Air Canada and may not be comparable to measures presented by other public companies. Air Canada considers free cash flow to be an indicator of the financial strength and performance of its business because it shows how much cash is generated from the business after investing in capital assets, which is available to meet ongoing financial obligations, including repaying debt, and reinvesting in Air Canada.

Free cash flow

In the first quarter of 2013, free cash flow was $147 million compared to free cash flow of $140 million in the first quarter of 2012, an improvement of $7 million.

Net cash flows from operating activities

In the first quarter of 2013, cash flows from operations of $261 million decreased $18 million from the first quarter of 2012, due in part to cash outflows of $22 million related to the Aveos employee separation program.

Net cash flows used in financing activities

In the first quarter of 2013, Air Canada continued its focus to reduce its debt levels with net debt repayments (reduction of long-term debt less proceeds from borrowings) of $83 million.

Net cash flows used in investing activities

In the first quarter of 2013, additions to property, equipment and intangible assets amounted to $114 million, a decrease of $25 million from the first quarter of 2012. Air Canada continues to make progress payments on committed Boeing 777 and 787 aircraft, in addition to other capital additions related to maintenance, ground equipment and facilities and technology projects.

6.6. Capital Expenditures and Related Financing Arrangements

Information on Air Canada's capital expenditures and related financing arrangements is included in section 9.6 of Air Canada's 2012 MD&A dated February 7, 2013. In addition, Air Canada provides the following relating to a previously announced private offering of enhanced equipment trust certificates related to the financing of five new Boeing 777-300ER aircraft.

Private Offering of Enhanced Equipment Trust Certificates

On April 24, 2013, in connection with the financing of five new Boeing 777-300ER aircraft scheduled for delivery during the period from June 2013 to February 2014, Air Canada announced the pricing of a private offering of three tranches of enhanced equipment trust certificates with a combined aggregate face amount of US$715 million.

The offering is expected to close on May 9, 2013, subject to customary closing conditions.

The private offering is comprised of Class A certificates, Class B certificates and Class C certificates.

- The Class A certificates, with a US$425 million face amount, will have an interest rate of 4.125% per annum and a final expected distribution date of May 15, 2025.

- The Class B certificates, with a US$182 million face amount, will have an interest rate of 5.375% per annum and a final expected distribution date of May 15, 2021.

- The Class C certificates, with US$108 million face amount, will have an interest rate of 6.625% per annum and a final expected distribution date of May 15, 2018.

The certificates are expected to have a weighted average interest rate of approximately 4.7% per annum.

Pursuant to the terms of the offering, the certificates will represent an interest in three separate pass through trusts. The trusts will consist of a separate trust for the Class A certificates, Class B certificates and Class C certificates, respectively. The trusts will use the proceeds from the offering to acquire equipment notes that will be issued to finance the acquisition of the five new Boeing 777-300ER aircraft. The proceeds from the offering will be held in escrow until the delivery of the respective aircraft.

The equipment notes will be secured by the five Boeing 777-300ER aircraft being acquired, and the security interest in each of the aircraft will benefit from the protections of the Cape Town Convention on International Interests in Mobile Equipment and the Protocol thereto on Matters Specific to Aircraft Equipment, as enacted in Canada.

In respect of the Class A certificates and the Class B certificates, the trustee will distribute all payments of principal, premium (if any) and interest received on the related equipment notes held in each trust to the holders of the Class A certificates and Class B certificates, subject to the subordination provisions applicable to the certificates. Scheduled payments of principal and interest made on the equipment notes will be distributed to the holders of the Class A certificates and Class B certificates on the regular distribution dates of May 15 and November 15, commencing on November 15, 2013.

In respect of the Class C certificates, the trustee will distribute all payments of principal, premium (if any) and interest received on the related equipment notes held in each trust to the holders of the Class C certificates, subject to the subordination provisions applicable to the certificates. Scheduled payments of interest made on the equipment notes will be distributed to the holders of the Class C certificates on the regular distribution dates of May 15 and November 15, commencing on November 15, 2013. The entire principal amount is scheduled to be paid on May 15, 2018.

Capital Commitments

As outlined in the table below, the estimated aggregate cost of the future firm Boeing 787 aircraft deliveries and other capital purchase commitments as at March 31, 2013 approximates $5,150 million (of which $3,125 million is subject to committed financing, subject to the fulfillment of certain terms and conditions). Other capital purchase commitments relate principally to building and leasehold improvement projects.

The table below excludes the expected proceeds associated with the private offering of enhanced equipment trust certificates, as described above. Subject to the closing of the offering, expected proceeds would be $580 million (US$571 million) in 2013 and $146 million (US$144 million) in 2014. U.S. dollar amounts are converted using the March 31, 2013 closing rate of C$1.016.

(Canadian dollars in millions)	Remainder of 2013	2014	2015	2016	2017	Thereafter	Total
Projected committed expenditures	$ 620	$ 855	$ 585	$ 999	$ 1,276	$ 815	$ 5,150
Projected planned but uncommitted expenditures	97	235	182	181	160	not available	not available
Projected planned but uncommitted capitalized maintenance [1]	56	96	37	37	37	not available	not available
Total projected expenditures [2]	**773**	**1,186**	**804**	**1,217**	**1,473**	**not available**	**not available**
Projected financing on committed expenditures	-	(603)	(478)	(814)	(1,103)	(127)	(3,125)
Total projected expenditures, net of financing	**$ 773**	**$ 583**	**$ 326**	**$ 403**	**$ 370**	**not available**	**not available**

(1) The table above includes certain maintenance events which are capitalized under IFRS. Future capitalized maintenance amounts for 2016 and beyond are not yet determinable however an estimate of $37 million per year has been made.

(2) U.S. dollar amounts are converted using the March 31, 2013 closing exchange rate of US$1 = C$1.016. 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, 2013.

6.7. Pension Funding Obligations

Air Canada maintains several pension plans, including defined benefit and defined contribution pension plans and plans providing other retirement and post-employment benefits to its employees. Based on preliminary estimates as at January 1, 2013, the aggregate solvency deficit in Air Canada's domestic registered pension plans is estimated to be $3.7 billion, whereas the aggregate solvency deficit in the domestic registered pension plans, as at January 1, 2012, was $4.2 billion. This estimated decrease to the aggregate solvency deficit of approximately $500 million versus the valuation as at January 1, 2012 was mainly due to a 14.0% return on plan assets (which was in excess of assumed returns) and to past service payments made in 2012, partly offset by a decrease of 0.3% in the solvency discount rate used in the calculation of the solvency liabilities (discount rate of 3.0% as at January 1, 2013 versus 3.3% as at January 1, 2012). The valuations to determine the actual solvency deficit as of January 1, 2013 will be completed in the first half of 2013, but as described below, they will not increase the 2013 pension past service cost funding obligations.

In July 2009, the Government of Canada adopted the Air Canada 2009 Pension Regulations as further described in section 9.7 of Air Canada's 2012 MD&A dated February 7, 2013. Under the Air Canada 2009 Pension Regulations, past service contributions for the year 2013, on a cash basis, are expected to be $221 million.

As of 2014, the Air Canada 2009 Pension Regulations will cease to have effect. However, as announced on March 12, 2013, Air Canada and the Government of Canada have agreed to an extension of Air Canada's pension funding arrangements to January 30, 2021.

Based on the agreement reached with the Government of Canada, the Minister of Finance is expected to propose new regulations under the *Pension Benefits Standards Act,1985* in respect of special payments under Air Canada's defined benefit plans applicable to the period between 2014 to 2020 inclusively, expiring January 30, 2021. According to the terms of the agreement, subject to the maximum past service contribution permitted under the *Income Tax Act* for the plan year, it is expected that, under the new regulations, Air Canada will be required to make payments of at least $150 million annually with an average of $200 million per year, to contribute an aggregate minimum of $1.4 billion over seven years in solvency deficit payments, in addition to its pension current service payments.

Under the agreement, in respect of the plan years Air Canada benefits from the agreed limits on special payments, Air Canada will be subject to a series of covenants and undertakings, including a prohibition on dividends and share repurchases, as well as certain limitations on executive compensation arrangements. As requested by the Government of Canada, Air Canada has also agreed to use reasonable efforts, during the negotiations of the next collective agreements with Air Canada's Canadian-based unions, to seek to include in those collective agreements provisions which would have employees contribute fifty per cent of their pension plan normal costs, and has agreed not to implement pension plan benefit improvements without regulatory approval. The agreement permits Air Canada to elect to opt out of the regulations and have special payments, in respect of all Air Canada pension plans, collectively, determined in accordance with the normal funding rules.

Air Canada's Canadian-based unions had previously provided approval or support for Air Canada's extension request and the arrangements are subject to successfully concluding a consultation process with Air Canada management and retiree beneficiaries. The new funding arrangements will become effective upon the successful conclusion of the consultation process with Air Canada management and retiree beneficiaries, and the subsequent adoption of new regulations under the *Pension Benefits Standards Act*, subject to Governor in Council approval.

Absent the adoption and implementation of the agreement upon expiry of the Air Canada 2009 Pension Regulations, under generally applicable regulations, Air Canada's pension funding obligations would be determined by a wide variety of factors, including those described in Air Canada's 2012 MD&A dated February 7, 2013, pursuant to normal past service contribution rules which would generally require one fifth of any solvency deficit, determined on the basis of an average over the previous three years, to be funded each year in addition to required current service contributions.

Air Canada's projected pension funding obligations, on a cash basis, for 2013, are provided in the table below.

(Canadian dollars in millions)	**2013**
Past service domestic registered plans	221
Current service domestic registered plans	170
Other pension arrangements [1]	80
Projected pension funding obligations	**471**

(1) Includes retirement compensation arrangements, supplemental plans and international plans.

6.8. Contractual Obligations

The table below provides updated information on Air Canada's long-term debt and finance lease obligations, including interest and principal repayment obligations as at March 31, 2013. The table below excludes the long-term debt and interest obligations that would be associated with the expected issuance of enhanced equipment trust certificates as described in section 6.6 of this MD&A.

(Canadian dollars in millions)	Remainder of 2013	2014	2015	2016	2017	Thereafter	Total
Principal							
Long-term debt obligations	$ 366	$ 269	$ 1,409	$ 477	$ 386	$ 526	$ 3,433
Finance lease obligations	46	57	51	25	26	149	354
	412	326	1,460	502	412	675	3,787
Interest							
Long-term debt obligations	166	204	142	50	68	31	661
Finance lease obligations	25	28	22	18	16	50	159
	191	232	164	68	84	81	820
Total long-term debt and finance lease obligations	**$ 603**	**$ 558**	**$ 1,624**	**$ 570**	**$ 496**	**$ 756**	**$ 4,607**
Operating lease obligations	**$ 286**	**$ 310**	**$ 260**	**$ 215**	**$ 186**	**$ 480**	**$ 1,737**
Committed capital expenditures	**$ 620**	**$ 855**	**$ 585**	**$ 999**	**$ 1,276**	**$ 815**	**$ 5,150**
Total obligations [1] [2]	**$ 1,509**	**$ 1,723**	**$ 2,469**	**$ 1,784**	**$ 1,958**	**$ 2,051**	**$ 11,494**

(1) Total contractual obligations exclude commitments for goods and services required in the ordinary course of business. Also excluded are other long-term liabilities mainly due to reasons of uncertainty of timing of cash flows and items that are non-cash in nature.

(2) The table above excludes the future minimum non-cancelable commitment under the Jazz CPA of $785 million in 2013, the future minimum non-cancelable commitment under capacity purchase agreements with other regional carriers of $110 million in 2013 and the minimum annual commitment to purchase Aeroplan® Miles from Aeroplan of $224 million for 2013. Future commitments for 2014 and beyond are not yet determinable. The rates under the Jazz CPA are subject to change based upon, amongst other things, changes in Jazz's costs and the results of benchmarking exercises, which compare Jazz costs to other regional carriers. The results of the most recent benchmarking exercise, which is currently subject to arbitration proceedings, will be implemented with retroactive effect to January 1, 2010.

6.9. Share Information

The issued and outstanding shares of Air Canada, along with shares potentially issuable, as of the dates indicated below, are as follows:

	Number of Shares at		
	April 30, 2013	March 31, 2013	December 31, 2012
Issued and outstanding shares			
Class A variable voting shares	35,657,862	33,244,765	33,006,104
Class B voting shares	238,905,292	241,312,139	241,437,699
Total issued and outstanding shares	**274,563,154**	**274,556,904**	**274,443,803**
Class A variable voting and Class B voting shares potentially issuable			
Warrants	10,000,000	10,000,000	10,000,000
Shares held in trust	1,417,132	1,417,132	1,445,082
Stock options	11,581,087	8,325,252	8,410,403
Total shares potentially issuable	**22,998,219**	**19,742,384**	**19,855,485**
Total outstanding and potentially issuable shares	**297,561,373**	**294,299,288**	**294,299,288**

7. QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results for Air Canada for the last eight quarters.

(Canadian dollars in millions, except where indicated)	2011 [1]			2012				2013
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Operating revenues	**$ 2,918**	**$ 3,242**	**$ 2,699**	**$ 2,961**	**$ 2,988**	**$ 3,326**	**$ 2,839**	**$ 2,952**
Aircraft fuel	882	943	808	889	888	963	821	**870**
Ownership (DAR)[2][3]	265	265	260	265	249	255	236	**251**
Other operating expenses [4]	1,698	1,764	1,729	1,898	1,788	1,685	1,735	**1,937**
Operating expenses	**2,845**	**2,972**	**2,797**	**3,052**	**2,925**	**2,903**	**2,792**	**3,058**
Operating income (loss)	**73**	**270**	**(98)**	**(91)**	**63**	**423**	**47**	**(106)**
Total non-operating income (expense)	**(120)**	**(394)**	**38**	**(128)**	**(223)**	**(64)**	**(107)**	**(154)**
Recovery of (provision for) income taxes	1	-	-	-	(1)	-	-	**-**
Discontinued operations – Aveos [4]	-	-	-	(55)	-	-	-	**-**
Net income (loss)	**$ (46)**	**$ (124)**	**$ (60)**	**$ (274)**	**$ (161)**	**$ 359**	**$ (60)**	**$ (260)**
Net income (loss) per share								
- Basic	**$ (0.17)**	**$ (0.45)**	**$ (0.22)**	**$ (0.99)**	**$ (0.59)**	**$ 1.29**	**$ (0.22)**	**$ (0.95)**
- Diluted	**$ (0.17)**	**$ (0.45)**	**$ (0.22)**	**$ (0.99)**	**$ (0.59)**	**$ 1.28**	**$ (0.22)**	**$ (0.95)**
EBITDAR before the impact of benefit plan amendments [5][6]	**$ 338**	**$ 535**	**$ 162**	**$ 174**	**$ 312**	**$ 551**	**$ 283**	**$ 145**
EBITDAR [6]	**$ 338**	**$ 535**	**$ 162**	**$ 174**	**$ 312**	**$ 678**	**$ 283**	**$ 145**
Adjusted net income (loss) [7]	**$ -**	**$ 193**	**$ (167)**	**$ (162)**	**$ (7)**	**$ 229**	**$ (5)**	**$ (143)**
Adjusted net income (loss) per diluted share [7]	**$ -**	**$ 0.68**	**$ (0.60)**	**$ (0.58)**	**$ (0.02)**	**$ 0.82**	**$ (0.02)**	**$ (0.52)**

(1) 2011 has not been restated for accounting standard changes related to consolidation of special purpose entities and employee benefits. The accounting changes were effective January 1, 2013 with retrospective adjustments as at January 1, 2012. Refer to Air Canada's 2012 MD&A dated February 7, 2013 for additional information.

(2) DAR refers to the combination of depreciation, amortization and impairment, and aircraft rent expense.

(3) In the first quarter of 2013, Air Canada recorded an impairment charge of $24 million related to Airbus A340-300 aircraft.

(4) In the first quarter of 2012, Air Canada recorded a loss on its investments in Aveos of $65 million.

(5) In the third quarter of 2012, Air Canada recorded an operating expense reduction of $127 million related to changes to the terms of the ACPA collective agreement pertaining to retirement age.

(6) EBITDAR, excluding the impact of benefit plan amendments, and EBITDAR are non-GAAP financial measures. Refer to section 15 "Non-GAAP Financial Measures" of this MD&A for additional information.

(7) Adjusted net income (loss) and adjusted net income (loss) per diluted share is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of this MD&A for additional information.

The following table provides quarterly operating statistics for Air Canada for the last eight quarters.

	2011			2012				2013
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue passenger miles (millions)	13,677	16,126	12,065	12,946	13,868	16,258	12,574	13,087
Available seat miles (millions)	16,512	18,799	15,290	16,344	16,606	18,835	15,484	16,164
Passenger load factor (%)	82.8	85.8	78.9	79.2	83.5	86.3	81.2	81.0
RASM (cents)	15.6	15.5	15.4	15.2	15.9	15.9	16.0	15.4
CASM (cents)	17.2	15.8	18.3	18.7	17.6	15.4	18.0	18.9
Adjusted CASM (cents) (1)	11.5	10.6	12.6	12.3	11.9	10.7	12.4	12.5
Economic fuel price per litre (cents) (2)	87.9	85.8	88.6	91.7	89.8	87.7	89.0	92.4

(1) Adjusted CASM is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of this MD&A for additional information.

(2) Includes fuel handling expenses. For periods prior to 2012, economic fuel price per litre excluded third party carriers, other than Jazz, operating under capacity purchase agreements. Economic fuel price per litre is a non-GAAP financial measure. Refer to section 4 of this MD&A for additional information.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of "Loss on Financial Instruments Recorded at Fair Value"

The following is a summary of "Loss on financial instruments recorded at fair value" included in Non-operating income (expense) on Air Canada's consolidated statement of operations for the periods indicated:

(Canadian dollars in millions)	First Quarter	
	2013	2012
Fuel derivatives	$ (11)	$ (8)
Share forward contracts	9	-
Other	-	1
Loss on financial instruments recorded at fair value	**$ (2)**	**$ (7)**

Fuel Price Risk Management

Fuel price risk is the risk that future cash flows relating to jet fuel purchases will fluctuate because of changes in jet fuel prices. In order to manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, Air Canada enters into derivative contracts with financial intermediaries.

In the first quarter of 2013:

- Air Canada recorded a loss of $11 million in Loss on financial instruments recorded at fair value on Air Canada's consolidated statement of operations related to fuel derivatives (a loss of $8 million in the first quarter of 2012).
- Air Canada purchased crude-oil and refined products-based call options and call spreads covering a portion of 2013 fuel exposure. The cash premium related to these contracts was $11 million.
- Fuel derivative contracts cash settled with a net fair value of $1 million in favour of Air Canada.

The fair value of the fuel derivatives portfolio at March 31, 2013 was $15 million in favour of Air Canada ($16 million in favour of Air Canada at December 31, 2012) and was recorded within Prepaid expenses and Other current assets on Air Canada's consolidated statement of financial position.

As of April 30, 2013, approximately 33% of Air Canada's anticipated purchases of jet fuel for the remainder of 2013 was hedged at an average West Texas Intermediate ("WTI") equivalent capped price of US$98 per barrel. Air Canada's contracts to hedge anticipated jet fuel purchases over the 2013 period are comprised of call options and call spreads.

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 April 30, 2013. Air Canada is expected to generate fuel hedging gains if oil prices increase above the average capped price, with call spreads subject to an average maximum price protection of US$98 per barrel.

Derivative Instruments	Term	Volume (bbls)	WTI Weighted Average Capped Price (US$/bbl)
Call options	2013	5,647,000	98
Call spreads	2013	75,000	94

9. CRITICAL ACCOUNTING ESTIMATES

Information on Air Canada's critical accounting estimates is disclosed in section 13 "Critical Accounting Estimates" of Air Canada's 2012 MD&A dated February 7, 2013. There have been no material changes to Air Canada's critical accounting estimates from what was disclosed at that time.

10. ACCOUNTING POLICIES

Information on the adoption and impact of new and revised accounting standards that the Corporation was required to adopt effective January 1, 2013 are as disclosed in Air Canada's interim unaudited condensed consolidated financial statements and notes for the first quarter of 2013 and as were described in section 14 "Accounting Policies" of Air Canada's 2012 MD&A dated February 7, 2013. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time.

11. OFF-BALANCE SHEET ARRANGEMENTS

Information on Air Canada's off-balance sheet arrangements is disclosed in section 15 "Off-Balance Sheet Arrangements" of Air Canada's 2012 MD&A dated February 7, 2013. There have been no material changes to Air Canada's off-balance sheet arrangements with the exception of the following disclosure which has been updated to reflect the deconsolidation of the three fuel facility corporations. There are now eight fuel facility corporations that are not consolidated by Air Canada. Under previous accounting standards, Air Canada did not consolidate five of the eight Fuel Facility Corporations.

Guarantees in Fuel Facilities Arrangements

Air Canada participates in fuel facility arrangements operated through fuel facility corporations, along with other airlines that contract for fuel services at various major airports in Canada. The fuel facility corporations operate on a cost recovery basis. The purpose of the fuel facility corporations is to own and finance the system that distributes the fuel to the contracting airlines, including leasing the land rights under the land leases. The aggregate debt of the eight fuel facility corporations in Canada that have not been consolidated by Air Canada under IFRS 10 Consolidated Financial Statements is approximately $390 million as at December 31, 2012 (December 31, 2011 - $390 million) which is Air Canada's maximum exposure to loss before taking into consideration the value of the assets that secure the obligations and any cost sharing that would occur amongst the other contracting airlines. Air Canada views this loss potential as remote. Each contracting airline participating in a fuel facility corporation shares pro rata, based on system usage, in the guarantee of this debt. The maturities of these debt arrangements vary but generally extend beyond five years.

12. RELATED PARTY TRANSACTIONS

At March 31, 2013, Air Canada had no transactions with related parties as defined in the CICA Handbook – Part 1, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

13. RISK FACTORS

For a detailed description of risk factors associated with Air Canada and its business, refer to section 18 "Risk Factors" of Air Canada's 2012 MD&A dated February 7, 2013. Air Canada is not aware of any significant changes to its risk factors from those disclosed at that time. Air Canada, however, provides the following updates:

The risk factor in Air Canada's 2012 MD&A dated February 7, 2013 related to Pay Equity under Current Legal Proceedings is amended as a result of the fact that, in the first quarter of 2013, the Federal Court denied CUPE's challenge and upheld the Commission's decision and the formal deadline by which the Federal Court's decision could be appealed has expired, without steps having been taken to appeal to the Federal Court of Appeal.

The risk factor in Air Canada's 2012 MD&A dated February 7, 2013 related to Billy Bishop Toronto City Airport under Current Legal Proceedings is withdrawn as a result of the fact that all proceedings against Jazz and Air Canada have been dismissed or discontinued.

14. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its President and Chief Executive Officer ("CEO"), its Executive Vice President and Chief Financial Officer ("CFO") and its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

In the Corporation's 2012 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

In the Corporation's first quarter 2013 filings, the Corporation's CEO and CFO, certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

The Corporation's Audit, Finance and Risk Committee reviewed this MD&A and the interim unaudited condensed consolidated financial statements and notes, and the Corporation's Board of Directors approved these documents prior to their release.

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporation's internal controls over financial reporting during the first quarter of 2013 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

15. NON-GAAP FINANCIAL MEASURES

EBITDAR

EBITDAR (earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before depreciation, amortization and impairment, and aircraft rent as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. EBITDAR is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, and may not be comparable to similar measures presented by other public companies.

EBITDAR is reconciled to operating income (loss) as follows:

	First Quarter		
(Canadian dollars in millions)	**2013**	**2012**	**Change $**
GAAP operating loss	$ (106)	$ (91)	$ (15)
Add back:			
Aircraft rent	81	88	(7)
Depreciation, amortization and impairment	170	177	(7)
EBITDAR	**$ 145**	**$ 174**	**$ (29)**

Adjusted CASM

Adjusted CASM is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning and may not be comparable to similar measures presented by other public companies. Air Canada uses Adjusted CASM to assess the operating performance of its ongoing airline business without the effects of fuel expense, the cost of ground packages at Air Canada Vacations and unusual items as such expenses may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

Fuel expense is excluded from operating expense results as it fluctuates widely depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and Canada/U.S. currency exchange rates. Air Canada also incurs expenses related to ground packages at Air Canada Vacations, which some airlines without comparable tour operator businesses may not incur. In addition, these costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

Therefore, excluding fuel expense, the cost of ground packages at Air Canada Vacations and unusual items from operating expenses generally allows for more meaningful analysis of Air Canada's operating expense performance and a more meaningful comparison to those of other airlines.

Adjusted CASM is reconciled to GAAP operating expense as follows:

	First Quarter		
(Canadian dollars in millions, except where indicated)	2013	2012	Change
GAAP operating expense	**$ 3,058**	**$ 3,052**	**$ 6**
Remove:			
Aircraft fuel	(870)	(889)	19
Cost of ground packages at Air Canada Vacations	(150)	(153)	3
Impairment charge	(24)	-	(24)
Operating expense, excluding the above-noted items	**$ 2,014**	**$ 2,010**	**$ 4**
ASMs (millions)	**16,164**	**16,344**	**(1.1)%**
Adjusted CASM (cents)	**¢ 12.5**	**¢ 12.3**	**1.4%**

Adjusted Net Income (Loss) and Adjusted Net Income (Loss) Per Share – Diluted

Air Canada uses Adjusted net income (loss) and Adjusted net income (loss) per share – diluted to assess the performance of its business without the effects of foreign exchange, net financing expense relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value and other unusual items. Such measure is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning and may not be comparable to similar measures presented by other public companies.

	First Quarter		
(Canadian dollars in millions, except per share values)	2013	2012	Change $
Net loss for the period attributable to shareholders	**$ (261)**	**$ (275)**	**$ 14**
Remove:			
Impairment charge	24	-	24
Foreign exchange (gain) loss	40	(87)	(47)
Net financing expense relating to employee benefits	52	73	(21)
Loss on financial instruments recorded at fair value	2	7	(5)
Loss on investments in Aveos	-	65	(65)
Discontinued operations – Aveos	-	55	(55)
Adjusted net loss	**$ (143)**	**$ (162)**	**$ 19**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	274	277	(3)
Adjusted net loss per share – diluted	**$ (0.52)**	**$ (0.58)**	**$ 0.06**

The following reflects the share amounts used in the computation of basic and diluted earnings per share on an adjusted net income per share basis:

	First Quarter	
	2013	**2012**
Weighted average number of shares outstanding – basic	274	277
Effect of dilution	8	2
add back anti-dilutive impact	(8)	(2)
Weighted average number of shares outstanding – diluted	**274**	**277**

16. GLOSSARY

ACPA – Refers to the Air Canada Pilots Association.

Adjusted CASM – Refers to operating expense per ASM adjusted to remove the effects of fuel expense, the cost of ground packages at Air Canada Vacations and unusual items. Refer to section 15 of this MD&A for additional information.

Adjusted net income (loss) – Refers to the consolidated net income (loss) of the Corporation attributable to the shareholders of Air Canada adjusted to remove the effects of (to the extent included in consolidated net income (loss)) foreign exchange, net financing income (expense) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value and unusual items. Refer to section 15 of this MD&A for additional information.

Atlantic passenger and cargo revenues – Refer to revenues from flights that cross the Atlantic Ocean with origins and destinations principally in Europe.

Available Seat Miles or ASMs – Refers to a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the miles flown.

CALDA – Refers to the Canadian Airline Dispatchers Association.

CASM – Refers to operating expense per ASM.

CAW – Refers to the Canadian Auto Workers.

CUPE – Refers to the Canadian Union of Public Employees.

EBITDAR – EBITDAR is earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent and is a non-GAAP financial measure commonly used in the airline industry to view operating results before depreciation, amortization and impairment, and aircraft rent as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. Refer to section 15 of this MD&A for additional information.

Effective Ton Miles or ETMs – Refers to the mathematical product of tonnage capacity times distance hauled.

IAMAW – Refers to the International Association of Machinists and Aerospace Workers.

IATA – Refers to the International Air Transport Association.

Other passenger and cargo revenues – Refer to revenues from flights with origins and destinations principally in Central and South America and the Caribbean and Mexico.

Pacific passenger and cargo revenues – Refer to revenues from flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia. Revenues and related statistical data associated with Australia, which were previously classified within the Other category, have been reclassified into Pacific services, including the comparative figures.

Passenger Load Factor – Refers to a measure of passenger capacity utilization derived by expressing Revenue Passenger Miles as a percentage of Available Seat Miles.

Passenger Revenue per Available Seat Mile or RASM – Refers to average passenger revenue per ASM (baggage fee revenues, which are included in passenger revenues, are removed for the purposes of calculating RASM).

Percentage point (pp) – Refers to a measure for the arithmetic difference of two percentages.

Revenue Passenger Carried – Refers to IATA's definition of passenger carried whereby passengers are counted on a flight no. basis rather than by journey/itinerary or by leg.

Revenue Passenger Miles or RPMs – Refers to a measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the miles they are carried.

Revenue Ton Miles or RTMs – Refers to the mathematical product of weight in tons of a shipment being transported by the number of miles that it is transported.

Yield – Refers to average passenger revenue per RPM (baggage fee revenues, which are included in passenger revenues, are removed for the purposes of calculating yield).