

AIR CANADA 

**2009
Annual Information Form**



March 26, 2010

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EXPLANATORY NOTES

The information in this Annual Information Form (“AIF”) is stated as at December 31, 2009, unless otherwise indicated.

Air Canada and the Corporation — References herein to Air Canada and references to the “Corporation” include references, as the context may require, to Air Canada and its subsidiaries collectively, Air Canada and one or more of its subsidiaries, one or more of Air Canada's subsidiaries, or Air Canada itself.

Subsidiaries — References herein to the term “subsidiary” or “subsidiaries” refer, in relation to any entity, to any other entity, including a corporation or a limited partnership, which is controlled, directly or indirectly, by that entity.

Defined Terms — For an explanation of the capitalized terms and expressions and certain defined terms, please refer to the “Glossary of Terms” at the end of this AIF.

Currency — All currency amounts used in this document are stated in Canadian dollars, unless otherwise indicated.

Statistical Information — Market data and certain industry forecasts used throughout this AIF were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts, market research and other publicly available information, while believed to be reliable, have not been independently verified, and the Corporation does not make any representation as to the accuracy of such information.

Forward-looking statements — 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 AIF and may be included in other filings with regulatory authorities and securities regulators. Forward-looking statements relate to analyses and other information that are 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. These 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, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or 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, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, 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 AIF and, in particular, those identified in the “Risk Factors” section of this AIF. The forward-looking statements contained in this AIF represent the Corporation's expectations as of the date of this AIF and are subject to change after such date. However, the Corporation 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.

Assumptions were made by Air Canada in preparing and making forward-looking statements. Air Canada assumes that the North American economy will start to slowly recover in 2010. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C\$1.06 per U.S. dollar in the first quarter of 2010 and C\$1.04 per U.S. dollar for the full year 2010 and that the price of fuel will average 69 cents per litre in the first quarter of 2010 and for the full year 2010 (both net of fuel hedging positions).

CORPORATE STRUCTURE

Name, Address and Incorporation

Air Canada was continued under the Canada Business Corporations Act (“CBCA”) on August 25, 1988. Air Canada acquired Canadian Airlines International Ltd. (“Canadian Airlines”) on July 6, 2000 and completed a corporate amalgamation with Canadian Airlines effective January 1, 2001, with the amalgamated entity being known as Air Canada. Pursuant to a consolidated plan of reorganization, compromise and arrangement of Air Canada and certain of its subsidiaries made pursuant to the Companies Creditors Arrangement Act (“CCAA”) (referred to herein as the “Plan”), ACE Aviation Holdings Inc. (“ACE”) became the parent holding company of the reorganized Air Canada on September 30, 2004.

On November 24, 2006, ACE and Air Canada completed an initial public offering and secondary offering of an aggregate 25 million Class A variable voting shares of Air Canada (the “Variable Voting Shares”) and Class B voting shares of Air Canada (the “Voting Shares”, together with the Variable Voting Shares, the “Shares”) (the “Initial Public Offering”). The Shares trade on the Toronto Stock Exchange (“TSX”) under the symbol AC.A for the Variable Voting Shares and the symbol AC.B for the Voting Shares. Through the Initial Public Offering, Air Canada sold an aggregate of 9,523,810 Variable Voting Shares and Voting Shares for gross proceeds of \$200 million to be used for general corporate purposes, including the partial funding of its fleet renewal program. In the secondary offering, ACE sold an aggregate of 15,476,190 Variable Voting Shares and Voting Shares for gross proceeds of \$325 million.

Prior to the closing of the Initial Public Offering, ACE proceeded with a reorganization of its corporate structure. Pursuant to such reorganization, the partnership interests, as well as the interests in the general partners of ACGHS Limited Partnership and AC Cargo Limited Partnership not held by Air Canada, were transferred to Air Canada and ACE transferred a 51% partnership interest, as well as a 51% interest in the general partner of Touram Limited Partnership (“Air Canada Vacations”) to Air Canada. As part of the reorganization, Air Canada completed a corporate amalgamation with ACGHS Holdings GP Inc. effective November 24, 2006 with the amalgamated entity retaining the name Air Canada. In 2007, Air Canada purchased from ACE its remaining 49% interest in Air Canada Vacations causing Air Canada Vacations to be 100% owned by Air Canada. As at September 30, 2009, ACE held a 75% ownership interest in Air Canada.

On October 27, 2009, Air Canada completed a bought deal public offering pursuant to which it sold to an underwriting syndicate 160,500,000 units of Air Canada at a price of \$1.62 per unit for aggregate gross proceeds to Air Canada of \$260 million (net proceeds of \$249 million after expenses and underwriter fees). Each unit was comprised of one Variable Voting Shares or one Voting Share, of Air Canada, and one-half of one share purchase warrant entitling the holder thereof to acquire one Variable Voting Share or one Voting Share at an exercise price of \$2.20 per Share, at any time prior to 36 months following October 27, 2009. In the event that, prior to the time of expiry of the warrants, the 20-day volume weighted average trading price of the Variable Voting Shares on the Toronto Stock Exchange (“TSX”) is equal to or greater than \$4.00 or the 20-day volume weighted average trading price of the Voting Shares on the TSX is equal to or greater than \$4.00 (each, an “Acceleration Event”), Air Canada shall have the right, at its option, within 10 business days after the Acceleration Event, to accelerate the time of expiry of the warrants. As a result of this public offering, and shares issued by Air Canada to a trust in conjunction with the adoption, in July 2009, of the Air Canada 2009 Pension Regulations and the completion of pension funding agreements with the Corporation’s Canadian-based unions (the “Pension MOUs”) which are identified in the “Significant 2009 Transactions” section of this AIF, ACE’s ownership interest in Air Canada was reduced from 75% to 27%.

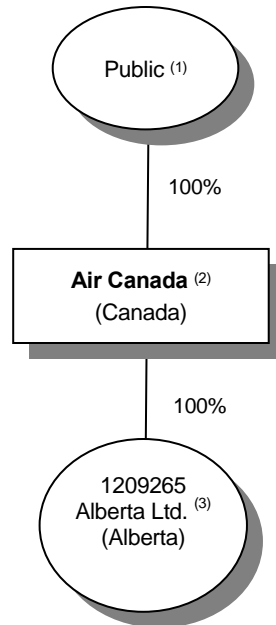
Effective December 1, 2009, the operations of AC Cargo Limited Partnership and ACGHS Limited Partnership, previously wholly-owned subsidiaries of Air Canada, were wound up into Air Canada and are now operated as divisions of Air Canada.

The head office of Air Canada is located at 7373 Côte-Vertu Boulevard West, Saint-Laurent, Québec, H4S 1Z3. Air Canada’s website address is www.aircanada.com.

Additional information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2009 and Air Canada's 2009 Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") dated February 10, 2010, both of which are available on Air Canada's website at www.aircanada.com and on SEDAR at www.sedar.com.

INTERCORPORATE RELATIONSHIP

The following chart illustrates, on a simplified basis, the structure of Air Canada (including jurisdiction of establishment/incorporation of the various entities) as at December 31, 2009.



- (1) ACE reports holdings of 75,000,000 Class B voting shares representing approximately 27% of the outstanding shares of Air Canada. ACE also holds 2,500,000 warrants which may be exercised for an additional 2,500,000 Class B voting shares. See section entitled "Corporate Structure" for additional information on these warrants.
- (2) Air Canada directly and indirectly holds all of the issued and outstanding shares of certain subsidiaries, including Air Canada Capital Ltd. and Simco Leasing Ltd., which are incorporated under the laws of the Province of Alberta. Air Canada holds all the issued and outstanding shares of Touram Limited Partnership, a limited partnership formed under the laws of the province of Quebec. Touram General Partner Inc., a corporation incorporated under the laws of Canada, is the general partner of, and holds a 0.00001% interest in Touram Limited Partnership. Air Canada holds a 100% interest in Touram General Partner Inc.
- (3) 1209265 Alberta Ltd. holds and manages certain cash and investments on behalf of Air Canada.

Certain subsidiaries, each of which represents not more than 10% of the consolidated assets and not more than 10% of the consolidated sales and operating revenues of the Corporation, and all of which, in the aggregate, represent not more than 20% of the total consolidated assets and the total consolidated sales and operating revenues of the Corporation at December 31, 2009, have been omitted.

REGULATORY ENVIRONMENT

In Canada, commercial air transportation, including policy, maintenance standards, operations standards, safety and ground and navigation facilities, falls wholly within the jurisdiction of the Canadian federal government and is the responsibility of the Minister of Transport. The Canadian Transportation Agency is responsible for issuing air carrier licenses for both domestic and international services and regulates international air fares as well as terms and conditions of carriage. Since 1996, NAV Canada, a private sector, non-share capital corporation financed through publicly-traded debt, is responsible for providing air navigation services in Canada. All major Canadian airports are operated by Canadian airport authorities that are not-for-profit corporations.

Domestic Services

On June 22, 2007, Bill C-11, *An Act to amend the Canada Transportation Act and the Railway Safety Act and to make consequential amendments to other Acts* (Canada), received royal assent and is now in force except for the provisions which seek to regulate the advertising of prices for air services. Bill C-11, among other things, amends the *Canada Transportation Act* ("CTA") with respect to the air transportation sector, in relation to complaints processes, the disclosure of terms and conditions of carriage, and specific recognition that in the event of an inconsistency or conflict between an international agreement or convention respecting air services to which Canada is a party and the Competition Act, the provisions of the agreement or convention prevail to the extent of the inconsistency or conflict. Management cannot predict if or when the provisions on the advertising of prices for air services will come into force.

On May 13, 2009, Bill C-310, *An Act to Provide Certain Rights to Air Passengers*, passed second reading in the House of Commons. Bill C-310, provides for, among other things, obligations on air carriers to disclose certain information to passengers and to provide compensation and other assistance to passengers in certain cases when a flight has been cancelled or delayed, when boarding has been denied, and when an aircraft has remained on the ground for a period of more than an hour at an airport. On November 25, 2009, the Standing Committee on Transport, Infrastructure and Communities recommended that the House of Commons not proceed further with Bill C-310 because it would make air carriers responsible for passenger inconveniences and would exclude the responsibility of other parties such as airport authorities, NAV Canada, Canadian Air Transport Security Authority, and the Canada Border Services Agency. Management cannot predict if or when the House of Commons will proceed with such proposed legislation or, if or when similar proposed legislation will be introduced.

Transborder Services

Transborder services between Canada and the United States are governed by the 1995 Canada–U.S. Air Services Agreement. This agreement gives Canadian air carriers unlimited route rights to provide "own aircraft" services between points in Canada and points in the United States. Under the 1995 Canada–U.S. Air Services Agreement, carriers of both countries are free to set their own prices for transborder services according to market forces. Prices may only be disallowed under special circumstances if the authorities of both countries agree, for example in response to predatory or monopolistic pricing behaviour on specific routes. In November 1997, Canada and the United States concluded an agreement that allows Canadian and U.S. carriers to code share to, from and via each other's territory, with carriers from other countries provided the other country allows code sharing and the carriers hold the underlying rights to serve that country. Air Canada code shares with certain Star Alliance® partners via Canada and the United States and some of these Star Alliance® partners' codes appear on some Jazz operated transborder flights.

On November 11, 2005, Transport Canada announced that the governments of Canada and the United States had negotiated an open skies agreement (the "Open Skies Agreement") which further liberalizes air transportation services. On March 12, 2007, the Open Skies Agreement came into force. The Open Skies Agreement allows air carriers of both countries (i) to pick up passenger and/or cargo traffic in the other country and carry that traffic to a third country as part of a service to or from the carrier's home country, (ii) to operate stand-alone all-cargo services between the other country's territory and third countries, and (iii) greater pricing flexibility for services between the other country and a third country. The carriage of local

traffic between points within one country by carriers of the other country, commonly known as cabotage, continues to be prohibited.

International Services

Scheduled international air services are regulated by the Canadian and foreign governments involved. The Minister of Transport has the authority to designate which Canadian air carriers may serve scheduled international routes. International route rights are obtained through bilateral negotiations between Canada and foreign countries. Bilateral agreements provide for the rights which may be exercised over agreed routings and the conditions under which the carriers may operate, including, among others, the number of carriers which may operate, the capacity and/or flight frequencies that may be provided and the controls over tariffs to be charged. Most bilateral agreements to which Canada is a party provide for the designation of more than one Canadian carrier, while some provide for the designation of only one Canadian carrier.

In May 2002, the Minister of Transport introduced a liberalized multiple designation policy applicable to scheduled international air services by Canadian carriers (excluding services to the United States). Any Canadian carrier may apply to be designated to serve any foreign country regardless of the size of the air travel market. If the number of Canadian carriers permitted is restricted under existing bilateral agreements, the Canadian government will pursue negotiations with the appropriate countries to seek the necessary rights for Canadian carriers. In addition, an incumbent carrier's designation in a particular market will be subject to reallocation only in circumstances where the bilateral agreement limits designation and the carrier is not operating its own aircraft or code share services.

On November 27, 2006, the Minister of Transport released a new international air transportation policy called Blue Sky that includes a more liberalized approach to Canada's bilateral air transportation negotiations. The Government of Canada indicated that, under the new policy, when in Canada's overall interest, it would proactively pursue opportunities to negotiate more liberalized agreements for international scheduled air transportation that will provide maximum opportunity for passenger and all-cargo services to be added according to market conditions. On December 9, 2008, the Minister of Transport announced that Canada had successfully concluded negotiations with the European Union on a comprehensive air transport agreement. Such agreement includes, among other things, unrestricted direct air services between Canada and European Union member states, flexible pricing arrangements, increased flexibility on codesharing and improved flexibility on cargo. The rights contained in the new agreement were made available as of December 18, 2009.

Charter Services

Charter operations are generally not covered by bilateral agreements, although charter services are covered under the 1995 Canada–U.S. Air Services Agreement. Canadian government policy permits Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities.

In April 2000, the Minister of Transport announced a new policy governing international passenger charter air services. This policy removed restrictions such as advance booking, minimum stay requirements and prohibitions on one-way travel. To preserve a distinction between charter and scheduled international services, this policy retains the requirements that the entire seating capacity of an aircraft is chartered and that charter carriers are prohibited from selling seats directly to the public.

Foreign Ownership Rules

The Government of Canada's Bill C-10, the *Budget Implementation Act 2009*, contains provisions whereby the provisions relating to voting securities in the *Air Canada Public Participation Act* ("ACPPA") would be repealed and the CTA would be amended to provide the Governor in Council with flexibility to increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These provisions will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Finance, in the case of the ACPPA, and on the recommendation of the Minister of Transport, in the case of the CTA.

Carbon Emissions

There is heightened focus on carbon emissions emanating from the aviation industry and legislation in various jurisdictions is being considered or adopted. Legislative initiatives include, for example, market-based mechanisms called emissions trading systems designed to reduce the amount of carbon emissions through the setting of permissible emissions allowances for industries, and individual operators within those industries and by allowing for the exchange or sale of the permissible emissions allowances among operators across different industries, and charging aircraft operators for a certain percentage of these allowances.

On November 19, 2008, the European Parliament adopted directive 2008/101/EC to add the aviation industry to the industries covered by the existing European Emission Trading Scheme ("EU ETS"). The EU ETS caps greenhouse gases ("GHG") emissions from covered industries while allowing trading of permissible GHG emissions allowances among the operators in the covered industry. The EU ETS will begin covering carbon dioxide emissions from the aviation industry in January 2012, including for flights operated between Canada and countries within the European Union and would require aircraft operators to monitor and report on fuel use and carbon dioxide emissions data. While this legislation would be expected to result in increased costs relating to the purchase of emissions allowances, the net financial impact would, in part, depend upon how much of such cost, if any, would be recoverable in the form of higher passenger and cargo fares.

On the domestic front, on October 19, 2006, the Government of Canada tabled the *Clean Air Act* with the intention to strengthen the legislative basis for taking action on reducing air pollution and GHG. On October 21, 2006, the Government of Canada published in the Canada Gazette Part I, Notice of intent to develop and implement regulations and other measures to reduce air emissions. At this time, there are no specific targets for aviation emissions.

In 2005, Canada reached a voluntary agreement on the reduction of GHG emissions with its aviation industry (the "Voluntary Agreement"). This Voluntary Agreement between the Government of Canada and the members of the Air Transport Association of Canada ("ATAC") sets out a GHG emission reduction goal on a per unit basis. ATAC members are committed to a fuel efficiency improvement target of 24% from 1990 levels by 2012 (measured in litres of jet fuel per revenue tonne kilometre). Although it is no longer a member of ATAC, Air Canada is signatory to this Voluntary Agreement and has already surpassed the fuel efficiency improvement target set out therein. In 2006, Air Canada set its own new target to further limit the environmental impact of its fleet by seeking to improve the fuel efficiency of its fleet operations by a further 25% from 2006 to 2020. Air Canada implemented a fuel efficiency program in mid-2006. In 2009, this program reduced CO₂ emissions by 45,000 tonnes compared to what Air Canada would have otherwise consumed.

Official Languages Act

Air Canada is subject to the *Official Languages Act (Canada)* (the "OLA"). The OLA compels Air Canada to, among other things, ensure that any member of the traveling public can communicate with and obtain services in either official language, French and English, where there is significant demand for those services in that language (Part IV of the OLA) and to allow employees to work in either official language (Part V of the OLA). In 2000, Parliament passed amendments to the ACPPA to impose on Air Canada the obligation to ensure any of its subsidiaries' customers can communicate with the subsidiary in respect of air services and incidental services, and obtain those services, in either official language, where the number of customers warrants such services.

Pursuant to the OLA, where services are performed on behalf of Air Canada by another party, Air Canada has the duty to ensure that any member of the public can communicate with and obtain those services in either official language in any case where those services, if provided by Air Canada, would be required under the OLA to be provided in either official language.

Security

Air Canada's first priority is to ensure the safety and security of its customers, employees and aircraft by maintaining the highest safety and security standards.

Since the September 11, 2001, terrorist attacks in the United States, new air security measures have been and are being regularly introduced in Canada and elsewhere (such as increased passenger and baggage screening, enhanced security procedures at check-in gates and on board the aircraft, reinforced cockpit doors on aircraft, an expanded program of armed police on aircraft and a requirement for passengers to produce valid identification prior to boarding all flights). On April 1, 2010, the Federal Government established the Canadian Air Transport Security Authority ("CATSA"). CATSA's responsibilities fall into four major air security areas, namely, pre-board screening of passengers and their belongings, hold baggage screening, non-Passenger Screening of those entering airport restricted areas and restricted area identity card implementation and management.

An air traveler's security charge was introduced on April 1, 2002, to cover the costs of CATSA. The charges have been revised in subsequent federal budgets. As of April 1, 2010, subject to Parliament's approval of the federal budget, the maximum charge will be \$15 for domestic travel, \$13 for transborder and \$26 for international travel.

In October 2002, the Canadian government implemented its Advance Passenger Information initiative to help identify potentially high risk individuals and address other border security issues. In March 2003, it also established a Passenger Name Record program. Canadian and foreign carriers are now required by regulation to provide the Canada Border Services Agency with specific personal information on all passengers and crew members on board international flights destined to Canada at the time of departure, as well as to provide access to passenger name records in the carriers' internal reservation systems. Foreign countries such as the United States, the United Kingdom, Australia, Mexico, South Korea, China and countries that are members of the Caribbean Community and Common Market ("CARICOM") have enacted similar information requirements with respect to flights operating into and/or from their territory.

On May 6, 2004, Bill C-7, *An Act to Amend Certain Acts of Canada in Order to Enhance Public Safety* (known as the *Public Safety Act, 2002*) received royal assent. The legislation amends certain provisions of the *Aeronautics Act* (Canada) so as to further develop the scope and objectives of the existing national aviation security regime. The amendments include requirements for Canadian carriers and foreign carriers operating into Canada to provide, upon request, information concerning specified flights or persons to the Minister of Transport, the Royal Canadian Mounted Police and the Canadian Security Intelligence Service for transportation security or national security purposes. These amendments came into force on May 11, 2004.

The Passenger Protect Program and Identity Screening Regulations came into effect in June 2007. Passengers aged 18 or over are required to have in their possession government-issued identification which includes their name, date of birth and gender. The passenger can present one piece of photo identification or two pieces of non-photo identification. The identification may be required at check-in and must be presented at the boarding gate. All immigration documentation requirements still apply on international flights.

The failed terrorist attack in December 2009 on board a U.S. commercial carrier prompted the implementation of additional security measures for flights to the United States including restrictions, relating to carry-on baggage.

Air Canada continues to work with the appropriate authorities to ensure full compliance with security requirements, including new programs that will affect the airline industry:

- Air Canada was the first carrier in Canada to provide Transport Canada with a security management system. The security management system uses threat/risk assessments in

conjunction with government regulations to define appropriate security measures and then monitors compliance through audits and incident reporting;

- Air Canada has implemented the new measures imposed by Transport Canada under the Passenger Protect Program as Air Canada already complies with similar requirements imposed by the Transport Security Agency (“TSA”), a U.S. government agency, for its “No Fly” and “Selectee” lists;
- Air Canada works with CATSA and other agencies to continuously improve security measures and to ensure that any innovation adopted by Air Canada maintains the highest degree of security; and
- The TSA has implemented new cargo screening regulations for flights coming into or out of the United States. Air Canada has implemented these new measures and is working with both the Canadian and U.S. governments on further developments of these regulations.

Safety

On June 15, 2005, the Minister of Transport announced regulatory amendments to further improve the safety performance of Canadian air operators and increase accountability in the aviation sector through the implementation of safety management systems. The goals of safety management systems are to increase industry accountability, to instill a consistent and positive safety culture, and to help improve the safety performance of air operators. Amendments to the Canadian Aviation Regulations require air operators to implement safety management systems in their organizations and appoint executives who are accountable for safety. These amendments came into force on May 31, 2005, and Air Canada has put in place its safety management systems in accordance with the regulations. On April 27, 2006, Bill C-6, *An Act to Amend the Aeronautics Act and to Make Consequential Amendments to Other Acts* (Canada), was tabled for first reading in the House of Commons. Bill C-6 seeks, among other things, to address integrated management systems and to authorize the establishment of voluntary reporting programs under which information relating to aviation safety and security may be reported. On October 29, 2007, Bill C-7, which represents the same version of Bill C-6 as adopted by the House of Commons at Report Stage, was tabled for first reading in the House of Commons, but the legislative process was terminated on September 7, 2008, when the 39th Parliament was dissolved. Management cannot predict if or when such proposed legislation will be re-introduced in the House of Commons or, if re-introduced, if or when such proposed legislation will come into force.

Privacy

Air Canada is subject to applicable Canadian and foreign privacy laws regarding the collection, use, disclosure and protection of passenger and employee data. Among other things, Canada's federal private sector privacy legislation, the *Personal Information Protection and Electronic Documents Act* (Canada) (the “PIPEDA”), governs the collection, use and disclosure of personal information in the course of commercial activities by a federally regulated business. In addition, the PIPEDA regulates the handling of employee personal information by federally regulated employers. With certain exceptions, the PIPEDA also applies to the collection or disclosure of personal information across provincial or Canadian international borders and within provinces without substantially similar private sector privacy legislation. The PIPEDA requires informed consent by the individuals whose personal information is collected and used. The personal information may then only be used for the purposes for which it was originally collected or for other purposes specified in, or allowed by, the PIPEDA. Air Canada has a privacy policy which is designed to meet or exceed the requirements of such privacy legislation.

TRADEMARKS

Air Canada believes that its trademarks are important to its competitive position. Air Canada is Air Canada's trade name and trademark. Other trademarks include Air Canada Jetz®, Air Canada Jazz®, Jazz®, Air Canada Vacations®, Vacances Air Canada®, Executive First®, Executive Class®, AC Priority™, AC Air Freight™, Rapidair®, Maple Leaf™, Feuille d'érable™, Air Canada Super Elite® and related design marks such as the Air Canada Roundel®. Air Canada has granted Aeroplan Holding GP Inc. ("Aeroplan") (the successor to Aeroplan Limited Partnership) a license to use Air Canada® and Air Canada Roundel® trademarks around the world solely in association with the Aeroplan® program. Air Canada has granted Jazz a license to use Air Canada Jazz®, Jazz®, Air Canada®, Air Canada Design®, Air Canada and Design® and other trademarks in Canada and the United States in association with the provision of scheduled airline services in regions of Canada and across the Canada — United States border. Air Canada protects its proprietary information, including its trademarks and database, through trademark laws, contractual provisions, confidentiality procedures and other means. Employees, service providers and other parties with whom Air Canada carries on business are, as appropriate, contractually bound to protect Air Canada's proprietary information in order to control access to and the distribution of any such information.

INDUSTRY OVERVIEW AND COMPETITIVE ENVIRONMENT

General

The airline industry has traditionally been dominated by large established network carriers. Network carriers generally benefit from brand name recognition and a long operating history. They offer scheduled flights to major domestic and international cities while also serving smaller cities. They generally concentrate most of their operations in a limited number of hub cities, serving most other destinations in their network by providing one-stop or connecting service through their hubs.

Over the past three decades, governments have gradually reduced economic regulation of commercial aviation. This has resulted in a more open and competitive environment for domestic, transborder and international airline services, for both scheduled and leisure charter operations. This deregulation has transformed the airline industry and allowed the emergence of low-cost carriers, which has resulted in a rapid shift in the competitive environment. With their relatively low unit costs largely resulting from lower labour costs and a simplified operational model and product offering, low-cost carriers are able to operate profitably while generally achieving lower yields than network carriers. By offering lower fares, these carriers have expanded and succeeded in gaining market share from network carriers. While the majority of low-cost carriers offer predominantly point-to-point services between designated cities, some utilize a similar "hub and spoke" strategy to the network carriers. WestJet Airlines Ltd. ("WestJet") is the largest low-cost carrier in Canada and it offers primarily point-to-point services in the domestic Canadian, transborder Caribbean and certain other North American markets with a fleet of 86 Boeing 737 aircraft at December 31, 2009.

Along with many airline carriers globally, Air Canada faced a number of significant challenges in 2008 and 2009, including as a result of volatile fuel prices and foreign exchange, liquidity requirements and a downturn in demand for air travel. Air Canada undertook various initiatives and developed a plan to manage through the challenges brought on by the prevailing weak economic environment. These initiatives included adjusting capacity to better match passenger demand; launching a comprehensive company-wide cost transformation program (the "CTP") to improve unit revenue and cost productivity; stabilizing its finances through a series of significant transactions; and reducing the risks associated with the expiry of its labour collective agreements in 2009 and the pension solvency deficit in its registered pension plans. Refer to the section entitled "Significant 2009 Transactions" in this AIF for information on Air Canada's new arrangements and certain repayments made in 2009. Refer to the section entitled "Liquidity" in this AIF for information on Air Canada's liquidity risks.

Domestic Market

The Canadian domestic market is characterized by a large geographic territory with a limited number of high density markets accounting for the majority of passenger traffic and revenue. This leads to a concentration of routes in Canada around four major hubs: Toronto, Montreal, Vancouver and Calgary.

According to Transport Canada, the number of domestic passengers grew at an average annual rate of 2.3% from 2000 to 2009.

Air Canada is the largest provider of scheduled passenger services in the Canadian market. Based on Official Airline Guide ("OAG") data, during the period from January 1, 2009 to December 31, 2009, Air Canada led the Canadian airline industry's domestic scheduled capacity with an estimated market share of approximately 56% based on Available Seat Miles ("ASMs").

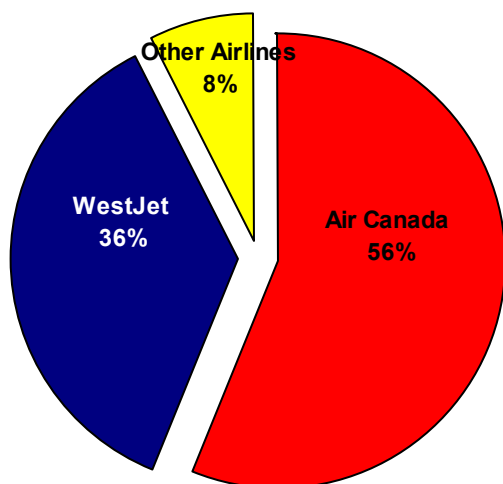
Air Canada is Canada's largest domestic airline. Jazz is the largest regional airline in Canada and operates regional service for Air Canada under a capacity purchase agreement with Jazz (the "Jazz CPA"). Air Canada, together with Jazz, carries more passengers, serves more non-stop destinations and provides more flights in the domestic market than any other airline. Competition in the domestic market is primarily from WestJet. As at December 31, 2009, Air Canada, together with Jazz, serviced 56 domestic destinations within Canada, while WestJet serviced 30 domestic destinations.

Other airlines operating in the domestic market include Canadian North and First Air, respectively, based in Yellowknife and Iqaluit, and they operate services primarily within northern Canada and connecting northern Canada to the rest of the country.

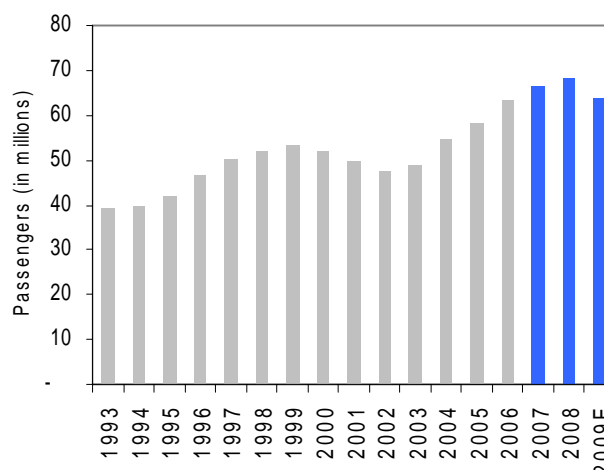
Porter Airlines Inc. ("Porter") is a regional passenger carrier based at and operating from Billy Bishop Toronto City Airport primarily in the eastern triangle market to compete with Air Canada's Rapidair services at Toronto Pearson Airport. The airline serves primarily short-haul business markets such as Ottawa, Montreal, New York (Newark), Chicago (Midway) and Boston (Logan) from Toronto, operating with a fleet of eighteen 70-seat Bombardier Q400 aircraft.

The following charts illustrate (i) the estimated share of the overall domestic scheduled capacity provided by Air Canada, together with Jazz, and other airlines, as measured by ASMs, and (ii) the historical and estimated number of domestic passengers per year.

Estimated Domestic Scheduled Capacity Market Share ⁽¹⁾



Historical Domestic Passengers ⁽²⁾



(1) Source: OAG data, based on ASMs during the period from January 1, 2009 to December 31, 2009. The estimated share of the overall domestic scheduled capacity of Air Canada includes the domestic scheduled capacity provided under the Jazz CPA.

(2) Source: Transport Canada, Assumptions Report 2009-2023, December 15, 2009. Represents enplaned and deplaned domestic passengers.

Transborder Market

In 2009, there were, on average, 1,085 daily scheduled transborder flights operated between Canada and the United States across the industry. Toronto Lester B. Pearson International Airport ("Toronto Pearson Airport"), Air Canada's largest hub, is the world's largest originator of flights into the United States.

According to Transport Canada, the number of transborder passengers fell at an average annual rate of 0.6% from 2000 to 2009.

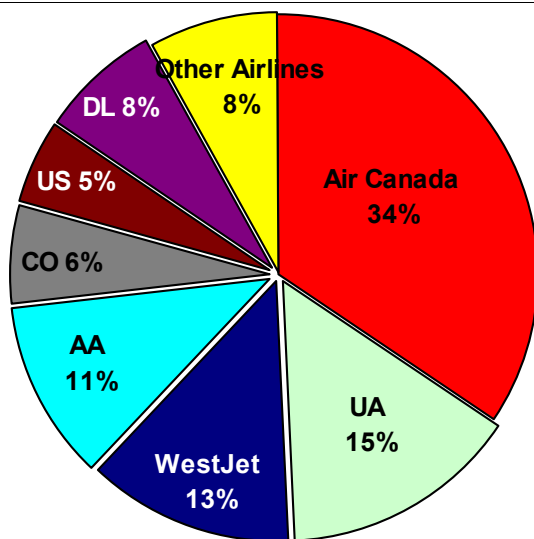
Air Canada is the largest provider of scheduled passenger services in the transborder market. Based on OAG data, during the period from January 1, 2009 to December 31, 2009, Air Canada provided more transborder scheduled capacity than any other airline with an estimated market share of approximately 34% based on ASMs.

Air Canada, together with Jazz, carries more passengers, serves more non-stop destinations and provides more flights in the transborder market than any other airline. Competition in the transborder market is primarily from U.S. network carriers and their regional affiliates and from WestJet. The U.S. network carriers tend to operate flights between the United States and Canada into their hubs, connecting to flights to other U.S. destinations, as well as WestJet. U.S. network carriers with transborder operations include Alaska Airlines, American Airlines, Continental Airlines, Delta Airlines (including their subsidiary Northwest Airlines), United Airlines and U.S. Airways. In 2009, Air Canada, together with Jazz, serviced 46 U.S. destinations from Canada, while U.S. carriers serviced 28 U.S. destinations from Canada.

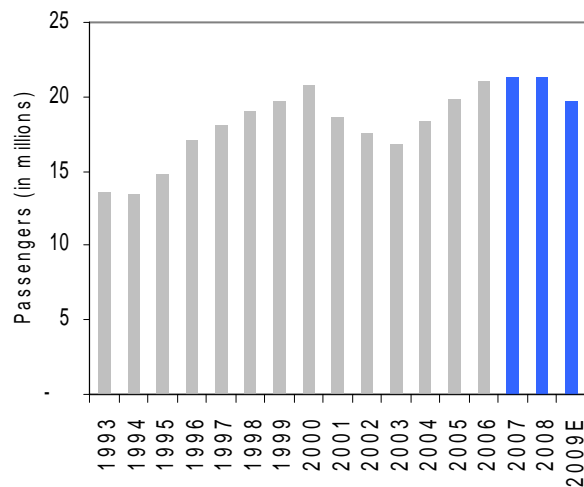
Canadian low-cost carriers also operate transborder services and have expressed an intention to further expand these operations in the future. As at December 31, 2009, WestJet provided transborder services to 17 destinations in the United States (i.e., Phoenix, Los Angeles, Palm Springs, San Diego, San Francisco, Fort Lauderdale, Orlando, Miami, Fort Myers, Tampa, Honolulu, Maui, Kona, Lihue, Las Vegas, Atlantic City and Newark).

The following charts illustrate (i) the estimated share of the overall transborder scheduled capacity of Air Canada, together with Jazz, and other airlines, as measured by ASMs, and (ii) the historical and estimated number of transborder revenue passengers per year.

Estimated Transborder Scheduled Capacity Market Share ⁽¹⁾



Historical Transborder Passengers ⁽²⁾



(1) Source: OAG data, based on ASMs during the period from January 1, 2009 to December 31, 2009. The estimated share of the overall transborder scheduled capacity of Air Canada includes the transborder scheduled capacity provided under the Jazz CPA. The estimated share of the overall transborder scheduled capacity of the other carriers presented also includes the transborder scheduled capacity of their respective affiliated or contracted regional carrier(s), when applicable. AA: American Airlines; UA: UAL Corporation; NW: Northwest Airlines; CO: Continental Airlines; AS: Alaska Air Group; DL: Delta Air Lines.

(2) Source: Transport Canada, Assumptions Report 2009-2023, December 15, 2009. Represents enplaned and deplaned transborder passengers.

International Market

Canadian airlines principally service the international market from three strategically-positioned airports. Toronto Pearson Airport, Canada's largest airport, is located in Canada's largest city and offers regular non-stop flights to numerous destinations in Europe, Central America/Caribbean/South America and, more recently, to Asian destinations. Toronto Pearson Airport offers, on average, approximately 500 daily departures, of which 11% are to international destinations. Montreal's Pierre Elliott Trudeau International

Airport ("Montreal Trudeau Airport") is located in Canada's second largest city, and offers regular non-stop service to several European destinations and certain Central American/Caribbean and South American destinations. Montreal Trudeau Airport offers, on average, approximately 224 daily departures, of which 10% are to international destinations. Vancouver International Airport, located in Canada's third largest city, is strategically positioned on Canada's west coast and acts as a gateway to many Asian destinations. Vancouver International Airport offers, on average, approximately 293 daily departures, of which 7% are to international destinations.

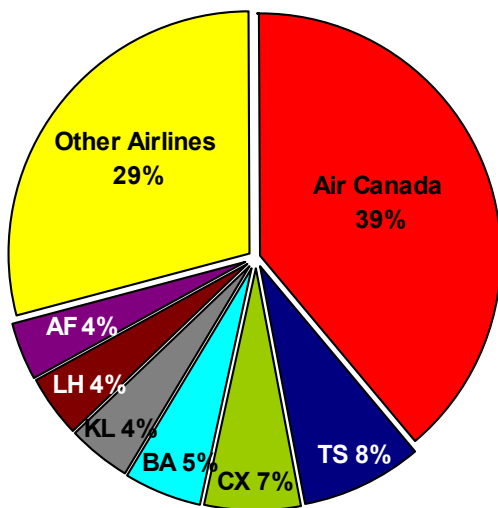
According to Transport Canada, the number of international passengers in the international market to and from Canada grew at an average annual rate of 4.1% from 2000 to 2009.

Air Canada is Canada's largest provider of scheduled passenger services in the international market to and from Canada and has a broad portfolio of international route rights. Based on OAG data, during the period from January 1, 2009, to December 31, 2009, Air Canada provided more international scheduled capacity in the international market to and from Canada than any other airline with an estimated market share of approximately 39% based on ASMs. Air Canada is currently the only Canadian scheduled carrier with routes from Canada to Asia, although a number of Asian carriers service Canadian destinations. Air Canada is also the sole Canadian scheduled carrier offering flights to South America and no South American scheduled network carrier currently provides non-stop service to Canada with the exception of LAN Airlines which flies into Toronto Pearson Airport via New York.

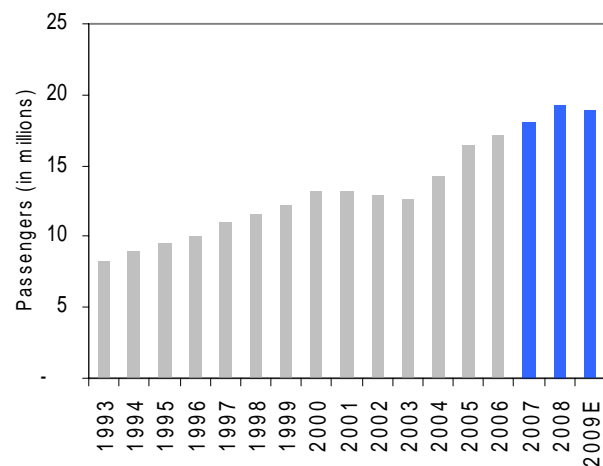
The expansion of major airline alliances, such as Star Alliance®, oneworld® and SkyTeam® has led to more efficient operations in the trans-Atlantic and trans-Pacific markets. In such markets, Air Canada competes primarily with foreign network carriers and, to a lesser extent, with charter carriers on higher density routes during peak travel seasons. In addition, U.S. network carriers compete by flying Canadian passengers through their hubs to destinations in international markets.

The following charts illustrate (i) the estimated share of the overall international scheduled capacity provided by Air Canada and other airlines as measured by ASMs, and (ii) the historical and estimated number of international passengers per year.

Estimated International Scheduled Capacity Market Share⁽¹⁾



Historical Passengers in the International Market to and from Canada⁽²⁾



(1) Source: OAG data, based on ASMs during the period from January 1, 2009, to December 31, 2009. BA: British Airways; TS: Air Transat; AF: Air France; KL: KLM Royal Dutch Airlines; CX: Cathay Pacific Airways; LH: Deutsche Lufthansa.

(2) Source: Transport Canada, Assumptions Report 2009-2023, December 15, 2009. Represents enplaned and deplaned international passengers.

OVERVIEW OF THE BUSINESS

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

In 2009, Air Canada, together with Jazz Air LP ("Jazz"), operated, on average, approximately 1,331 scheduled flights daily and carried almost 31 million passengers and provided direct passenger service to 156 destinations and, through commercial agreements with other unaffiliated regional airlines, referred to as tier III carriers, to an additional 11 destinations, for a total of 167 direct destinations on five continents.

Air Canada enhances its network through a capacity purchase agreement with Jazz (the "Jazz CPA") pursuant to which Air Canada purchases substantially all of Jazz's fleet capacity based on predetermined rates and Air Canada determines the routes and schedule operated by Jazz. Jazz operates small jet and turboprop aircraft that have lower trip costs than conventional large jet aircraft, allowing Jazz to provide service to Air Canada's customers in lower density markets as well as in higher density markets at off-peak times throughout Canada and the United States.

Air Canada is a founding member of the Star Alliance® network. The Star Alliance® network currently includes 26 member airlines. Through its membership in the Star Alliance® network, Air Canada is able to offer its customers access to approximately 1,077 destinations in 175 countries, as well as reciprocal participation in frequent flyer programs and use of airport lounges.

Air Canada is in the process of concluding arrangements for the implementation of a transatlantic alliance with Continental Airlines, Lufthansa and United Airlines, (which, when concluded, is intended to be effective as of January 1, 2010) and which will enable Air Canada to offer its customers more value, choice and transparency when making their transatlantic travel plans.

Through its long-term relationship with Aeroplan, Air Canada's frequent flyer program provider, Air Canada is able to build customer loyalty by offering those customers who are Aeroplan® members the opportunity to earn Aeroplan® Miles when they fly with Air Canada. Aeroplan is also Air Canada's single largest customer. The relationship with Aeroplan is designed to provide a long-term stable and recurring source of revenue from the purchase by Aeroplan of Air Canada seats to be provided to Aeroplan® members who choose to redeem their Aeroplan® Miles for air travel rewards.

The Corporation also generates revenues from its Air Canada Cargo services division ("Air Canada Cargo") and from tour operator services provided by its wholly-owned subsidiary, Air Canada Vacations.

Air Canada Cargo provides direct cargo services to over 150 Canadian and international destinations and has sales representation in over 50 countries. Air Canada Cargo is Canada's largest provider of air cargo services as measured by cargo capacity. Air cargo services are provided on domestic and U.S. transborder flights and on international cargo services on routes between Canada and major markets in Europe, Asia, South America and Australia.

Air Canada Vacations is one of Canada's leading tour operators. Based in Montreal and Toronto, Air Canada Vacations operates its business in the outbound leisure travel market (Caribbean, Mexico, U.S., Europe, South America, and Asia) by developing, marketing and distributing vacation travel packages. Air Canada Vacations also offers cruise packages in the Caribbean, North America and Europe. Air Canada Vacations markets its products through its website (www.aircanadavacations.com) and a network of independent travel agencies across Canada.

Air Canada's Business Strategy

Air Canada's business model allows it to compete more effectively on multiple levels against the low-pricing structures offered by low-cost carriers and the extensive services and networks of leading international full service carriers.

In an effort to improve its ability to generate income and grow its business profitably, Air Canada's priorities in 2010, which are further discussed below, include:

- Expanding international operations;
- Generating incremental revenues and achieving significant cost savings through a company-wide cost transformation program;
- Refocusing on customer service and further developing and promoting premium class travel; and
- Fostering culture change throughout the Corporation.

Expanding international operations

Air Canada will continue to seek opportunities to grow its international operations in 2010 by leveraging the advantages of its extensive route rights, its newly refurbished fleet – one of the youngest in North America, its world-class global hub at Toronto, and strong international gateways at Montreal and Vancouver. Air Canada believes it is well positioned to grow its share of traffic between Canada, and Europe and Asia.

Air Canada recently expanded its service to seven additional U.S. cities, fortifying its Toronto hub and strengthening the airline's position as the leading transborder carrier with the most daily flights between Canada and the U.S. of any airline. Air Canada's strategy is to leverage its Toronto hub to make it a global transfer point for domestic, transborder and international travelers. Furthermore, Air Canada's transatlantic joint venture, which is further described below will further enhance the airline's international growth strategy.

In 2009, Air Canada provided scheduled service directly to 54 destinations in Europe, the Middle East, Asia, Australia, the Caribbean, Central America and South America. Air Canada's plan to expand its international network in 2010 will be fuelled by the addition of routes to Europe and Asia, including Toronto – Montreal – Brussels, Toronto – Barcelona, Montreal – Barcelona, Toronto – Copenhagen, Toronto – Athens, Montreal – Athens, Calgary – Tokyo and St. John's – London, England. Air Canada also expects to grow its capacity to China through increased frequencies and the use of larger aircraft.

Air Canada believes that its investment in new Boeing 777 aircraft and an industry-leading on-board product across its fleet, including personal in-flight entertainment systems and in-seat power outlets accessible at virtually every seat, showcase the advantages of flying Air Canada. Air Canada is also one of the most respected brands in Canada and it plans to leverage this strength to attract premium revenue with a concentrated focus on its international service. The mix of types and sizes of aircraft in its fleet is designed to provide the airline with greater flexibility to respond to changing market demand more quickly and efficiently.

The value of Air Canada's network is enhanced through its Star Alliance network as well as under a newly-formed revenue sharing transatlantic joint venture in the process of being implemented among Air Canada, Lufthansa, Continental and United Airlines. Air Canada's participation in this joint venture and related cooperation are expected to provide the airline's customers with more options between Canada and Europe, Africa, the Middle East, India and the Commonwealth of Independent States (CIS), including western Russia.

In addition, the new Canada-EU air services agreement that came into effect in December 2009 will provide Air Canada with additional traffic right opportunities in the coming years.

Generating incremental revenues and achieving significant cost savings

A key objective of Air Canada's business strategy is to consistently improve unit revenue and cost productivity.

Early in 2009, with the assistance of a leading aviation consultancy firm, Air Canada launched a major company-wide cost transformation program (the "CTP") which is targeting \$500 million in annualized revenue gains and cost savings. Through extensive management analysis and benchmarking, over 125 initiatives have been identified to date. The initiatives relate to cost savings from contract improvements, operational process and productivity improvements and revenue optimization.

As fuel costs constitute the largest percentage of the total operating costs of the airline, Air Canada continues to aggressively focus on managing fuel consumption. Since the implementation of its fuel efficiency program in mid-2006, Air Canada generated cumulative savings of close to \$80 million. In 2009, this program generated savings of \$12 million and reduced the airline's fuel consumption by 18 million litres, and reduced CO₂ emissions by 45,000 tonnes. Fuel efficiency program initiatives range from simple weight reduction initiatives and flight profile optimization which do not affect on-time performance or passenger connections to more innovative weight savings initiatives such as a potable water management program to reduce the carriage and weight of unnecessary water and a Zero Fuel Weight (ZFW) accuracy program which enables the calculation of accurate flight plans.

Refocusing on customer service and further developing and promoting premium class

Air Canada's success depends on meeting and exceeding the expectations of its customers, attracting new ones and providing all customers with the service they deserve when flying with Air Canada.

Virtually all aircraft operated by Air Canada have new seats with personal in-flight entertainment systems and in-seat power outlets accessible at every seat in the economy, Executive and Executive First cabins. For aircraft that fly international routes, excluding U.S. transborder and Caribbean routes, all seats in the Executive First cabin convert to lie-flat beds. The airline also offers its customers a far-reaching network which is enhanced by its strong international Star Alliance partners and will be further enhanced with the implementation of the transatlantic joint venture mentioned earlier. Through its relationship with Aeroplan, one of the premier loyalty program providers in the world, Air Canada customers have the ability to earn and redeem points on a worldwide basis.

In 2009, Air Canada was rewarded for the consistent high quality work of its employees and their dedication to offering customers a superior product with the following awards:

- Top honours by readers of Business Traveler's "Best in Business Travel" award program;
- Voted by the readers of Business Traveler magazine as Best North American Airline for Business Class Service and Best North American Airline for International Travel and as offering Best Flight Attendants in North America; and Best In-Flight Services in North America; and
- Honoured by Global Traveler Magazine as Best Airline in North America and Best Airline in Canada.

Air Canada continues to seek ways to improve the travel experience of its business travelers as this segment of its customer base is an important component in its strategy to drive the airline to sustained profitability. In 2010, the airline will be placing further emphasis on delivering enhancements and travel preferences that business travelers value most as well as identifying areas for further improvement.

Although one of the airline's objectives is to further develop and promote premium class, providing a good travel experience to every single one of its customers is equally important to Air Canada. As such, Air Canada's goal is to deliver friendly, professional and "best in class" service on a consistent basis to all its customers, including those customers who travel with the airline less frequently. To achieve that, Air Canada has been refocusing its efforts on ensuring it has the appropriate products and services in place.

Although customer satisfaction levels are steadily improving as a result of Air Canada's investment in its fleet and onboard products, its award-winning Maple Leaf Lounges, its concierge program and its loyalty program, Air Canada is continuously working to improve its interaction with customers through policy and procedural changes. Air Canada's objective is to make its policies more simple, efficient and customer-friendly.

Air Canada revised its checked bag policy on January 19, 2010, to permit travelers one free checked bag for travel to the U.S. and Europe, and charge a fee for the second bag of \$30 for flights to/from the U.S., and \$50 for flights to/from Europe. These revised bag policy changes more closely align Air Canada's policies with those prevailing among international carriers on transatlantic routes and are more generous than those of U.S. carriers on transborder routes, which charge for all checked bags.

Air Canada believes that the elimination of the call centre fee, changes to the "pets in cabin" policy, making more Aeroplan redemption seats available and more generous meal and hotel packages being offered to customers during disrupted operations are helping to improve customer service and thus increasing customer loyalty. In addition, the use of new technologies such as the Air Canada iPhone App, which won the "Best Mobile Application" at the Canadian New Media Awards in 2009, the Blackberry App, as well as the self-service rebooking tool allow the airline to communicate more effectively with customers in times of disrupted operations and provide customers with more choices to plan their travel.

In addition, based on extensive feedback received from customers over the last year, the airline has recently enhanced its frequent flyer program to ensure it remains competitive with other airline offerings and to provide an added incentive for customers to choose Air Canada for their travel needs.

Fostering culture change throughout the Corporation

A key objective of Air Canada's business strategy is to foster a more entrepreneurial corporate culture. The challenging economic environment has highlighted the fact that fundamental culture changes are required for the airline to be better placed to achieve sustained profitability. This corporate culture focuses on leadership, ownership, entrepreneurship and the ability to be more nimble to seize opportunities and react more quickly to challenges. Although this objective may take some time to achieve, Air Canada has begun the change process by communicating to all its employees the type of culture it envisions to allow the airline to prosper. In pursuit of this goal, the airline has taken actions to simplify processes, empower employees and is continually seeking means to actively foster culture change. The recent industry honours awarded by The Global Traveler and Business Traveler Magazine are an indication that employees are participating in the airline's transformation especially through a renewed focus on customer service.

Pension Plan Arrangements

Air Canada maintains several defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to its employees. As at January 1, 2009, based on the actuarial valuations which were used to determine certain pension funding requirements in 2009, the aggregate solvency deficit in the registered pension plans was \$2,835 million. Based on preliminary actuarial valuations as at January 1, 2010, the preliminary estimate of the aggregate solvency deficit in the registered plans is estimated to be between \$2,500 million and \$2,700 million. This preliminary estimate of the solvency deficit range includes the impact of the actual return on plan assets partially offset by a decrease in the discount rate used to value the benefit obligation which has the effect of increasing the benefit obligation. The final actuarial valuations for January 1, 2010, will be completed in the first half of 2010 however, as described below, they will not impact the 2010 pension funding obligations.

In July 2009, the Government of Canada adopted the Air Canada 2009 Pension Regulations. The Air Canada 2009 Pension Regulations relieve the Corporation from making any special (past service cost) payments in respect of the period beginning April 1, 2009, and ending December 31, 2010. Thereafter, in respect of the period from January 1, 2011, to December 31, 2013, the aggregate annual past service contribution shall equal the lesser of (i) \$150 million, \$175 million, and \$225 million in respect of 2011, 2012, and 2013, respectively and (ii) the maximum past service contribution permitted under the Tax Act.

The Air Canada 2009 Pension Regulations were adopted in coordination with the Pension MOUs identified in the section entitled "Significant 2009 Transactions" in this AIF. Pursuant to the Pension MOUs, on October 26, 2009, Air Canada issued to a trust, 17,647,059 Class B voting shares. This number of shares represented 15% of the shares of Air Canada issued and outstanding as at the date of the Pension MOUs and the date of issuance (in both cases after taking into account such issuance). All net proceeds of sale of such shares by the trust are to be contributed to the pension plans. For so long as the trust continues to hold at least 2% of Air Canada's issued and outstanding shares of Air Canada, the trustee has the right to designate one nominee (who shall not be a member or officer of any of Air Canada's Canadian-based unions) to Air Canada's board of directors, subject to completion of Air Canada's usual governance process for selection and confirmation of director nominees. On February 9, 2010, Air Canada's Board of Directors approved the appointment of the Honourable Roy Romanow to the Air Canada Board of Directors, following his nomination by Air Canada's Canadian-based unions pursuant to the Pension MOUs. Current service contributions will continue to be made in the normal course while the Air Canada 2009 Pension Regulations are in effect.

The following table provides indicative figures of Air Canada's pension funding obligations, on a cash basis, for 2010 and for the next three years. Actual funding obligations are dependent on a number of factors, including the Air Canada 2009 Pension Regulations described above for past service, the assumptions used in the last filed actuarial valuation reports for current service (including a discount rate of 6.25%), the plan demographics at the valuation date, the existing plan provisions, existing pension legislation and changes in the economic conditions, mainly the return on fund assets and changes in interest rates. Actual contributions which are determined on the basis of future valuation reports filed annually may vary significantly from projections. In addition to changes in plan demographics and experience, actuarial assumptions and methods may be changed from one valuation to the next, including by reason of changes in plan experience, financial markets, future expectations, changes in legislation and other factors. As of 2014, the Air Canada 2009 Pension Regulations will cease to have effect and Air Canada's pension funding obligations may vary significantly based on a wide variety of factors, including regulatory developments, assumptions and methods used and changes in the economic conditions, mainly the return on fund assets and changes in interest rates.

(Canadian dollars in millions)	2010	2011	2012	2013
Past service domestic registered plans	\$ -	\$ 138	\$ 173	\$ 221
Current service domestic registered plans	161	165	170	175
Other pension arrangements ⁽¹⁾	78	79	81	83
Total pension funding obligations	\$ 239	\$ 382	\$ 424	\$ 479

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

The net deficit, on an accounting basis, at December 31, 2009, for pension benefits was \$1,186 million (\$1,012 million in 2008). The increase in the accounting deficit is mainly the result of an increase to the accrued benefit obligation resulting from a decrease in the discount rate largely offset by a higher than expected return on plan assets.

Arrangements with Unions

Following its filing for protection under the CCAA in April 2003, Air Canada concluded in 2003 and amended in 2004 long-term collective agreements with the International Association of Machinists and Aerospace Workers ("IAMAW"), the Air Canada Pilots Association ("ACPA"), the Canadian Union of Public Employees ("CUPE"), the Canadian Air Line Dispatchers Association ("CALDA"), the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW"), the International Brotherhood of Teamsters ("IBT"), the AMICUS and the Transportation and General Workers Union ("TGWU"). The agreements provided for a combination of productivity improvements and wage reductions. All unconditional employment security provisions in the collective agreements were also eliminated. All scheduled bonus payments and wage increases were cancelled and all overtime is now paid at one and a half times the applicable pay rate. Air Canada also entered into "clean slate" agreements with all of its North American unions where the parties agreed to resolve, waive or compromise outstanding grievances. The collective agreements also provided for negotiations limited to the subject of wages (and for pilots, some pension issues) in 2006, subject to mediation and binding arbitration.

In 2006, Air Canada concluded wage re-opener agreements, mediations or arbitrations under the collective agreements negotiated with all its union groups for the period from 2003 and 2004, to 2009. The average of the wage adjustment agreements and awards represented an increase of approximately 5% over the three-year period from mid-2006 to mid-2009. In July 2009, the collective agreements with the IAMAW, ACPA, CUPE, CAW and CALDA were renewed or extended and will now expire in the first quarter of 2011. The labour agreements provide for no increases to wage rates and no changes to group insurance coverage, benefits or pension benefit levels during the contract extension or renewal periods. No strikes or lock-outs may lawfully occur during the term of the collective agreements, nor during the negotiations of their renewal until a number of pre-conditions, in respect of the unions for Canadian-based employees, prescribed by the Canada Labour Code, have been satisfied.

The collective agreement with the IBT representing certain airport and call centre employees in the United States was renewed in 2008 for a term of three years. Air Canada also concluded agreements with the TGWU and Amicus, both in the United Kingdom. These two unions subsequently merged and now refer to themselves as UNITE. In 2009, Air Canada concluded a collective agreement with UNITE which expires on January 1, 2011.

Air Canada's Main Environmental Objectives

Air Canada is mindful of the impact that its use of energy and natural resources has on the environment. To minimize the generation of waste as well as the emission of carbon dioxide and other greenhouse gases, Air Canada has developed an environmental management system based on principles of the International Organization for Standardization standard ISO 14000. Providing a continual cycle of planning, implementation and review, Air Canada's environmental management system is designed to ensure continuous improvement in its efforts towards meeting its main environmental objectives.

Air Canada's main environmental objectives are as follows:

- (i) optimize energy consumption and minimize emissions resulting from air and ground operations including aircraft maintenance;
- (ii) minimize noise from aircraft operations;
- (iii) ensure efficient use of resources, minimal waste generation and appropriate waste disposal;
- (iv) respond effectively to accidental release of potentially harmful or hazardous substances and eliminate the future occurrence of similar events; and
- (v) promote sound environmental management policies and practices throughout the Corporation.

Air Canada measures and discloses its greenhouse gas emissions and climate change strategies through annual reporting to the Carbon Disclosure Project ("CDP"). The CDP is an organization based in the United Kingdom which works with shareholders and corporations to disclose the greenhouse gas emissions of major corporations.

BUSINESS OF AIR CANADA

The table below sets forth Air Canada's financial results for the year ended December 31, 2009:

(Canadian dollars in millions)	December 31, 2009	December 31, 2008
Passenger Revenue	\$ 8,499	\$ 9,713
Cargo Revenue	358	515
Other Revenue ⁽¹⁾	882	854
Total Operating Revenues	9,739	11,082
Total Operating Expenses	10,055	11,121
Operating Loss before a Provision for Cargo Investigations⁽²⁾	\$ (316)	\$ (39)

(1) Other revenue includes revenues from the sale of the ground portion of vacation packages, ground handling services and other airline-related services.

(2) A provision related to investigations and proceedings related to alleged anti-competitive cargo pricing activities of \$125 million was recorded in 2008.

The table below sets forth the proportions of passenger revenues derived from domestic, transborder and international services of Air Canada for the years ended December 31, 2009 and December 31, 2008.

(Passenger Revenues, in Percent)	2009	2008
Domestic	42	42
Transborder	19	19
International	39	39
Total	100 %	100 %

For additional information on Air Canada's financial results for 2009, refer to Air Canada's consolidated financial statements for the year ended December 31, 2009, and Air Canada's 2009 MD&A dated February 10, 2010, both of which are available on Air Canada's website at www.aircanada.com or on SEDAR at www.sedar.com.

Routes and Schedules

Air Canada

In 2009, Air Canada (including Jazz) operated, on average, approximately 1,331 average daily departures to 56 destinations in Canada, 46 destinations in the United States and 54 destinations in the Canada–Europe, Canada–Pacific, Canada–Caribbean/Central America and Canada–South America markets. Domestic, transborder and international departures accounted for approximately 68%, 25% and 7%, respectively, of the approximately 1,331 average daily departures. In 2009, Air Canada's route network extended to 37 countries and territories.

In 2009, Air Canada, together with Jazz, carried almost 31 million passengers and provided direct passenger service to 156 destinations and, through commercial agreements with other unaffiliated regional airlines, to an additional 11 destinations, for a total of 167 direct destinations on five continents.

Air Canada's hubs are located in Toronto, Vancouver, Montreal and Calgary, each of which provides extensive access to domestic, transborder and the international markets.

Toronto Pearson Airport is the largest hub in Canada and a significant airline origin and destination market in North America. For the year ended December 31, 2009, Air Canada, together with Jazz, operated, on average, 287 daily departures from Toronto. Vancouver International Airport is the second largest hub in Canada and is Air Canada's gateway to the Pacific Rim. For the year ended December 31, 2009, Air Canada, together with Jazz, operated on average 139 daily departures from Vancouver. Montreal Trudeau Airport is the third most important hub in Air Canada's network. For the year ended December 31, 2009, Air Canada, together with Jazz, operated, on average, 123 daily departures from Montreal. Calgary International Airport is Air Canada's fourth largest hub. For the year ended December 31, 2009, Air Canada, together with Jazz, operated, on average, 102 daily departures from Calgary.

Domestic Services

In 2009, Air Canada, together with Jazz, provided the largest network and most extensive product offering in Canada, with scheduled direct passenger service to 56 Canadian destinations. The most important Canadian routes, in terms of operating revenues, are the transcontinental routes linking Toronto, Montreal and Ottawa with major Western Canadian cities, including Vancouver, Calgary, Edmonton and Winnipeg. Air Canada, together with Jazz, operates a large number of short-haul routes, including Rapidair® routes, linking Toronto, Montreal and Ottawa. Air Canada, together with Jazz, also offers frequent service linking major centres within Western Canada, and operates numerous flights including Calgary, Edmonton and Vancouver. In addition to transcontinental and commuter routes, Air Canada, together with Jazz, provides service between and within Central Canada, the Prairies and the Atlantic provinces.

Regional carriers, having commercial agreements with Air Canada, operate in markets not sufficiently large to be served by Air Canada or Jazz aircraft. These airlines operate flights under Air Canada's designator code. Air Canada does not own equity interests in any of these carriers.

Transborder Services

With the most non-stop destinations and flights from Canada to the United States, Air Canada, together with Jazz, carries more passengers between Canada and the United States than any other airline. Air Canada, together with Jazz, directly served 46 U.S. destinations in 2009. Air Canada's network reach is also increased by its extensive connections to, and code sharing flights with United Airlines (and United Express) and Continental Airlines (and Continental Express), two of its Star Alliance® partners.

In the summer of 2010, Air Canada, together with Jazz and its regional partners, will start flying to seven new U.S. destinations from its Toronto hub, including five new markets presently without Air Canada service from any of its hubs.

International Services

Air Canada is well positioned as Canada's largest scheduled international airline. In 2009, Air Canada provided scheduled service directly to 54 destinations in Europe, the Middle East, Asia, Australia, the Caribbean and Central America and South America.

Air Canada offers trans-Atlantic services to the United Kingdom, Germany, France, Switzerland, Israel, Ireland, Italy and Spain. Air Canada will be offering services to Denmark, Belgium and Greece in the summer of 2010.

Air Canada also offers services to the Asia-Pacific market via its Vancouver and Toronto hubs. Air Canada operates non-stop flights to Japan (Vancouver and Toronto to Tokyo), China (Vancouver and Toronto to Beijing, Shanghai and Hong Kong) and Korea (Vancouver to Seoul).

Air Canada has also expanded its services to South America, Australia and Central America/Caribbean. Air Canada currently provides service directly to six destinations in South America, one in Australia, seven in Central America and 25 in the Caribbean.

In the summer of 2010, Air Canada will start flying to Athens, Barcelona, Brussels and Copenhagen and is introducing a new non-stop service between Calgary and Tokyo at the end of March 2010.

Jazz

Jazz is an integral part of Air Canada's North American strategy. Jazz operates both domestic and transborder services for Air Canada under the Jazz CPA. Jazz operates scheduled passenger service on behalf of Air Canada with approximately 751 departures per weekday to 56 destinations in Canada and 30 destinations in the United States as at December 31, 2009. Approximately 30% of Jazz's traffic connects to Air Canada's mainline network. In 2009, Jazz contributed approximately 18% of Jazz's and Air Canada's combined domestic ASM capacity and approximately 19% of Jazz's and Air Canada's combined transborder ASM capacity.

Aircraft Fleet

Current and Planned Operating Fleet

Air Canada's operating fleet (excluding Jazz) as at December 31, 2009, and the planned operating fleets for 2010 and 2011 are shown below.

	Actual			Planned			
	December 31, 2008	New Deliveries	December 31, 2009	2010 Fleet Changes	December 31, 2010	2011 Fleet Changes	December 31, 2011
Boeing 777-300	10	2	12	-	12	-	12
Boeing 777-200	6	-	6	-	6	-	6
Boeing 767-300 ⁽¹⁾	30	-	30	-	30	(3)	27
Airbus A330-300	8	-	8	-	8	-	8
Airbus A321	10	-	10	-	10	-	10
Airbus A320	41	-	41	-	41	-	41
Airbus A319	35	-	35	-	35	-	35
EMBRAER 190	45	-	45	-	45	-	45
EMBRAER 175	15	-	15	-	15	-	15
Total	200	2	202	-	202	(3)	199
Average age (years)	8.8		9.7		10.7		11.6

(1) The three Boeing 767-300 aircraft planned to be removed from Air Canada's operating fleet in 2011 will likely be replaced with three other widebody aircraft.

Widebody Aircraft Fleet

Current Fleet of Widebody Aircraft

As at December 31, 2009, Air Canada's operating widebody fleet was comprised of 56 aircraft, each configured in two classes of service: Executive First or Executive Class, and Economy Class. The Airbus A330-300 aircraft is a 265-seat aircraft twin-engine aircraft that Air Canada operates mainly on trans-Atlantic routes. The Boeing 777-300ER aircraft is a 349-seat twin-engine aircraft used mainly on international routes. The Boeing 777-200LR aircraft is a long-range 270-seat twin-engine aircraft used mainly on international routes. The Boeing 767-300ER aircraft is a long-range 191-213-seat aircraft used mainly on international routes.

Boeing Orders and Financing Terms

In November 2005, Air Canada concluded agreements with the Boeing Company ("Boeing") for the acquisition of up to 36 Boeing 777 aircraft and up to 60 Boeing 787 Dreamliners. The initial order for the 36

Boeing 777 aircraft was comprised of firm orders for 18 aircraft plus purchase rights for 18 more. The initial order for the Boeing 787 aircraft was comprised of firm orders for 14 aircraft plus purchase rights, options and rolling options for 46 aircraft.

During 2007, the Corporation amended agreements with Boeing to cancel orders for two Boeing 777 aircraft scheduled for delivery in 2009. In addition, the Corporation increased its order for Boeing 787 aircraft by 23, bringing its total firm orders to 37 Boeing 787 aircraft.

As at December 31, 2009, all 16 Boeing 777 firm aircraft under the Boeing purchase agreement had been delivered.

In 2009, Air Canada and Boeing agreed to amend the purchase agreement for Boeing 787 aircraft to reduce the number of options for Boeing 787 aircraft by 10, from 23 to 13, and to provide for purchase rights for 10 Boeing 787 aircraft. Air Canada continues to have 37 firm orders for Boeing 787 aircraft. Air Canada and Boeing also agreed to amend certain commercial terms, including revisions to delivery dates. Air Canada's first Boeing 787 aircraft is now scheduled for delivery in the second half of 2013. Air Canada continues to hold purchase rights for 18 Boeing 777 aircraft.

For the firm aircraft orders, the Corporation has financing commitments from Boeing and the engine manufacturer covering 31 of the 37 Boeing 787 aircraft. The financing terms for 28 out of the 31 Covered Aircraft is for 80% of the aircraft delivery price and the term to maturity is 12 years with straight-line principal repayments. For the remaining three out of the 31 Covered Aircraft, the financing under the commitment covers up to 90% of the capital expenditure and the term to maturity is 15 years with principal payments made on a mortgage style basis resulting in equal installment payments of principal and interest over the term to maturity.

Narrowbody and Regional Jet Aircraft Fleet

Current Fleet of Narrowbody and Regional Jet Aircraft

As at December 31, 2009, Air Canada operated 146 narrowbody aircraft, including 86 Airbus narrowbody aircraft. These aircraft are configured in two classes of service: Executive Class and Economy Class. The Airbus A320 aircraft is a 146-seat, twin-engine aircraft. The twin-engine Airbus A319 aircraft offers 120 seats and is essentially a shortened version of the Airbus A320 aircraft, with the same engines, operating systems and flight deck. The twin-engine Airbus A321 aircraft is the largest narrowbody aircraft in the Airbus family, with 174 seats. The Embraer E190 and E175 aircraft are 93-seat and 73-seat twin-engine aircraft, respectively. These small jets have lower trip operating costs than Air Canada's Airbus narrowbody aircraft. All of these narrowbody aircraft types primarily serve Air Canada's domestic, transborder and Caribbean routes.

Jazz's Regional Jet and Turboprop Aircraft Fleet

The fleet of aircraft operated as at December 31, 2009, by Jazz on behalf of Air Canada pursuant to the Jazz CPA is shown below ("Covered Aircraft"):

	Number of Covered Aircraft under the Jazz CPA as at December 31, 2009
Air Canada	
Bombardier CRJ-100	24
Bombardier CRJ-200	30
Bombardier CRJ-705	16
Total Bombardier CRJ Aircraft	70
Dash 8-300	26
Dash 8-100	34
Total Turboprop Aircraft	60
Total Covered Aircraft	130

Pursuant to the Jazz CPA, Air Canada purchases capacity from Jazz in consideration for the payment of certain fees by Air Canada to Jazz. With the exception of one Bombardier CRJ-705, which is leased by Jazz from a third party, all the remaining Bombardier regional jet aircraft in Jazz's fleet are owned or leased by Air Canada or Air Canada Capital Ltd., a wholly-owned subsidiary of Air Canada, and leased or subleased to Jazz who operates them.

Air Canada entered into an agreement amending the terms of the Jazz CPA effective August 1, 2009. This amending agreement provides, among other things, for a reduction in Air Canada's commitment to Jazz's minimum fleet from 133 to 125 aircraft. The reduction in aircraft operated by Jazz on behalf of Air Canada shall commence with the return of eight CRJ-200 and two CRJ-100 aircraft upon the expiry of the subleases of such aircraft, through to April 2010. Following the return of these aircraft, the fleet operated by Jazz, on behalf of Air Canada, would, at that time, be reduced to 123 aircraft. On February 9, 2010, Jazz announced that it has signed a Letter of Intent with Bombardier Commercial Aircraft for the purchase, subject to the satisfaction of customary conditions, and finalizing a binding purchase agreement for a firm order of 15 Q400 NextGen aircraft with options for an additional 15 aircraft. Aircraft deliveries are planned to commence in May 2011. The aircraft will accommodate 74 passengers, and will be configured with a single cabin.

As at December 31, 2009, Jazz operated, on behalf of Air Canada, 70 Bombardier regional jet aircraft as Covered Aircraft under the Jazz CPA. The 50-seat Bombardier CRJ-100/200 aircraft is a twin-engine regional jet aircraft designed to provide superior performance and operating efficiencies for the regional airline industry. The Bombardier CRJ-100/200 aircraft is used primarily to serve lower density markets on routes of less than 1,000 miles, and to serve larger markets at "off peak" times. The 75-seat Bombardier CRJ-705 aircraft is configured into Executive Class and Economy Class cabins and is an economical aircraft due to its operational efficiencies and lower trip costs. These aircraft are used in selected domestic and transborder markets.

In addition, as at December 31, 2009, Jazz operated 60 Bombardier Dash 8 aircraft as Covered Aircraft under the Jazz CPA. With the exception of seven Dash 8-300 aircraft leased from third parties and five Dash 8-100 aircraft leased from Air Canada's subsidiary, Air Canada Capital Ltd, all remaining Dash 8 aircraft forming part of the Covered Aircraft are owned by Jazz. Jazz also leases two Dash 8-100 aircraft from Air Canada Capital for its charter business. The Dash 8-100 aircraft is a twin-engine turboprop medium range aircraft with seating capacity of 37 passengers. The 50-seat Dash 8-300 aircraft has advanced turboprop characteristics that approach those of a jet aircraft. Turboprop aircraft continue to serve

certain segments of the Canadian domestic market more efficiently than regional or larger jet aircraft. On short-haul routes with lower traffic volumes, turboprops often present a more economical and efficient way to serve these markets. Compared to larger jet aircraft, the turboprop is more profitable to operate on shorter routes with low levels of passenger demand due to its generally lower break-even load requirements.

Aircraft Refurbishment Program

Air Canada completed a major refurbishment program of its existing aircraft in 2009. All aircraft in its operating fleet were refurbished with the exception of three Boeing 767-300ER aircraft where a light interior renovation was completed. The new fleet-wide amenities in refurbished aircraft include digital quality in-seat monitors with touch-screen controls offering hundreds of hours of audio and video on demand programming, USB ports at every seat, standard in-seat power within reach of every customer and industry leading lie-flat bed suites in Executive First.

Fuel

Aircraft fuel is a major expense in the airline industry and the single largest expense to Air Canada, representing approximately 24% of Air Canada's 2009 total operating expenses. During 2008, fuel prices experienced extreme volatility and declined from a peak of U.S. \$145 per barrel of West Texas Intermediate ("WTI") crude oil in mid-2008 to U.S. \$34 per barrel in December 2008. During 2009, the price of WTI crude oil per barrel averaged U.S. \$62 with the price per barrel ranging from U.S. \$34 in the first quarter of 2009 to U.S. \$81 per barrel in the fourth quarter of 2009. Based on 2009 volumes, management estimates that a US\$1 per barrel movement in the average price of WTI crude oil would have resulted in an approximate \$25 million change in 2009 fuel expense for Air Canada (excluding any impact of fuel surcharges, foreign exchange rates and fuel hedging), assuming flying capacity remained unchanged and that refining spreads between WTI crude oil and jet fuel as well as foreign exchange rates remained constant.

In order to manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, the Corporation enters into derivative contracts with financial intermediaries. The Corporation uses derivative contracts on jet fuel and other crude oil-based commodities, heating oil and crude oil. Heating oil and crude oil commodities are used due to the relative limited liquidity of jet fuel derivative instruments on a medium to long-term horizon since jet fuel is not traded on an organized futures exchange. The Corporation's policy permits hedging of up to 75% of the projected jet fuel purchases for the next 12 months, 50% for the next 13 to 24 months and 25% for the next 25 to 36 months. These are maximum (but not mandated) limits. There is no minimum monthly hedging requirement. There are regular reviews to adjust the strategy in light of market conditions. The Corporation does not purchase or hold any derivative financial instrument for speculative purposes.

At February 28, 2010, approximately 22% of the Corporation's anticipated purchases of jet fuel for the remainder of 2010 is hedged at an average WTI capped price of US\$92 per barrel, while approximately 9% is subject to an average floor price of US\$96 per barrel. The Corporation's contracts to hedge anticipated jet fuel purchases over the 2010 period is comprised of jet fuel and crude-oil based contracts.

The Corporation currently holds, within its derivative portfolio, swaps and put option contracts which could expose the Corporation to the potential of posting cash collateral deposits. Once the fair value in favour of the counterparties of certain fuel derivatives exceeds certain agreed credit thresholds with those counterparties, the Corporation is responsible for extending collateral to the counterparties to cover their exposure.

As at February 28, 2010, the total cash collateral deposits held by counterparties amounted to \$34 million (\$43 million at December 31, 2009, and \$328 million at December 31, 2008). If oil prices remain at their current levels for 2010, the collateral extended would cover the expected losses on existing fuel hedging contracts maturing in 2010 and would not generate additional cash outflows to the Corporation.

See the section entitled "Risk Factors" in this AIF for a discussion of risk factors relating to fuel.

For additional information on Air Canada's fuel derivatives, refer to Air Canada's consolidated financial statements for the year ended December 31, 2009, and Air Canada's 2009 MD&A dated February 10, 2010, both of which are available on Air Canada's website at www.aircanada.com or on SEDAR at www.sedar.com.

Star Alliance®

Air Canada is a founding member of the Star Alliance® network, the world's largest airline alliance group. Air Canada operates an extended global network in conjunction with its international partners.

Since its inception in 1997, the Star Alliance® network has grown to include the following 26 airlines: Adria Airways, Air Canada, Air China, Air New Zealand, All Nippon Airways, Asiana Airlines, Austrian Airlines, Blue1, bmi, Brussels Airlines, Continental Airlines, Croatia Airlines, Egyptair, LOT Polish Airlines, Lufthansa, SAS, Shanghai Airlines, Singapore Airlines, South African Airways, Spanair, Swiss International Airlines, TAP Portugal, Thai Airways, Turkish Airlines, United Airlines, and U.S. Airways.

Through Air Canada's strategic and commercial arrangements with Star Alliance® members and other airlines, Air Canada's customers have access to over 1,077 destinations in 175 countries, with reciprocal participation in frequent flyer programs and use of airport lounges. The Star Alliance® is an alliance that brings together networks, lounge access, check-in services, ticketing and dozens of other services to improve the travel experience for customers. The airlines have implemented initiatives, such as common utilization of facilities, and are focusing on capturing potential synergies in additional areas. Air Canada code shares with all Star Alliance® members, except for Adria Airways, Blue 1, Croatia Airlines, Egyptair, Shanghai Airlines, South African Airways, Turkish Airlines, and U.S. Airways.

Other Services

Cargo Services

Air Canada Cargo provides direct cargo services to over 150 Canadian and international destinations and has sales representation in over 50 countries. Air Canada Cargo is Canada's largest provider of air cargo services as measured by cargo capacity. Air cargo services are provided on domestic and U.S. transborder flights and on international cargo services on routes between Canada and major markets in Europe, Asia, South America and Australia. Air Canada's cargo network is also extended through interline agreements with other air carriers worldwide and through ground trucking services offered in selected markets.

The Corporation's primary customers for cargo services are large freight forwarding companies and businesses whose products require the use of air cargo services to expedite their cargo shipments. Cargo services offered by the Corporation include services for high priority shipments (AC Expedair® and AC Priority™) and air freight services (AC Air Freight™) to Air Canada destinations worldwide and most Jazz destinations in North America. Air Canada's freight management system, AC Lynx™, offers customers a number of services including on-line tracking of cargo shipments. Air Canada is a founding member of Cargo Portal Services which offers customers a web-based booking and an air cargo management tool that facilitates the movement and tracking of air cargo globally. In 2007, the Corporation also joined the Global Freight Exchange ("GF-X"), a large electronic cargo distribution channel, to offer customers greater choice.

In the face of the economic downturn in 2009, Air Canada Cargo reviewed its organizational structure and invested in programs to strengthen its commercial teams. As a result, Air Canada Cargo has implemented a series of commercial initiatives with the objective of improving traffic, better managing capacity and increasing cargo revenues. In 2009, Air Canada Cargo developed a new key account management program. This program was implemented in 2010 to strengthen the relationship between Air Canada Cargo and its top customers. Also during 2009, a new mail scanning process was implemented to offer postal authorities an improved, high quality postal product. Air Canada Cargo is a leading carrier in the IATA e-freight pilot initiative which has the objective of removing the need to carry paper documents for international shipments. Air Canada's cargo terminal at Toronto Pearson Airport and the new cargo terminal at Montreal Trudeau Airport are equipped with modern cargo handling technology to promote efficient

operations. Air Canada is also actively involved in Cargo 2000 and several other industry initiatives to promote more efficient cargo operations and improved ongoing measurement of cargo performance for its customers.

Air Canada Vacations

Air Canada Vacations is one of Canada's leading tour operators. Based in Montreal and Toronto, Air Canada Vacations operates its business in the outgoing leisure travel market (Caribbean, Mexico, U.S., Europe, and South America) by developing, marketing and distributing vacation travel packages. Air Canada Vacations is expanding its international product line by adding land offerings to over 30 new European cities and to Israel. In addition, Air Canada Vacations offers cruise packages in the Caribbean, North America and Europe. Air Canada Vacations offers its products through its website (**www.aircanadavacations.com**) and a network of independent travel agencies across Canada.

Facilities

Air Canada owns or leases facilities in major airports consisting of offices, hangar space, aircraft maintenance and ground handling facilities. The following describes the principal properties owned or leased by Air Canada as at December 31, 2009:

Principal Properties	Description	Square Footage	Nature of Title
Montreal – Air Canada Centre Air Canada Headquarters	Head office and training facilities	272,000	Owned facilities on leased land
Montreal Trudeau Airport – Maintenance Base	Offices, computer centre, aircraft maintenance, hangars, workshops and training facilities	1,326,664	Owned facilities on leased land
Toronto Pearson Airport – Terminal Building	Counters, offices, passenger and baggage handling facilities	191,000	Leased
Toronto Pearson Airport – Maintenance Base	Offices, hangars, shops and simulators	1,021,632	Owned facilities on leased land
Toronto Pearson Airport	Offices, shops, training and equipment storage	258,757	Leased
Toronto – Cargo Facility and Equipment Maintenance	Offices, cargo and equipment maintenance facilities	426,000	Leased
Vancouver – Technical Operations Centre	Offices, hangars, shops and simulators	1,087,985	Owned facilities on leased land
Vancouver – South Hangar	Offices, hangars, shops, stores	131,626	Owned facilities on leased land
Calgary International Airport	Hangar, commissary, ground support equipment and warehouse	267,891	Owned facilities on leased land
Winnipeg – Air Canada Building	Offices and computer centre	394,650	Leased facilities on owned land
Winnipeg Airport – Maintenance Base	Offices, aircraft maintenance hangars and workshops	278,891	Owned facilities on leased land

Air Canada operates additional office, terminal, maintenance and/or cargo facilities under long-term leases at Toronto, Montreal, Vancouver, Calgary, London (England) and Los Angeles. A large portion of the hangar space and aircraft maintenance facilities in Montreal, Vancouver, Winnipeg and Toronto are leased or subleased by Air Canada to Aveos, Jazz and other third parties. In addition, a significant portion of Air Canada's office space in the Winnipeg Air Canada Building is subleased to third parties.

Significant 2009 Transactions

In order to strengthen its position to manage through the economic downturn and in an effort to mitigate its liquidity risks, Air Canada entered into the following significant transactions in 2009:

- A bought deal public offering for 160,500,000 units at a price of \$1.62 per unit with each unit comprised of one Class B voting share or Class A variable voting share and one-half of a warrant which provided net proceeds of \$249 million;
- A secured term credit facility (the "Credit Facility") which provided financing proceeds of \$600 million, less fees of \$20 million. The terms of the Credit Facility permitted Air Canada, on or before the first anniversary and subject to satisfaction of certain conditions, to request an increase to the facility by up to an additional \$100 million by obtaining new commitments from either the existing or new lenders. On February 16, 2010, Air Canada finalized a transaction with a group of lenders

which provided Air Canada with gross proceeds of \$100 million. The Credit Facility is a five-year facility with the first principal repayment due in August 2010, and bears interest at a rate based upon the greater of the bankers' acceptance rate or 3%, plus 9.75% (12.75% as at December 31, 2009). The Credit Facility can be repaid at any time, in whole or in part subject to a minimum repayment of \$10 million and the payment of a repayment fee, which is applicable if the repayment occurs on or prior to the third anniversary of the Credit Facility. Air Canada's obligations under the Credit Facility are secured by a first priority security interest and hypothec over substantially all the present and after-acquired property of Air Canada and its subsidiaries. The Credit Facility also provided for warrants entitling the debt holders to acquire up to 10% of the shares of the Corporation, which at the time of the issuance of the warrants represented 10 million shares in the Corporation. As part of the transactions related to the closing of the Credit Facility, existing financing arrangements of \$166 million were repaid as follows:

- o A revolving credit facility was repaid in full in the amount of \$49 million. The rights of the lender under the revolving credit facility were assigned to the lenders under the Credit Facility;
 - o A spare engine financing was partially repaid in the amount of \$38 million. This represented the repayment related to 22 engines under a spare engine financing agreement, with 10 engines remaining under the agreement with a loan value of \$72 million as at December 31, 2009;
 - o A secured loan with Aeroplan Canada Inc. was repaid in full in the amount of \$79 million. Aeroplan Canada Inc. is a participating lender under the Credit Facility.
- The extension or renewal of labour agreements for 21 months with all of the Corporation's Canadian-based unions completed by July 2009 which provide for no increases to wage rates and no changes to group insurance coverage, benefits, or pension benefit levels during the contract extension or renewal periods;
 - Pension funding agreements with the Corporation's Canadian-based unions (the "Pension MOUs") and the adoption of the Air Canada Pension Funding Regulations, 2009 (the "Air Canada 2009 Pension Regulations"). The Air Canada 2009 Pension Regulations relieve Air Canada from making any special (past service cost) payments for the period beginning April 1, 2009, and ending December 31, 2010. Thereafter, in respect of the period from January 1, 2011, to December 31, 2013, the aggregate annual past service contributions shall equal the lesser of (i) \$150 million, \$175 million, and \$225 million in respect of 2011, 2012, and 2013, respectively and (ii) the maximum past service contributions permitted under the Tax Act. Pursuant to the Pension MOUs, on October 26, 2009, the Corporation issued, to a trust, 17,647,059 Class B voting shares. This number of shares represented 15% of the shares of Air Canada issued and outstanding as at the date of the Pension MOUs and the date of issuance (in both cases after taking into account such issuance). All net proceeds of sale of such shares by the trust are to be contributed to the pension plans;
 - An agreement with a supplier, in consideration of various contractual commitments, which provided non-refundable proceeds of \$230 million. For accounting purposes, the recognition of these proceeds was deferred in order to be applied to reduce the cost of these contractual commitments as they are incurred;
 - Amendments to credit card processing agreements with one of its principal credit card processors which revise the levels of unrestricted cash (as defined per the agreement and generally based on the aggregate sums of cash, cash equivalents and short-term investments) required to be maintained. Refer to the section entitled "Liquidity" in this AIF for additional information on Air Canada's credit card processing agreements;

- An extension of the repayment date of a short-term loan of \$78 million (US\$75 million) entered into in 2008 which was originally due in 2009, to 2013;
- The sale and leaseback of three Boeing 777 aircraft. The sale and leaseback transactions were substantially completed in November 2009 and provided initial cash proceeds of \$95 million (net of deposits). Additional net cash proceeds of \$20 million were received in January 2010 upon completion of the remaining part of the transaction;
- The sale and leaseback of one Boeing 777 aircraft for aggregate proceeds of \$172 million and the requirement repayment of a debt obligation related to the aircraft of \$128 million, which included a prepayment fee of \$14 million;
- An agreement amending the terms of the Jazz CPA, effective August 1, 2009, which provides for a reduction to rates paid under the agreement;
- Financing arrangements secured by spare parts, spare engines and a Boeing 777 aircraft which provided aggregate proceeds of \$267 million, net of fees of \$8 million. As discussed above, \$38 million of the spare engine financing was repaid on closing of the Credit Facility;
- During 2009, Air Canada entered into various inventory financing arrangements under which it acquired \$117 million of spare parts inventories in exchange for the issuance of bills of exchange. Subsequent to the arrangements, Air Canada completed various transactions in relation to certain bills of exchange resulting in gains of \$4 million being recorded in non-operating income (expense) in 2009. As at December 31, 2009, the remaining inventory is valued at \$43 million which represented its estimated net realizable value. Air Canada made a final payment under the financing arrangements of \$11 million (US\$11 million) in early 2010; and
- Repayment of pre-delivery financing of \$83 million on a Boeing 777 aircraft received during the first quarter of 2009.

Liquidity and Other Risks

On June 3, 2009, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on Air Canada to "CCC+" from "B-" and reported an outlook of negative. The downgrade was stated as reflecting Standard & Poor's assessment that Air Canada's liquidity to support its operations in the near term remained dependent on positive developments, the outcomes of which remained uncertain. On August 17, 2009, Standard & Poor's affirmed its rating of "CCC+" and revised its outlook from negative to stable. The revised outlook was stated as reflecting Air Canada's improved near-term liquidity resulting from the completion of financing initiatives, a 21-month extension of labour agreements, a moratorium in its pension contribution, and more lenient terms in the amended credit card processing agreements. On December 9, 2009, Standard & Poor's Ratings Services issued a report on Air Canada and reaffirmed the "CCC+" rating and stable outlook. The affirmation reflected Air Canada's credit risk profile which, the report described, remained constrained by significant financial leverage and debt servicing burden, high operating cost structure, weak passenger demand and increasing competitive pressure in domestic markets.

Along with many airline carriers globally, Air Canada faced a number of significant challenges in 2008 and 2009, including as a result of volatile fuel prices and foreign exchange, liquidity requirements and a downturn in demand for air travel. Air Canada undertook various initiatives and developed a plan to manage through the challenges brought on by the prevailing weak economic environment. These initiatives included adjusting capacity to better match passenger demand; launching a comprehensive company-wide cost transformation program (the "CTP") to improve unit revenue and cost productivity; stabilizing its finances through a series of significant transactions; and reducing the risks associated with the expiry of its labour collective agreements in 2009 and the pension solvency deficit in its registered pension plans.

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities and other contractual obligations. The Corporation monitors and manages liquidity

risk by preparing rolling cash flow forecasts, monitoring the condition and value of assets available to be used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. The Corporation's principal objective in managing liquidity risk is to maintain a minimum unrestricted cash balance in excess of a target liquidity level of 15% of annual operating revenues. As at December 31, 2009, Air Canada had cash, cash equivalents and short-term investments of \$1,407 million which represented 14% of 2009 operating revenues.

Management believes that the significant events as described above under "Significant 2009 Transactions" improve the Corporation's current liquidity position. However, certain risks remain such as those related to the current economic environment, including risks related to market volatility in the price of fuel, foreign exchange and interest rates and increased competitive pressures as well as risks relating to terms under the Corporation's financing, credit card processing and other arrangements and other risks as identified below.

Concerns relating to the H1N1 influenza virus appeared to have had a temporary impact on certain demand for air travel in 2009. The Corporation is continuing to monitor the H1N1 influenza virus risk. While the Corporation has developed contingency plans related to the H1N1 influenza virus risk, it is unable to predict the likelihood of this risk materializing or the impact on the Corporation to the extent this risk does materialize.

The Corporation is also monitoring the impact on the demand for air travel of the new security measures imposed in December 2009 by Canadian and U.S. government authorities on flights from Canada to the U.S.

The Corporation maintains several defined benefit pension plans for its employees. As at January 1, 2009, based on the actuarial valuations which were used to determine certain pension funding requirements in 2009, the aggregate solvency deficit in the registered pension plans was \$2,835 million. Based on preliminary actuarial valuations as at January 1, 2010, the preliminary estimate of the aggregate solvency deficit in the registered plans is estimated to be between \$2,500 million and \$2,700 million. This preliminary estimate of the solvency deficit range includes the impact of the actual return on plan assets partially offset by a decrease in the discount rate used to value the benefit obligation which has the effect of increasing the benefit obligation. The final actuarial valuations for January 1, 2010 will be completed in the first half of 2010 but, as described below, they will not impact the 2010 pension funding obligations. Refer to the section entitled "Pension Plan Arrangements" in this AIF for additional information on Air Canada's obligations for 2010 and from 2011 through to 2013.

The Corporation has various agreements that process customer credit card transactions. Approximately 85% of the Corporation's sales are processed using credit cards, with remaining sales processed through cash-based transactions. The Corporation receives payment for a credit card sale generally in advance of when the passenger transportation is provided. As at December 31, 2008, under the terms of certain credit card processing agreements with one of its principal credit card processors, the processor was entitled to withhold payment of funds to Air Canada upon the occurrence of certain events ("triggering events"), which included unrestricted cash (as defined per the agreements and generally based on the aggregate sums of Cash and cash equivalents and Short-term investments) being less than \$900 million as at the end of any month and operating losses in excess of certain amounts. During 2009, the Corporation entered into amendments with this processor to amend certain credit card processing agreements under which the triggering events related to operating losses were removed, the levels of unrestricted cash required to be maintained by Air Canada were reduced to \$800 million and Air Canada provides the processor with deposits, to be accumulated over time, and security. The agreements provide that should Air Canada maintain unrestricted cash of more than \$1,200 million for two consecutive months, the unrestricted cash requirement increases to \$1,100 million at which time the processor will return to Air Canada all deposits and security previously provided by Air Canada. This occurred during the third quarter of 2009, and as a result, no deposit was held by the credit card processor under these processing agreements as at December 31, 2009. As long as unrestricted cash remains at or above \$1,100 million at each month-end, Air Canada has no obligation to provide deposits or security to the processor. In addition,

should the Corporation's unrestricted cash be less than \$1,100 million at any month-end, its obligation to provide deposits to the processor would be capped at an amount not to exceed \$75 million, provided unrestricted cash is not less than \$800 million. The current agreements with this credit card processor expire in May 2010. The Corporation is exploring options to continue to retain this credit card processor or source these services from other third parties.

The Corporation is exposed to potential liabilities related to the proceedings and investigations of alleged anti-competitive cargo pricing activities, as described in the section entitled "Risk Factors" in this AIF. The preliminary estimate recorded by the Corporation during 2008 is based upon the current status of the investigations and proceedings and the Corporation's assessment as to the potential outcome for certain of them. This provision does not address the proceedings in all jurisdictions, but only where there is sufficient information to do so. Management has determined it is not possible at this time to predict with any degree of certainty the outcome of all proceedings and investigations. Additional material provisions may be required. Amounts could become payable within the year and may be materially different than management's preliminary estimate.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange risk; interest rate risk; and other price risk, which includes commodity price risk. The Corporation uses derivative instruments to reduce market exposures from changes in foreign currency rates, interest rates, and fuel prices. The Corporation uses derivative instruments only for risk management purposes and not for generating trading profit. As such, any change in cash flows associated with derivative instruments is designed to be offset by changes in cash flows related to the risk being hedged.

Refer to the section entitled "Risk Factors" in this AIF for a detailed description of risk factors associated with the Corporation.

Employees

As at December 31, 2009, Air Canada had 22,494⁽³⁾ full-time equivalent ("FTE") employees compared to 22,994⁽³⁾ FTE employees as at December 31, 2008. The following table provides a breakdown of the Corporation's average FTE employees for the fourth quarter of 2009 and 2008 and for the full year 2009 and 2008 together with the unions that represent them.

Employee Group	Union ⁽¹⁾	Fourth Quarter 2009	Fourth Quarter 2008	Full Year 2009	Full Year 2008
Management and Administrative Support ⁽³⁾	n/a ⁽²⁾	2,948	3,132	2,990	3,177
Pilots	ACPA	2,761	2,912	2,803	2,944
Flight Attendants	CUPE	5,464	5,761	5,549	6,199
Customer Sales and Service Agents ⁽³⁾	CAW/IBT	3,245	3,525	3,426	3,630
Technical Services, Ramp and Cargo ⁽³⁾	IAMAW	7,074	7,257	7,143	7,232
United Kingdom Unionized Employees	UNITE	635	658	648	647
Other Unionized		353	367	356	372
Total		22,480	23,612	22,915	24,201

(1) ACPA: Air Canada Pilots Association; CUPE: Canadian Union of Public Employees; CAW: National Automobile, Aerospace, Transportation and General Workers Union of Canada; IBT: International Brotherhood of Teamsters; IAMAW: International Association of Machinists and Aerospace Workers; and UNITE.

(2) Certain administrative support employees are represented by IAMAW.

(3) In addition to the numbers presented in the table above, pursuant to the Aveos General Services Agreement, Aveos has agreed to reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of unionized employees working for the benefit of Aveos. Such group represented 2,820 FTE employees as at December 31, 2009, and 2,705 FTE employees as at December 31, 2008. Aeroplan had also agreed to reimburse Air Canada on a fully-allocated basis for all costs, including salary and benefits, related to a group of call centre employees who were working for Aeroplan's benefit in 2008 and for part of 2009. In May 2009, Air Canada and Aeroplan reached an agreement with the Canadian Auto Workers (CAW) Local 2002 providing for a process for the approximately 750 Air Canada employees then assigned to and working in the Aeroplan contact centres to choose to transition to employment at Aeroplan, effective June 1, 2009, or to remain employees of Air Canada. Employees at Air Canada work locations who became surplus to Air Canada's needs due to employees who were senior to them and then working at Aeroplan contact centres choosing to remain employees of Air Canada were given the option to transition to employment at Aeroplan. Effective October 4, 2009, all affected employees had completed the transition to Aeroplan. The group of call centre employees working for Aeroplan's benefit represented 815 FTE employees as at December 31, 2008. These employees are not included in the numbers presented above.

RISK FACTORS

The risks described herein may not be the only risks faced by Air Canada. Other risks of which Air Canada is not aware or which Air Canada currently deems to be immaterial may surface and have a material adverse impact on Air Canada, its business, results from operations and financial condition.

Risks Relating to Air Canada

Operating Results

Prior to emergence from its restructuring under the CCAA on September 30, 2004, Air Canada had sustained significant losses and Air Canada may sustain significant losses in the future. In 2008, Air Canada recorded an operating loss before a provision for cargo investigations and proceedings of \$39 million. During 2009, Air Canada recorded an operating loss of \$316 million. Current economic conditions may result in significant losses for Air Canada. Despite ongoing business initiatives and efforts at securing cost reductions, revenue improvements and additional sources of financing, Air Canada may not be able to successfully achieve positive net profitability or realize the objectives of any or all of its initiatives, including those which seek to improve yield or offset or mitigate risks facing Air Canada, including those relating to economic conditions, liquidity, pension funding, unexpected volatility in fuel costs and other expenses.

Leverage

Air Canada has, and is expected to continue to have and incur, a significant amount of indebtedness, including substantial fixed obligations under aircraft leases and financings, and as a result of challenging economic or other conditions affecting Air Canada, Air Canada may incur greater levels of indebtedness than currently exist. The amount of indebtedness that Air Canada currently has and which it may incur in the future could have a material adverse effect on Air Canada, for example, by (i) limiting Air Canada's ability to obtain additional financing, (ii) requiring Air Canada to dedicate a substantial portion of its cash flow from operations to payments on its indebtedness and fixed cost obligations, thereby reducing the funds available for other purposes, (iii) making Air Canada more vulnerable to economic downturns, and (iv) limiting Air Canada's flexibility in planning for, or reacting to, competitive pressures or changes in its business environment.

The ability of Air Canada to make scheduled payments under its indebtedness will depend on, among other things, its future operating performance and its ability to refinance its indebtedness, if necessary. In addition, as Air Canada incurs indebtedness which bears interest at fluctuating interest rates, to the extent these interest rates increase, its interest expense will increase. There can be no assurance that Air Canada will be able to generate sufficient cash from its operations to pay its debts and lease obligations. Each of these factors is, to a large extent, subject to economic, financial, competitive, regulatory, operational and other factors, many of which are beyond Air Canada's control.

Need for Additional Capital and Liquidity

Air Canada faces a number of challenges in its business, including in relation to economic conditions, pension plan funding, volatile fuel prices, contractual covenants which could require Air Canada to deposit cash collateral with third parties, foreign exchange rates and increased competition from international, transborder and low-cost domestic carriers. Air Canada's liquidity levels may be adversely impacted by these as well as by other factors and risks identified throughout this AIF. As part of Air Canada's efforts to meet such challenges and to support Air Canada's business strategy, significant liquidity and significant operating and capital expenditures are, and will in the future be, required. There can be no assurance that Air Canada will continue to be able to obtain on a timely basis sufficient funds on terms acceptable to Air Canada to provide adequate liquidity and to finance the operating and capital expenditures necessary to overcome challenges and support its business strategy if cash flows from operations and cash on hand are insufficient.

Failure to generate additional funds, whether from operations or additional debt or equity financings, could require Air Canada to delay or abandon some or all of its anticipated expenditures or to modify its business strategy and could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Furthermore, competitors with greater liquidity or their ability to raise money more easily and on less onerous terms could create a competitive disadvantage for Air Canada.

Air Canada's credit ratings influence its ability to access capital markets and its liquidity. There can be no assurance that Air Canada's credit ratings will not be downgraded, which would add to Air Canada's borrowing and insurance costs, hamper its ability to attract capital, adversely impact its liquidity, and limit its ability to operate its business, all of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Economic and Geopolitical Conditions

Airline operating results are sensitive to economic and geopolitical conditions which can have a significant impact on Air Canada. For example, economic and geopolitical conditions may impact demand for air transportation in general or to or from certain destinations, and may also impact Air Canada's operating costs, pension plan contributions and costs and availability of capital and supplies required by Air Canada. Especially in light of Air Canada's substantial fixed cost structure, any prolonged or significant impact arising from economic and geopolitical conditions, including weakness of the Canadian, U.S. or world economies could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Airline fares and passenger demand have fluctuated significantly in the past and are likely to fluctuate significantly in the future. Air Canada is not able to predict with certainty market conditions and the fares that Air Canada may be able to charge. Customer expectations can change rapidly and the demand for lower fares may limit revenue opportunities. Travel, especially leisure travel, is a discretionary consumer expense. Depressed economic conditions in North America and other areas served by Air Canada, as well as geopolitical instability in various areas of the world, concerns about the environmental impacts of air travel and tendencies towards "green" travel initiatives where consumers reduce their travel activities, could have the effect of reducing demand for air travel in Canada and abroad and could materially adversely impact Air Canada's profitability.

Pension Plans

Canadian federal pension legislation requires that the funded status of registered pension plans be determined periodically, on both a going concern basis (essentially assuming indefinite plan continuation) and a solvency basis (essentially assuming immediate plan termination).

Pension plan solvency valuations are influenced primarily by long-term interest rates and by the investment return on plan assets, which in turn may be dependent on a variety of factors, including economic conditions. The interest rate used to calculate benefit obligations for solvency purposes is a prescribed rate derived from the interest rates on long-term Government of Canada bonds. Deteriorating economic conditions may result in significant increases in Air Canada's funding obligations, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Refer to the section entitled "Pension Plan Arrangements" in this AIF for additional information relating to Air Canada's pension funding obligations. In particular, as of 2014, the Air Canada 2009 Pension Regulations will cease to have effect and Air Canada's pension funding obligations may vary significantly based on several factors, including regulatory developments, assumptions and methods used and changes in the economic conditions (mainly the return on fund assets and changes in interest rates). Underfunded pension plans or a failure or inability by Air Canada to make required cash contributions to its registered pension plans could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Fuel Costs

Fuel costs constituted the largest percentage of the total operating costs of Air Canada in 2009. Fuel prices fluctuate widely depending on many factors including international market conditions, geopolitical events and the Canada/U.S. dollar exchange rate. Air Canada cannot accurately predict fuel prices. During 2006, 2007 and 2008, fuel prices increased and fluctuated near or at historically high levels. Should fuel prices fluctuate significantly or increase significantly above current levels, fuel costs could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Due to the competitive nature of the airline industry, Air Canada may not be able to pass on increases in fuel prices to its customers by increasing its fares. Based on 2009 volumes, management estimates that a US\$1 per barrel movement in the average price of WTI crude oil would have resulted in an approximate \$25 million change in 2009 fuel expense for Air Canada (excluding any impact of fuel surcharges, foreign exchange rates and fuel hedging), assuming flying capacity remained unchanged and that refining spreads between WTI crude oil and jet fuel as well as foreign exchange rates remained constant.

Foreign Exchange

Air Canada's financial results are sensitive to the fluctuating value of the Canadian dollar. In particular, Air Canada has a significant annual net outflow of U.S. dollars and is affected by fluctuations in the Canada/U.S. dollar exchange rate. Management estimates that during 2009, a \$0.01 increase in the Cdn/U.S. dollar exchange rate (i.e., \$1.09 to \$1.08 per U.S. dollar) would have had an estimated \$23 million favourable impact on operating income and a \$57 million favourable impact on pre-tax income. Conversely, an opposite change in the exchange rate would have had the opposite effect. Air Canada incurs significant expenses in U.S. dollars for such items as fuel, aircraft rental and maintenance charges, interest payments, debt servicing and computerized reservations system fees, while a substantial portion of its revenues are generated in Canadian dollars. A significant deterioration of the Canadian dollar relative to the U.S. dollar would increase the costs of Air Canada relative to its U.S. competitors and could have a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, Air Canada may be unable to appropriately hedge the risks associated with fluctuations in exchange rates.

Labour Costs and Labour Relations

Labour costs constitute one of Air Canada's largest operating cost items. There can be no assurance that Air Canada will be able to maintain such costs at levels which do not negatively affect its business, results from operations and financial condition. There can be no assurance that future agreements with employees' unions or the outcome of arbitrations will be on terms consistent with Air Canada's expectations or comparable to agreements entered into by Air Canada's competitors. Any future agreements or outcome of negotiations, mediations or arbitrations including in relation to wages or other labour costs or work rules may result in increased labour costs or other charges which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Most of Air Canada's employees are unionized. The collective agreements representing the majority of the unionized workforce were renewed or extended in 2009 and will now expire in 2011. No strikes or lock-outs may lawfully occur during the term of the collective agreements, nor during the negotiations of their renewal until a number of pre-conditions, in respect of the unions for Canadian-based employees, prescribed by the Canada Labour Code, have been satisfied. There can be no assurance that collective agreements will be further renewed without labour conflict or action or that there will not be a labour conflict that could lead to a dispute or to an interruption or stoppage in Air Canada's service or otherwise adversely affect the ability of Air Canada to conduct its operations, any of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

If there is a labour disruption or work stoppage by any of the unionized work groups of Jazz, there would also likely be a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, labour conflicts at Star Alliance® partners could result in lower demand for connecting traffic with Air Canada and, ultimately, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Airline Industry Characterized by Low Gross Profit Margins and High Fixed Costs

The airline industry is characterized by low gross profit margins and high fixed costs. The costs of operating any particular flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers or in fare pricing or traffic mix would have a significant effect on Air Canada's operating and financial results. This condition has been exacerbated by aggressive pricing by low-cost carriers, which has had the effect of driving down fares in general. Accordingly, a shortfall from expected revenue levels could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Air Canada incurs substantial fixed costs which do not meaningfully fluctuate with overall capacity. As a result, should Air Canada be required to reduce its overall capacity or the number of flights operated, it may not be able to successfully reduce certain fixed costs in the short term and may be required to incur important termination or other restructuring costs, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Competition

Air Canada operates within a highly competitive industry. Over the past few years, several carriers have entered or announced their intention to enter or expand into the domestic, the U.S. transborder and international markets in which Air Canada operates.

Canadian low-cost and other carriers have entered and/or expanded or announced their intention to compete in many of Air Canada's key domestic markets and, along with some U.S. carriers have also entered and/or expanded their operations in the U.S. transborder and leisure-oriented markets. Carriers against which Air Canada may compete, including U.S. carriers, may undergo (and some of whom who have undergone) substantial reorganizations (including by way of merger with or acquisition by another carrier), creating reduced levels of indebtedness and lower operating costs and may be in a position to more effectively compete with Air Canada. Air Canada is also facing increasing competition in international markets as carriers increase their international capacity, both by expansion and by shifting existing domestic capacity to international operations to avoid low-cost domestic competition.

If Canadian low-cost and other carriers are successful in entering or expanding into Air Canada's domestic and the U.S. transborder markets, if additional U.S. or other carriers against which Air Canada competes are successful in entering Air Canada's transborder market or if carriers are successful in their expansion in international markets of Air Canada, Air Canada's business results from operations and financial condition could be materially adversely affected.

Air Canada also encounters substantial price competition. The expansion of low-cost carriers in recent years, along with the advent of Internet travel websites and other travel products distribution channels, has resulted in a substantial increase in discounted and promotional fares initiated by Air Canada's competitors. The decision to match competitors' fares to maintain passenger traffic results in reduced yields which, in turn, could have a material adverse effect on Air Canada, its business, results from operations and financial condition. Furthermore, Air Canada's ability to reduce its fares in order to effectively compete with other carriers is dependent on Air Canada's ability to achieve acceptable operating margins and may also be limited by government policies to encourage competition. Likewise, competitors continue to pursue commission/incentive actions and, in many cases, increase these payments. The decision to modify Air Canada's current programs in order to remain competitive and maintain passenger traffic could result in increased costs to Air Canada's business.

In addition, consolidation in the airline industry could result in increased competition as some airlines emerging from such consolidations may be able to compete more effectively against Air Canada which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Limitations Due to Restrictive Covenants

Some of the financing and other major agreements to which Air Canada is a party contain restrictive, financial (including in relation to liquidity, minimum EBITDAR, fixed charge coverage ratio and debt coverage ratios) and other covenants which affect and, in some cases, significantly limit or prohibit, among other things, the manner in which Air Canada may structure or operate its business, including by reducing Air Canada's liquidity, limiting Air Canada's ability to incur indebtedness, create liens, sell assets, pay dividends, make capital expenditures, and engage in acquisitions, mergers or restructurings or a change of control. Future financing and other major agreements may also be subject to similar covenants which limit Air Canada's operating and financial flexibility, which could materially and adversely affect Air Canada's ability to operate its business and its profitability.

A failure by Air Canada to comply with its contractual obligations (including restrictive, financial and other covenants), or to pay its indebtedness and fixed costs could result in a variety of material adverse consequences, including the acceleration of its indebtedness, the withholding of credit card proceeds by the credit card service providers and the exercise of remedies by its creditors and lessors, and such defaults could trigger additional defaults under other indebtedness or agreements. In such a situation, it is unlikely that Air Canada would be able to repay the accelerated indebtedness or fulfill its obligations under certain contracts, make required aircraft lease payments or otherwise cover its fixed costs. Also, the lenders under the financing arrangements could foreclose upon all or substantially all of the assets of Air Canada which secure Air Canada's obligations.

Refer to the section entitled "Liquidity" in this AIF for a description of restrictive covenants relating to one of Air Canada's credit card processing agreements.

Airport User Fees and Air Navigation Fees

With the privatization of airports and air navigation authorities over the last decade in Canada, new airport and air navigation authorities have imposed significant increases in their fees. Though certain authorities have implemented some fee reductions, if authorities in Canada or elsewhere were to increase their fees, Air Canada, its business, results from operations and financial condition could be materially adversely affected.

Strategic, Business, Technology and Other Important Initiatives

In order to operate its business, achieve its goals and remain competitive, Air Canada continuously seeks to identify and devise, invest in and implement strategic, business, technology and other important initiatives, such as those relating to the aircraft fleet restructuring program, business process initiatives, information technology initiatives and others. These initiatives, including activities relating to their development and implementation, may be adversely impacted by a wide range of factors, many of which are beyond Air Canada's control. Such factors include the performance of third parties, including suppliers, the implementation and integration of such initiatives into Air Canada's other activities and processes as well as the adoption and acceptance of initiatives by Air Canada's customers, suppliers and personnel. A delay or failure to sufficiently and successfully identify and devise, invest in or implement these initiatives could adversely affect Air Canada's ability to operate its business, achieve its goals and remain competitive and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

For instance, a key component of Air Canada's business plan is the completion of Air Canada's fleet restructuring program through the acquisition of new and more efficient Boeing 787 aircraft. A delay or failure in the completion of Air Canada's fleet restructuring, including further delays by the manufacturers in the delivery of the wide-body aircraft, or an inability to remove, as planned, certain aircraft from the fleet in coordination with the planned entry into service of new aircraft, could adversely affect the implementation of Air Canada's business plan which may, in turn, have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Dependence on Technology

Air Canada relies heavily on technology, including computer and telecommunications equipment and software and Internet-based systems, to operate its business, increase its revenues and reduce its costs. These systems include those relating to Air Canada's telecommunications, websites, computerized airline reservations and airport customer services and flight operations.

These technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunications failures, power failures, computer viruses, unauthorized or fraudulent users, and other operational and security issues. While Air Canada continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any such technology systems failure, interruption or misuse could materially and adversely affect Air Canada's operations and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Key Supplies and Suppliers

Air Canada is dependent upon its ability to source, on favourable terms and costs, sufficient quantities of goods and services in a timely manner, including those available at airports or from airport authorities or otherwise required for Air Canada's operations such as fuel, aircraft and related parts and aircraft maintenance services (including maintenance services obtained from Aveos). In certain cases, Air Canada may only be able to access goods and services from a limited number of suppliers and transition to new suppliers may take significant amounts of time and require significant resources. A failure, refusal or inability of a supplier may arise as a result of a wide range of causes, many of which are beyond Air Canada's control. In addition, in the context of the current economic climate, there can be no assurance as to the continued viability of any of Air Canada's suppliers. Any failure or inability of Air Canada to successfully source goods and services, including by reason of a failure, refusal or inability of a supplier, or to source goods and services on terms and pricing and within the timeframes acceptable to Air Canada, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Aeroplan

Through its commercial agreement with Aeroplan, Air Canada is able to offer its customers who are Aeroplan® members the opportunity to earn Aeroplan® Miles. Based on customer surveys, Management believes that rewarding customers with Aeroplan® Miles is a significant factor in customers' decision to travel with Air Canada and Jazz and contributes to building customer loyalty. The failure by Aeroplan to adequately fulfill its obligations towards Air Canada under the Aeroplan Commercial Participation and Services Agreement and in connection with the Aeroplan program®, or other unexpected interruptions of Aeroplan services which are beyond Air Canada's control, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Jazz

Under the CPA, Jazz provides Air Canada's customers service in lower density markets and higher density markets at off-peak times throughout Canada and to and from certain destinations in the United States and also provides valuable traffic feed to Air Canada's mainline routes. Pursuant to the terms of the Jazz CPA, Air Canada pays Jazz a number of fees which are determined based upon certain costs incurred by Jazz. Air Canada also reimburses Jazz, without mark-up, for certain pass-through costs incurred directly by Jazz, such as fuel, navigation, landing and terminal fees and certain other costs. Significant increases in such pass-through costs, the failure by Jazz to adequately fulfill its obligations towards Air Canada under the Jazz CPA, or other unexpected interruptions or cessation of Jazz's services which are beyond Air Canada's control could have a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, the Jazz CPA requires that Jazz maintain a minimum fleet size and contains a minimum average daily utilization guarantee which requires that Air Canada make certain minimum payments to Jazz regardless of the amount of flying done on its behalf by Jazz.

Star Alliance®

The strategic and commercial arrangements with Star Alliance® members provide Air Canada with important benefits, including codesharing, efficient connections and transfers, reciprocal participation in frequent flyer programs and use of airport lounges from the other members. Should a key member leave Star Alliance® or otherwise fail to meet its obligations thereunder, Air Canada, its business, results from operations and financial condition could be materially adversely affected.

Interruptions or Disruptions in Service

Air Canada's business is significantly dependent upon its ability to operate without interruption at a number of hub airports, including Toronto Pearson International Airport. Delays or disruptions in service, including those due to security or other incidents, weather conditions, labour conflicts with airport workers, baggage handlers, air traffic controllers and other workers not employed by Air Canada or other causes beyond the control of Air Canada could have a material adverse impact on Air Canada, its business, results from operations and financial condition.

Current Legal Proceedings

The European Commission, the United States Department of Justice and the Competition Bureau in Canada are investigating alleged anti-competitive cargo pricing activities, including the levying of certain fuel surcharges, of a number of airlines and cargo operators, including Air Canada. Competition authorities have sought or requested information from Air Canada as part of their investigations. Air Canada is cooperating with these investigations, which are likely to lead, or have led, to proceedings against Air Canada and a number of airlines and other cargo operators in certain jurisdictions including in the European Union where all formal procedural steps preceding a decision have been completed. Air Canada is also named as a defendant in a number of class action lawsuits that have been filed before the United States District Court and in Canada in connection with these allegations.

During 2008, Air Canada recorded a provision of \$125 million as a preliminary estimate. This is only an estimate based upon the current status of the investigations and proceedings and Air Canada's assessment as to the potential outcome for certain of them. This provision does not address the proceedings and investigations in all jurisdictions, but only where there is sufficient information to do so. Management has determined it is not possible at this time to predict with any degree of certainty the outcome of all proceedings and investigations. Additional material provisions may be required and such provisions could have a material adverse effect on Air Canada's financial position.

In February 2006, Jazz commenced proceedings before the Ontario Superior Court of Justice against Porter Airlines Inc. ("Porter") and other defendants (collectively the "Porter Defendants") after Jazz became aware that it would be excluded from operating flights from Billy Bishop Toronto City Airport. On October 26, 2007, the Porter Defendants counter-claimed against Jazz and Air Canada alleging various violations of competition law, including that Jazz and Air Canada's commercial relationship contravenes Canadian competition laws, and claiming \$850 million in damages. Concurrently with the Ontario Superior Court of Justice proceedings, Jazz commenced judicial review proceedings against the Toronto Port Authority ("TPA") before the Federal Court of Canada relating to Jazz's access to the Billy Bishop Toronto City Airport. The Porter Defendants were granted intervener and party status in these proceedings. In January of 2008, Porter filed a defence and counterclaim against Jazz and Air Canada making allegations and seeking conclusions similar to those in the Ontario Superior Court counterclaim. On October 16, 2009, Jazz discontinued its suit in the Ontario Superior Court against Porter. However, Jazz is continuing its proceedings in the Federal Court of Canada against the TPA, to which Porter has intervenor and party status. The counterclaim filed by Porter in the Ontario Court against Jazz and Air Canada has been stayed pending the outcome of the mirror counterclaim in the Federal Court. Management views Porter's counterclaims in both jurisdictions as being without merit. In the first quarter of 2010, Air Canada filed legal proceedings with the Federal Court seeking to challenge the process announced by the Toronto Port Authority to allocate flight capacity or slots at the Billy Bishop Toronto City Centre Airport. None of these proceedings has yet been determined on its merits.

The Canadian Union of Public Employees ("CUPE"), which represents Air Canada's flight attendants, filed a complaint before the Canadian Human Rights Commission where it alleges gender-based wage discrimination. CUPE claims the predominantly female flight attendant group should be paid the same as the predominantly male pilot and mechanics groups because their work is of equal value. The complaint dates from 1991 but has not been investigated on the merits because of a legal dispute over whether the three groups work in the same "establishment" within the meaning of the Canadian Human Rights Act. On January 26, 2006, the Supreme Court of Canada ruled that they do work in the same "establishment" and sent the case back to the Canadian Human Rights Commission, which may now proceed to assess the merits of CUPE's complaint. On March 16, 2007, the Canadian Human Rights Commission referred the complaint against Air Canada for investigation. Air Canada considers that any investigation will show that it is complying with the equal pay provisions of the Canadian Human Rights Act, however, Management has determined that it is not possible at this time to predict with any degree of certainty the final outcome of the Commission's investigation.

Air Canada is engaged in a number of proceedings involving challenges to the mandatory retirement provisions of certain of its collective agreements, including the Air Canada-Air Canada Pilots Association collective agreement which incorporate provisions of the pension plan terms and conditions applicable to pilots requiring them to retire at age 60. Air Canada is defending these challenges. At this time, it is not possible to determine with any degree of certainty the extent of any financial liability that may arise from Air Canada being unsuccessful in its defense of these proceedings, though any such financial liability, if imposed, would not be expected to be material.

Future Legal proceedings

Airlines are susceptible to various claims and litigation, including class action claims, in the course of operating their business or with respect to the interpretation of existing agreements. Any future claims or litigation could also have a material adverse effect on Air Canada, its business and results from operations.

Key Personnel

Air Canada is dependent on the experience and industry knowledge of its executive officers and other key employees to execute its business plan. If Air Canada were to experience a substantial turnover in its leadership or other key employees, Air Canada's business, results from operations and financial condition could be materially adversely affected. Additionally, Air Canada may be unable to attract and retain additional qualified key personnel as needed in the future.

Risks Relating to the Airline Industry

Terrorist Attacks and Security Measures

The September 11, 2001 terrorist attacks and subsequent terrorist activity, notably in the Middle East, Southeast Asia, Europe and the U.S., causes uncertainty in the minds of the traveling public. The occurrence of a terrorist attack (or attempted attacks) (whether domestic or international and whether involving Air Canada or another carrier or no carrier at all) and increasingly restrictive security measures, such as current restrictions on the content of carry-on baggage, current or proposed passenger identification document requirements, and passenger screening procedures could have a material adverse effect on passenger demand for air travel and on the number of passengers traveling on Air Canada's flights. It could also lead to a substantial increase in insurance, airport security and other costs. Any resulting reduction in passenger revenues and/or increases in insurance, security or other costs could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Epidemic Diseases (Severe Acute Respiratory Syndrome (SARS), H1N1 Influenza or Other Epidemic Diseases)

The international outbreaks of Severe Acute Respiratory Syndrome (SARS) in 2003 and the resulting actions tabled by the World Health Organization (the "WHO"), including a travel advisory against non-essential travel to Toronto, Canada, had a significant adverse effect on passenger demand for air travel in Air Canada's markets and resulted in a major negative impact on traffic on the entire network. Air Canada is

continuing to monitor the H1N1 influenza virus risk. While Air Canada has developed contingency plans related to the H1N1 influenza virus risk, it is unable to predict the likelihood of this risk materializing or the impact on its operations to the extent this risk does materialize. An outbreak of influenza, SARS, H1N1 influenza virus or of another epidemic disease (whether domestic or international) or any WHO travel advisories (whether relating to Canadian cities or regions or other cities, regions or countries) could have a material adverse effect on passenger demand for air travel. Any resulting reduction in traffic in the markets served by Air Canada could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Casualty Losses

Due to the nature of its core operating business, Air Canada may be subject to liability claims arising out of accidents or disasters involving aircraft on which Air Canada's customers are traveling or involving aircraft of other carriers maintained or repaired by Air Canada, including claims for serious personal injury or death. There can be no assurance that Air Canada's insurance coverage will be sufficient to cover one or more large claims and any shortfall may be material. Additionally, any accident or disaster involving one of Air Canada's aircraft or an aircraft of another carrier receiving line maintenance services from Air Canada may significantly harm Air Canada's reputation for safety, which would have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Seasonal Nature of the Business, Other Factors and Prior Performance

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

As described elsewhere, demand for and cost of air travel is also affected by factors such as geopolitical and economic conditions, war or the threat of war or terrorist attacks, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Regulatory Matters

The airline industry is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, privacy, licensing, competition, environment (including noise levels and carbon emissions) and, in some measure, pricing.

For example, new and proposed legislation have been considered or adopted concerning carbon emissions emanating from the aviation industry; such legislative initiatives include, for example, market-based mechanisms called emissions trading systems which are being proposed and implemented to reduce the amount of carbon emissions through the setting of emissions allowances and charging aircraft operators for a certain percentage of these allowances. The implementation of additional regulations or decisions, including those relating to carbon emissions, and others, whether by Transport Canada, the Competition Bureau and/or the Competition Tribunal, the Canadian Transportation Agency or other domestic or foreign governmental entities, may have a material adverse effect on Air Canada, its business, results from operations and financial condition.

The European Union passed legislation for an Emissions Trading System which will include carbon emissions from aviation commencing in January 2012, including for flights operated between Canada and countries within the European Union. The legislation would require aircraft operators to monitor and report on fuel use and emissions data. While this legislation would be expected to result in increased costs relating to the purchase of emissions allowances, the net financial impact would, in part, depend upon how much of such cost, if any, would be recoverable in the form of higher passenger and cargo fares.

The availability of international routes to Canadian air carriers is regulated by agreements between Canada and foreign governments. Changes in Canadian or foreign government aviation policy could result in the alteration or termination of these agreements and could adversely affect Air Canada and its international operations.

Air Canada is subject to domestic and foreign laws regarding privacy of passenger and employee data, including advance passenger information and access to airline reservation systems, which are not consistent in all countries in which Air Canada operates. The need to comply with these regulatory regimes is expected to result in additional operating costs and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

There can be no assurances that new laws, regulations or revisions to same, or decisions, will not be adopted or rendered, from time to time, and these could impose additional requirements or restrictions, which may adversely impact Air Canada's business, results from operations and financial condition.

Increased Insurance Costs

Since September 11, 2001, the aviation insurance industry has been continually re-evaluating the terrorism risks that it covers, and this activity may adversely affect some of Air Canada's existing insurance carriers or Air Canada's ability to obtain future insurance coverage. To the extent that Air Canada's existing insurance carriers are unable or unwilling to provide it with insurance coverage, and in the absence of measures by the Government of Canada to provide the required coverage, Air Canada's insurance costs may increase further and may result in Air Canada being in breach of regulatory requirements or contractual arrangements requiring that specific insurance be maintained, which may have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Third Party War Risk Insurance

There is a risk that the Government of Canada may not continue to provide an indemnity for third party war risk liability coverage, which it currently provides to Air Canada and certain other carriers in Canada. In the event that the Government of Canada does not continue to provide such indemnity or amends such indemnity, Air Canada and other industry participants would have to turn to the commercial insurance market to seek such coverage. Air Canada estimates that such coverage would cost Air Canada approximately \$5 million per year. Alternative solutions, such as those envisioned by the International Civil Aviation Organization ("ICAO") and the International Air Transport Association ("IATA"), have not developed as planned, due to actions taken by other countries and the recent availability of supplemental insurance products. ICAO and IATA are continuing their efforts in this area; however, the achievement of a global solution is not likely in the immediate or near future. The U.S. federal government has set up its own facility to provide war risk coverage to U.S. carriers, thus removing itself as a key component of any global plan.

Risks Related to Air Canada's Relationship with ACE

Control of Air Canada and Related Party Relationship

As at September 30, 2009, ACE owned Class B voting shares representing 75% of the shares issued and outstanding. This voting control enabled ACE to determine substantially all matters requiring security holder approval as a result of its voting interest in Air Canada. Accordingly, ACE would have been able to exercise control over corporate transactions that must be submitted to Air Canada's security holders for approval and effectively had sufficient voting power to effect or prevent a change in control of Air Canada. Following completion of the offering, as described in the section entitled "Corporate Structure" in this AIF, and the issuance of shares under the Pension MOUs, ACE's ownership is reported to represent 27% of the shares issued and outstanding, however, ACE remains the largest shareholder of Air Canada. The extent of ACE's shareholdings in Air Canada may discourage transactions involving shares in Air Canada, including as a result, transactions in which the public shareholders of Air Canada might otherwise receive a premium for their shares over the then-current market price. The interests of ACE may conflict with those of other shareholders. The exercise, if any, by lenders other than ACE of the initial warrants and additional warrants under the Credit Agreement would further dilute ACE's shareholdings in Air Canada.

Future Sales of Shares by or for ACE

ACE generally has the right at any time to spin-off the Air Canada shares that it owns or to sell a significant interest in Air Canada to a third party, in either case without the approval of the public shareholders of Air Canada and without providing for a purchase of such shareholders' shares of Air Canada, subject to compliance with applicable securities laws. Sales of substantial amounts of Air Canada's shares by ACE (including through a distribution of Air Canada's shares to ACE shareholders), or the perception or possibility of those sales by ACE, could adversely affect the market price of the shares and/or impede Air Canada's ability to raise capital through the issuance of equity securities.

ACE has no contractual obligation to retain any of its Air Canada shares. The Registration Rights Agreement that Air Canada entered into with ACE concurrently with its initial public offering granted ACE the right to require Air Canada to file a prospectus and otherwise assist with a public offering of shares that ACE holds in specified circumstances.

RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

At December 31, 2009, ACE held a 27% ownership interest in Air Canada. Air Canada has various related party transactions with Aveos Fleet Performance Inc. ("Aveos") and ACE. For a summary of significant related party transactions, refer to section 15 of Air Canada's 2009 MD&A dated February 10, 2010, which can be found on Air Canada's website at www.aircanada.com or on SEDAR at www.sedar.com and which are hereby incorporated by reference in this AIF. On March 12, 2010, Aveos completed its recapitalization plan. Related transactions between Air Canada and Aveos, which are described in section 15 of Air Canada's 2009 MD&A dated February 10, 2010, and which were dependent on the completion of Aveos' recapitalization plan, are in effect.

MARKET FOR SECURITIES

The Variable Voting Shares, the Voting Shares and the Warrants are traded on the TSX under the trading symbols "AC.A", "AC.B" and "AC.WT", respectively. The following table sets forth the price range and trading volume of the Variable Voting Shares and the Voting Shares as reported by the TSX for the months of January to, and including, December 2009, as well as price range and trading volume of the Warrants as reported on the TSX from October 27 to, and including, December 2009:

2009	Variable Voting Shares				Voting Shares				Warrants			
	High	Low	Average Daily Trading Volume	Total Monthly Volume	High	Low	Average Daily Trading Volume	Total Monthly Volume	High	Low	Average Daily Trading Volume	Total Monthly Volume
January	2.70	1.65	110,915	2,329,218	2.65	1.70	221,547	4,652,494				
February	2.25	0.90	42,055	799,042	2.30	0.88	111,177	2,112,364				
March	1.28	0.76	64,380	1,416,365	1.22	0.77	116,386	2,560,491				
April	0.99	0.68	76,437	1,605,168	0.91	0.73	134,539	2,825,318				
May	1.90	0.80	112,207	2,244,140	1.89	0.80	199,192	3,983,843				
June	1.78	1.30	81,606	1,795,323	1.78	1.35	129,912	2,858,060				
July	2.10	1.23	44,456	978,022	2.10	1.29	129,448	2,847,850				
August	1.89	1.62	23,064	461,281	1.93	1.65	41,891	837,814				
September	1.85	1.61	48,346	1,015,273	1.88	1.62	54,568	1,145,926				
October	1.88	1.08	104,133	2,186,785	1.86	1.03	634,474	13,323,953	0.27	0.17	378,878	1,515,511
November	1.43	1.01	367,397	7,715,334	1.43	1.04	1,695,883	35,613,552	0.38	0.18	116,816	2,453,130
December	1.33	1.12	148,250	3,113,259	1.39	1.15	720,475	15,129,968	0.35	0.27	102,936	2,161,655

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Variable Voting Shares, Voting Shares and Warrants of Air Canada is CIBC Mellon Trust Company at its principal offices in Montreal, Toronto, Vancouver, Calgary and Halifax.

DIVIDEND RECORD

The Corporation has not declared or paid dividends on its Voting Shares, Variable Voting Shares for the year ended December 31, 2009.

Air Canada's current policy is to reinvest earnings in order to finance the growth and development of its business. As a result, Air Canada does not expect to pay dividends in the foreseeable future. Any future determination to pay cash dividends is at the discretion of Air Canada's board of directors and will depend on Air Canada's financial condition, results of operations, capital requirements, restrictive covenants in contracts and such other factors as Air Canada's board of directors deems relevant. The Credit Facility agreement, the Pension MOUs and certain other agreements of Air Canada include restrictions with respect to Air Canada's ability to declare and pay dividends.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of Air Canada is comprised of an unlimited number of Variable Voting Shares and Voting Shares. As of March 26, 2010, 61,999,314 Class A Variable Voting Shares and 216,147,745 Class B Voting Shares were issued and outstanding. The following summary describes the rights, privileges, restrictions and conditions that are attached to the Variable Voting Shares and the Voting Shares. This summary does not purport to be complete and is subject to, and is qualified in its entirety by, reference to the terms of Air Canada's articles of amalgamation, as amended.

Variable Voting Shares

Voting

The holders of the Variable Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of Air Canada, except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA.

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians, as such term is defined in the CTA ("Qualified Canadians") and are entitled to one vote per Variable Voting Share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of votes attaching to all issued and outstanding voting shares, exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify) or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may by regulation specify) of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class do not carry more than 25% (or any higher percentage that the Governor in Council may by regulation specify) of the aggregate votes attached to all issued and outstanding voting shares of Air Canada and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% (or any higher percentage that the Governor in Council may by regulation specify) of the votes that may be cast at such meeting.

The Government of Canada's Bill C-10, the *Budget Implementation Act 2009*, contains provisions whereby the provisions relating to voting securities in the ACPPA would be repealed and the CTA would be amended to provide the Governor in Council with flexibility to increase the foreign ownership limit from the existing 25% level to a maximum of 49%. These provisions will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Finance, in the case of the ACPPA, and on the recommendation of the Minister of Transport, in the case of the CTA.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada of any other class ranking senior to the Variable Voting Shares, the holders of the Variable Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of Air Canada properly applicable to the payment of dividends, any dividends declared and payable by Air Canada on the Variable Voting Shares and the Variable Voting Shares shall rank equally as to dividends on a share-for-share basis with the Voting Shares participating on an as-converted basis. All dividends declared in any fiscal year of Air Canada shall be declared in equal or equivalent amounts per share on all Variable Voting Shares, and Voting Shares participating on an as-converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Variable Voting Shares or the Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada ranking prior to the Variable Voting Shares, upon liquidation, dissolution or winding up of Air Canada or other distribution of Air Canada's assets among its shareholders for the purpose of winding up its affairs, the holders of the Variable Voting Shares and Voting Shares shall be entitled to receive the remaining property of Air Canada and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Each issued and outstanding Variable Voting Share shall be converted into one Voting Share, automatically and without any further act of Air Canada or of the holder, if (i) such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Qualified Canadian; or (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

In the event that an offer is made to purchase Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, be made to all or substantially all the holders of the Voting Shares in a province of Canada to which the requirement applies, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share that shall be subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares in response to the offer and the transfer agent shall deposit the resulting Voting Shares on behalf of the shareholder.

If the Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Voting Shares resulting from the conversion shall be reconverted automatically and without further act from Air Canada or the holder, into Variable Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the Air Canada articles of amalgamation.

Constraints on Ownership of Shares

The Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians.

Voting Shares

Voting

The holders of the Voting Shares shall be entitled to receive notice of, and to attend and vote at, all meetings of the shareholders of Air Canada (except where the holders of a specified class are entitled to vote separately as a class as provided in the CBCA), and each Voting Share shall confer the right to one vote in person or by proxy at all meetings of shareholders of Air Canada.

Dividends

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada of any other class ranking senior to the Voting Shares, the holders of the Voting Shares shall, at the discretion of the directors, be entitled to receive, out of monies, assets or property of Air Canada properly applicable to the payment of dividends, any dividends declared and payable by Air Canada on the Voting Shares and the Voting Shares shall rank equally as to dividends on a share-for-share basis with the Variable Voting Shares participating on an as-converted basis and all dividends declared in any fiscal year of Air Canada shall be declared in equal or equivalent amounts per share on all Voting Shares and Variable Voting Shares on an as-converted basis at the time outstanding, without preference or distinction.

Subdivision or Consolidation

No subdivision or consolidation of the Voting Shares or the Variable Voting Shares shall occur unless, simultaneously, the shares of the other class are subdivided or consolidated in the same manner, so as to maintain and preserve the relative rights of the holders of the shares of each of the said classes.

Rights upon Liquidation, Dissolution or Winding Up

Subject to the rights, privileges, restrictions and conditions attaching to the shares of Air Canada ranking senior to the Voting Shares, upon liquidation, dissolution or winding up of Air Canada or other distribution of Air Canada's assets among its shareholders for the purpose of winding up its affairs, the holders of the Voting Shares and Variable Voting Shares shall be entitled to receive the remaining property of Air Canada and shall be entitled to share equally, share for share, in all distributions of such assets.

Conversion

Unless the foreign ownership restrictions of the CTA are repealed and not replaced with other similar restrictions, an issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of Air Canada or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Qualified Canadian.

In the event that an offer is made to purchase Variable Voting Shares and the offer is one which must, pursuant to applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed, be made to all or substantially all the holders of the Variable Voting Shares, each Voting Share shall become convertible at the option of the holder into one Variable Voting Share that shall be subject to the offer at any time while the offer is in effect and until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Voting Shares for the purpose of depositing the resulting Variable Voting Shares in response to the offer and the transfer agent shall deposit the resulting Variable Voting Shares on behalf of the shareholder.

If the Variable Voting Shares resulting from the conversion and deposited pursuant to the offer are withdrawn by the shareholder or are not taken up by the offeror or the offer is abandoned or withdrawn, the Variable Voting Shares resulting from the conversion shall be reconverted automatically and without further act from Air Canada or the holder, into Voting Shares.

There shall be no right to convert the Variable Voting Shares into Voting Shares or to convert Voting Shares into Variable Voting Shares, except in accordance with the conversion procedure set forth in the Air Canada articles of amalgamation.

Constraints on Ownership of Shares

The Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Qualified Canadians.

Declaration as to Canadian Status

Air Canada's articles of amalgamation, as amended, provide that: (i) the Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by persons who are Qualified Canadians; and (ii) the Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Qualified Canadians.

Repurchase of Shares

Air Canada will be allowed, from time to time, to purchase shares for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase will constitute an "issuer bid" under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Information and Reports

Air Canada will furnish to shareholders, in accordance with applicable securities laws, all financial statements of Air Canada (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of shareholders' tax returns under the *Income Tax Act* (Canada) and the regulations thereunder, as amended (the "Tax Act") and equivalent provincial legislation.

Prior to each meeting of shareholders, the board of directors of Air Canada will provide to the shareholders (along with notice of the meeting) a form of proxy and all information as is required by applicable law and the rules of the TSX to be provided to shareholders.

The directors and officers of Air Canada are required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in securities of Air Canada.

DIRECTORS AND OFFICERS

Directors

The name, municipality of residence and principal occupation of each of the directors are, as of the date hereof, as set forth below. Such individuals have served as directors of Air Canada since the dates set forth opposite their respective names.

Name and Municipality of Residence	Principal Occupation	Director Since
Bernard Attali ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ Paris, France	Senior Advisor, TPG Capital	November 15, 2006
Michael M. Green ⁽¹⁾⁽²⁾⁽⁵⁾⁽⁶⁾ Radnor, Pennsylvania	Chief Executive Officer and Managing Director, Tenex Capital Management	March 30, 2009
Jean Marc Huot ⁽³⁾⁽⁴⁾ Montreal, Québec	Partner, Stikeman Elliott LLP	May 8, 2009
Pierre Marc Johnson ⁽¹⁾⁽³⁾⁽⁴⁾⁽⁵⁾ Montreal, Québec	Counsel, Heenan Blaikie LLP	November 15, 2006 ⁽⁷⁾
Joseph B. Leonard ⁽²⁾⁽³⁾⁽⁵⁾ Minneapolis, Minnesota	Corporate Director	May 21, 2008
Arthur T. Porter ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾ Montreal, Québec	Director General and Chief Executive Officer, McGill University Health Centre	November 15, 2006
David I. Richardson ⁽¹⁾ Grafton, Ontario	Corporate Director	September 30, 2004 ⁽⁸⁾
Roy J. Romanow Saskatoon, Saskatchewan	Senior Fellow, Public Policy University of Saskatchewan	February 9, 2010
Calin Rovinescu Montreal, Québec	President and Chief Executive Officer, Air Canada	April 1, 2009
Vagn Sørensen ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ Holte, Denmark	Senior Industrial Advisor, EQT Partners	November 15, 2006

(1) *Is currently also a director of ACE Aviation Holdings Inc.*

(2) *Member of the Audit, Finance and Risk Committee.*

(3) *Member of the Pension Committee.*

(4) *Member of the Governance and Corporate Matters Committee.*

(5) *Member of the Human Resources and Compensation Committee.*

(6) *Member of the Nominating Committee.*

(7) *Mr. Johnson was also a director of Air Canada from May 2000 to September 2004.*

(8) *Mr. Richardson has been a director of Air Canada since September 2004 and became Chairman of the Board of Air Canada on January 1, 2008.*

Unless otherwise indicated below, each of the directors has held the occupation listed above for more than five years. Mr. Green was Managing Director at Cerberus Capital Management, L.P. from 2003 to 2009. Mr. Leonard was Chairman of AirTran Airways from 1999 to 2008 and was also Chief Executive Officer from 1999 to 2007. Mr. Rovinescu was Co-founder and Senior Principal of Genuity Capital Markets from 2004 to 2009. Mr. Sørensen was President and Chief Executive Officer of Austrian Airlines Group from 2001 to 2006.

Officers

The board of directors of Air Canada may from time to time appoint one or more officers of Air Canada. A majority of the officers of Air Canada shall be residents of Canada within the meaning of the Tax Act and Canadians within the meaning of the CTA.

The name, municipality of residence and position held with Air Canada of each of the officers are, as of the date hereof, as set forth below:

Name and Municipality of Residence	Position with Air Canada	Principal Occupation	Executive Officer Since
David I. Richardson Grafton, Ontario	Chairman of the Board	Corporate Director	January 1, 2008
Calin Rovinescu Montreal, Québec	President and Chief Executive Officer	President and Chief Executive Officer, Air Canada	April 1, 2009 ⁽¹⁾
Duncan Dee Ottawa, Ontario	Executive Vice President and Chief Operating Officer	Executive Vice President and Chief Operating Officer, Air Canada	April 3, 2009 ⁽²⁾
Michael Rousseau Oakville, Ontario	Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer, Air Canada	October 22, 2007
Benjamin M. Smith Toronto, Ontario	Executive Vice President and Chief Commercial Officer	Executive Vice President and Chief Commercial Officer, Air Canada	April 26, 2004
Lise Fournel Lachine, Québec	Senior Vice President, E-Commerce and Chief Information Officer	Senior Vice President, E-Commerce and Chief Information Officer, Air Canada	April 10, 1995
Kevin C. Howlett Delta, British Columbia	Senior Vice President, Employee Relations	Senior Vice President, Employee Relations, Air Canada	March 18, 2002
David Legge Mississauga, Ontario	Senior Vice President, Operations	Senior Vice President, Operations, Air Canada	March 1, 2006
Susan Welscheid Mont Royal, Québec	Senior Vice President, Customer Service	Senior Vice President, Customer Service, Air Canada	December 13, 1999
Alan D. Butterfield Beaconsfield, Québec	Vice President, Air Canada Maintenance and Engineering	Vice President, Air Canada Maintenance and Engineering, Air Canada	February 19, 2007

Nick Careen Candiac, Québec	Vice President, Airports	Vice President, Airports, Air Canada	June 1, 2009
Yves Dufresne Montreal, Québec	Vice President, Alliances, International Operations and Regulatory Affairs	Vice President, Alliances, International Operations and Regulatory Affairs, Air Canada	April 26, 2004
Marcel Forget Montreal, Québec	Vice President, Network Planning	Vice President, Network Planning, Air Canada	April 8, 2009
Lucie Guillemette Pierrefonds, Québec	Vice President, Revenue Management	Vice President, Revenue Management, Air Canada	February 6, 2008
Carolyn M. Hadrovic Beaconsfield, Québec	Corporate Secretary	Corporate Secretary, ACE Aviation Holdings Inc. and Air Canada	February 16, 2006
Chris Isford Winnipeg, Manitoba	Vice President and Controller	Vice President and Controller, Air Canada	November 1, 2006
Priscille LeBlanc Toronto, Ontario	Vice President, Corporate Communications	Vice President, Corporate Communications, Air Canada	November 8, 2007
Scott Morey Burlington, Ontario	Vice President, Labour Relations	Vice President, Labour Relations, Air Canada	January 15, 2007
Claude Morin Montreal, Québec	Vice President, Global Sales	Vice President, Global Sales, Air Canada	March 2, 2000
David J. Shapiro Hampstead, Québec	Vice President and General Counsel	Vice President and General Counsel, Air Canada	November 12, 2004

(1) *Mr. Rovinescu was also an executive officer of Air Canada from 2000 to 2004.*

(2) *Mr. Dee was also an executive officer of Air Canada from 2002 to 2004 and from 2007 to 2008.*

Unless otherwise indicated below, each of the officers has held a position with Air Canada similar to that listed above for more than five years. Mr. Rovinescu was Co-founder and Senior Principal of Genuity Capital Markets from 2004 to 2009. Mr. Dee was Executive Vice President, Customer Experience and Chief Administrative Officer, Air Canada from 2007 to 2008 and Senior Vice President, Corporate Affairs and Chief Administrative Officer, ACE Aviation Holdings Inc. from 2004 to 2007. Mr. Rousseau was President, Hudson's Bay Company from 2006 to 2007 and Executive Vice President and Chief Financial Officer, Hudson's Bay Company from 2001 to 2006. Mr. Smith was President and Chief Executive Officer, Air Canada Vacations from 2006 to 2007 and Vice President, Network Planning, Air Canada from 2004 to 2006. Mr. Butterfield was Vice President, Line and Airframe Maintenance at United Airlines from 2004 to 2007. Mr. Careen was Senior Vice President, Operations, Air Canada Jazz from 2008 to 2009, Vice President, Airports and SOC, Air Canada Jazz from 2007 to 2008 and Senior Director, SOC and Resource Planning, Air Canada Jazz from 2005 to 2006. Mr. Forget was a consultant from 2007 to 2009 and Senior Director, Network Planning, Air Canada from 2005 to 2006. Ms. Guillemette was Senior Director, Human Resources, Air Canada from 2007 to 2008 and Senior Director, Network Management, Air Canada from 2001 to 2007. Ms. Hadrovic was Deputy Secretary of ACE Aviation Holdings Inc. from 2004 to 2005. Mr. Isford was Senior Director, Financial Reporting, Air Canada from 2005 to 2006. Ms. LeBlanc was Senior Director, Corporate Communications, Air Canada from 2000 to 2007. Captain Legge was Director, Flight Technical, Air Canada from 2004 to 2006. Mr. Morey was Director, Labour and Employee Relations, Coca Cola Bottling Company from 2004 to 2007. Mr. Morin was President and Chief Executive Officer, Air Canada Cargo from 2004 to 2008. Ms. Welscheid was Vice President, In-Flight Services, Air Canada from 2004 to 2007.

As at March 26, 2010, the directors and officers mentioned above, as a group, owned, or had control or direction over, directly or indirectly, 313,867 Voting Shares representing approximately 0.15% of the outstanding Voting Shares and 169,300 Variable Voting Shares representing approximately 0.27% of the outstanding Variable Voting Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of Air Canada, no director or executive officer of Air Canada is, as at the date of the AIF, or was, within 10 years before the date of the AIF, a director, chief executive officer or chief financial officer of any company that, (a) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an "Order") that was issued while the director or executive officer of Air Canada was acting in the capacity as director, chief executive officer or chief financial officer, or (b) was subject to an Order that was issued after the director or executive officer of Air Canada ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

To the knowledge of Air Canada, no director or executive officer of Air Canada, or a shareholder holding a sufficient number of securities of Air Canada to affect materially the control of Air Canada, (a) is, as at the date of the AIF, or has been within the 10 years before the date of the AIF, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the 10 years before the date of the AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder of Air Canada, except for:

- (i) Michael M. Green was a director of Anchor Glass Container Corporation when it filed a voluntary petition for reorganization under Chapter 11 of the US Bankruptcy Code in August 2005.
- (ii) Pierre Marc Johnson was a director of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (iii) Calin Rovinescu was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (iv) Duncan Dee was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (v) Lise Fournel was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (vi) Kevin C. Howlett was an executive officer when CAIL restructured under the CCAA pursuant to a plan of compromise which became effective on July 5, 2000. CAIL's common shares and non-voting shares were suspended from trading by the TSX on June 27, 2000, and delisted on July 6, 2000. Kevin Howlett was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003;
- (vii) Susan Welscheid was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003; and

- (viii) Alan D. Butterfield was appointed Vice President, Line and Airframe Maintenance at United Airlines in March 2004 while United Airlines was operating under bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code; and
- (ix) Claude Morin was an executive officer of Air Canada when it filed for protection under the CCAA on April 1, 2003.

To the knowledge of Air Canada, no director or executive officer of Air Canada or a shareholder holding a sufficient number of securities of Air Canada to affect materially the control of Air Canada, (i) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

AUDIT, FINANCE AND RISK COMMITTEE

Audit Committee Charter

The charter of the Audit, Finance and Risk Committee ("Audit Committee") is attached as Appendix A to this AIF.

Composition of Audit Committee

As of the date hereof, the Audit Committee of Air Canada consists of Michael M. Green (chair), Joseph B. Leonard, Arthur T. Porter and Vagn Sørensen. Each member of the Audit Committee is independent and financially literate as defined under National Instrument 52-110 – *Audit Committees*.

Relevant Education and Experience of Audit Committee Members

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member is as follows:

- (i) Michael M. Green is the Chief Executive Officer and Managing Director of Tenex Capital Management, a private investment firm. Mr. Green is also a director of ACE Aviation Holdings Inc. Mr. Green has a multi-industry operations background in aerospace, transportation, telecommunications and software systems. Mr. Green was Managing Director of Cerberus Capital Management, L.P. from 2003 to 2009. Previously, Mr. Green was the Chief Executive Officer of several privately held companies, Trispan Solutions and Naviant Technology. Mr. Green began his career at General Electric Company where he worked in several operating departments and held positions in engineering, manufacturing, sales, marketing and general management. Mr. Green holds a dual B.S. in Electrical Engineering and Physics from State University of New York, Buffalo and an M.S. in Electrical Engineering from Villanova University.
- (ii) Joseph B. Leonard is a director and Interim Chief Executive Officer of Walter Energy, Inc. He is also a director of Mueller Water Products, Inc. Mr. Leonard was Chairman of AirTran Airways from 1999 to 2008 and the Chief Executive Officer from 1999 to 2007. Mr. Leonard was also President and Chief Executive Officer of AlliedSignal's Aerospace marketing, sales and service organization and previously held various senior management positions with Northwest Airlines, Eastern Airlines and American Airlines. Mr. Leonard holds a Bachelor of Science degree in Aerospace Engineering from Auburn University Montgomery.
- (iii) Arthur T. Porter is the Director General and Chief Executive Officer of the McGill University Health Centre. Dr. Porter was previously President and Chief Executive Officer of the Detroit Medical Center from 1999 to 2003 and has extensive clinical, research and administrative experience in a university teaching hospital environment. Dr. Porter has also acted as consultant for several major companies in the airline and energy sectors with respect to human resources and logistic challenges, and teaches an MBA course on mergers and acquisitions at the University of Tennessee and on leadership at McGill's School of Business Administration. Dr. Porter is a director and member of the Audit Committee of the Munder Funds, and the Chairman of CancerPartnersUK. Dr. Porter holds a Medical degree from the Cambridge School of Clinical Medicine, a Master of Business Administration from the University of Tennessee and certificates in Medical Management from Harvard University and the University of Toronto.
- (iv) Vagn Sørensen is a Senior Industrial Advisor with EQT Partners, a private equity fund. Mr. Sørensen is also Chairman of KMD A/S, Select Service Partner Plc U.K, Scandic Hotels AB and TDC A/S, and Vice Chairman of DFDS A/S and ST Global. Mr. Sørensen is a director of Braganza AS, Cimber Sterling Group A/S and F L Smidth & Co A/S and Scandinavian International Management Institute. Mr. Sørensen was previously President and Chief

Executive Officer of Austrian Airlines Group from 2001 to 2006, and previously held various senior commercial positions with SAS Scandinavian Airlines System. Mr. Sørensen has served as Chairman of the Association of European Airlines, member of the Board of Governors of the International Air Transport Association and member of the Board of Vienna Stock Exchange. Mr. Sørensen holds a Master of Economics degree from Aarhus Business School, Denmark.

Pre-approval Policies and Procedures

The Audit Committee reviews and approves the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporation's external auditor prior to the commencement of such work. In this regard, the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period.

The Audit Committee will also require and review a report from the external auditor of all relationships between the external auditor and its related entities and the Corporation and its related entities, including all work performed and fees paid for such work of a non-audit nature, that in the external auditor's professional judgment may reasonably be perceived to bear on its objectivity and independence and confirming that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee will also review steps taken by the external auditor to address any findings in any of the foregoing reviews.

Auditors' Fees

PricewaterhouseCoopers LLP has served as the Corporation's auditing firm since April 26, 1990. Fees payable for the years ended December 31, 2009 and December 31, 2008 to PricewaterhouseCoopers LLP and its affiliates are \$3,755,863 and \$3,011,035, respectively, as detailed below.

	<u>Year ended December 31, 2009</u>	<u>Year ended December 31, 2008</u>
Audit fees	\$3,115,427	\$2,382,442
Audit-related fees	359,756	326,342
Tax fees	59,680	57,761
All other fees	221,000	244,490
	<u>\$3,755,863</u>	<u>\$3,011,035</u>

The nature of each category of fees is described below.

Audit fees

Audit fees were paid for professional services rendered for the audit of the Corporation's annual consolidated financial statements and for services that are normally provided in connection with statutory and regulatory filings or engagements.

Audit-related fees

Audit-related fees were paid for professional services related to pension plan audits, specified procedures reports and other items related to the audit.

Tax fees

Tax fees were paid for professional services rendered with respect to income taxes.

All other fees

Other fees were paid for translation and advisory services.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set out below or described elsewhere in this AIF, none of the directors or senior officers, as applicable, of (i) Air Canada, (ii) ACE, Letko, Brosseau & Associates Inc. and PAR Investment Partner L.P. (PIP), or (iii) any associate or affiliate of the persons referred to in (i) and (ii), has or has had any material interest, direct or indirect, in any transaction within the past three years or in any proposed transaction that has materially affected or is reasonably expected to materially affect Air Canada or any of its subsidiaries. Air Canada is a party to the following agreements with ACE or Aveos:

- (i) the Registration Rights Agreement which was entered into on the closing of the Initial Public Offering of Air Canada pursuant to which ACE has been granted certain demand and “piggy-back” registration rights by Air Canada, subject to certain restrictions, which enables ACE to require Air Canada to file a prospectus and otherwise assist with a public offering of Shares under Canadian securities laws, in accordance with the terms and conditions contained in the Registration Rights Agreement. The Registration Rights Agreement covers all Shares that are held by ACE or permitted transferees. The registration rights under the Registration Rights Agreement may be exercised in respect of all or, from time to time, in respect of a portion of the Shares held by ACE or permitted transferees, in accordance with the terms and conditions contained in the Registration Rights Agreement. The costs of any public offerings of Shares will be borne by Air Canada, other than any applicable underwriters' commissions which will be borne by ACE. The Registration Rights Agreement obligates Air Canada to provide indemnification and contribution for the benefit of ACE and its affiliates and representatives and any underwriters.
- (ii) the Aveos General Services Agreement (the “Aveos GSA”) described in Air Canada’s 2009 MD&A dated February 10, 2010, which can be found on Air Canada’s website at www.aircanada.com or on SEDAR at www.sedar.com;
- (iii) the Aveos Maintenance Agreements described in Air Canada’s 2009 MD&A dated February 10, 2010, which can be found on Air Canada’s website at www.aircanada.com or on SEDAR at www.sedar.com.

LEGAL PROCEEDINGS

A description of certain legal proceedings to which Air Canada is a party appears under the heading “Current Legal Proceedings” in the section entitled “Risk Factors” section in this AIF.

MATERIAL CONTRACTS

The contracts that are material to the Corporation and that were entered into within the year ended December 31, 2009, or before such year but which are still in effect, and which are required to be filed with Canadian securities regulatory authorities in accordance with section 12.2 of National Instrument 51-102 — Continuous Disclosure Obligations, are as follows:

- (i) the Registration Rights Agreement;
- (ii) the Amended and Restated Credit Agreement dated July 30, 2009;
- (iii) the Jazz CPA;
- (iv) the Aveos General Services Agreement;

- (v) the Aircraft General Terms Agreement AGTA-ACN and related agreements between Boeing and Air Canada dated November 4, 2005, described under the section entitled "Aircraft Fleet" in this AIF.

EXPERTS

The Corporation's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have issued an auditor's report dated February 9, 2010, in respect of the Corporation's consolidated financial statements as at December 31, 2009, and December 31, 2008, and for each of the years ended December 31, 2009, and December 31, 2008. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Corporation within the meaning of the Code of Ethics of the Ordre des comptables agréés du Québec.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Air Canada's securities and securities authorized for issuance under equity compensation plans are contained in Air Canada's management proxy circular for its 2010 annual and special meeting of shareholders, scheduled for May 27, 2010, which will be posted on Air Canada's website at **www.aircanada.com** and will be filed on SEDAR at **www.sedar.com**. Additional financial information is provided in Air Canada's consolidated financial statements for the year ended December 31, 2009, and Air Canada's 2009 MD&A dated February 10, 2010. The above documents and additional information relating to Air Canada are available on Air Canada's website at **www.aircanada.com** or on SEDAR at **www.sedar.com**.

The following documents can be obtained by sending your request to the Corporate Secretary of Air Canada, at Air Canada Centre, P.O. Box 14000, Station Airport, Dorval, Québec, H4Y 1H4:

- (i) this AIF, together with any document incorporated herein by reference;
- (ii) the Consolidated Financial Statements of Air Canada as at and for the year ended December 31, 2009, including the auditor's report and notes related thereto, Air Canada's MD&A for the year ended December 31, 2009, and any interim financial statements filed after the audited financial statements for Air Canada's most recently completed financial year; and
- (iii) any other documents that are incorporated by reference into a short form prospectus pursuant to which securities of Air Canada are in the course of a distribution.

Except when securities of Air Canada are in the course of distribution pursuant to a short form prospectus, Air Canada may require the payment of a reasonable charge from persons, other than securityholders of Air Canada, requesting copies of these documents.

GLOSSARY OF TERMS

“**ACE**” means ACE Aviation Holdings Inc., a corporation incorporated under the CBCA;

“**ACPA**” means Air Canada Pilots Association;

“**Aeroplan**” means Aeroplan Holding GP Inc.;

“**Air Canada Cargo**” means the cargo services division of Air Canada;

“**Air Canada Vacations**” means Touram Limited Partnership, a limited partnership established under the laws of the Province of Québec;

“**Air Canada Public Participation Act**” or “**ACPPA**” means the *Air Canada Public Participation Act* (Canada);

“**ASMs**” means the total number of seats available for passengers multiplied by the miles flown;

“**ATAC**” means the Air Transportation Association of Canada;

“**Audit Committee**” means the Audit, Finance and Risk Committee of Air Canada;

“**Aveos**” means Aveos Fleet Performance Inc. (formerly called ACTS Aero Technical Support & Services Inc.);

“**Boeing**” means The Boeing Company;

“**CAIL**” means Canadian Airlines International Ltd.;

“**CATSA**” means the Canadian Air Transport Security Agency;

“**CAW**” means the National Automobile, Aerospace, Transportation and General Workers Union of Canada;

“**CBCA**” means the Canada Business Corporations Act, as amended;

“**CCAA**” means the Companies' Creditors Arrangement Act, as amended;

“**Corporation**” shall have the meaning ascribed thereto under “Explanatory Notes”;

“**Covered Aircraft**” means aircraft operated by Jazz under the Jazz CPA;

“**CTA**” means the *Canada Transportation Act*, as amended;

“**CUPE**” means the Canadian Union of Public Employees;

“**Embraer**” means EMBRAER — Empresa Brasileira de Aeronautica S.A.;

“**FTE**” shall have the meaning ascribed thereto under “Employees”;

“**GECC**” means the General Electric Capital Corporation;

“**IAMAW**” means the International Association of Machinists and Aerospace Workers;

“**IATA**” means the International Air Transport Association;

“**IBT**” means the International Brotherhood of Teamsters;

“**ICAO**” means the International Civil Aviation Organization;

“**Independent**” means independent as defined in National Policy 58-201 — Corporate Governance Guidelines;

“**Initial Public Offering**” shall have the meaning ascribed thereto under “Corporate Structure — Name, Address and Incorporation”;

“**Jazz**” means Jazz Air LP, a limited partnership established under the laws of the Province of Québec;

“**Jazz CPA**” means the Amended and Restated Capacity Purchase Agreement between Air Canada and Jazz Air Limited Partnership dated January 1, 2006, as amended;

“**Management**” means management of Air Canada;

“**Montreal Trudeau Airport**” means Montreal’s Pierre Elliott Trudeau International Airport;

“**OAG**” means Official Airline Guide;

“**OLA**” means the *Official Languages Act* (Canada), as amended;

“**OSFI**” means the Office of the Superintendent of Financial Institutions;

“**Open Skies Agreement**” means the agreement negotiated between the governments of Canada and the United States which came into force on March 12, 2007;

“**Passenger load factor**” means Revenue Passenger Miles as a percentage of Available Seat Miles;

“**PIPEDA**” means the Personal Information Protection and Electronic Documents Act (Canada);

“**Plan**” means the consolidated plan of reorganization, compromise and arrangement of Air Canada and certain of its subsidiaries pursuant to which ACE became the parent holding company of the reorganized Air Canada and its subsidiaries;

“**Qualified Canadians**” means a “Canadian” for the purposes of the CTA, defined as being controlled in fact by Canadians and having at least 75% of its voting interest owned and controlled by Canadians;

“**RASM**” means average passenger revenue per ASM;

“**Revenue Passenger Miles**” means a measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the numbers of miles they are carried;

“**Shares**” means both Variable Voting Shares and Voting Shares;

“**Subsidiary**” has the meaning attributed to such term in the CBCA, provided that, notwithstanding the reference to a body corporate in the CBCA, a subsidiary may refer to a limited partnership or trust;

“**Tax Act**” means the Income Tax Act (Canada) and the regulations thereunder, as amended;

“**TGWU**” means the Transport and General Workers Union;

“**Toronto Pearson Airport**” means Toronto Lester B. Pearson International Airport;

“**TSA**” means the Transport Security Agency;

“**TSX**” means the Toronto Stock Exchange;

“**Variable Voting Shares**” means Class A variable voting shares in the capital of Air Canada;

“**Voting Shares**” means Class B voting shares in the capital of Air Canada;

“**WestJet**” means WestJet Airlines Ltd.; and

“**Yield**” means average passenger revenue per Revenue Passenger Mile.

SCHEDULE A

CHARTER OF THE

AUDIT, FINANCE AND RISK COMMITTEE (the "Audit Committee")

OF THE BOARD OF DIRECTORS

OF AIR CANADA (the "Corporation")

1. Purpose

The purpose of the Audit Committee is as follows:

- (i) To assist the Board in the discharge of its responsibility to monitor the component parts of the Corporation's financial reporting and audit process.
- (ii) To maintain and enhance the quality, credibility and objectivity of the Corporation's financial reporting and to satisfy itself and oversee management's responsibility as to the adequacy of the supporting systems of internal financial and accounting controls.
- (iii) To assist the Board of Directors in its oversight of the independence, qualifications and appointment of the external auditor.
- (iv) To monitor the performance of the internal financial and accounting controls and of the internal and external auditors.
- (v) To provide independent communication among the Board, the internal auditor and the external auditor.
- (vi) To facilitate in-depth and candid discussions among the Audit Committee, management and the external auditor regarding significant issues involving judgment and impacting quality of controls and reporting.

2. Composition and Qualification

- (a) The Audit Committee of the Corporation shall be composed of not less than three directors, all of whom shall meet the independence, experience and other membership requirements under applicable laws, rules and regulations as determined by the Board of Directors. The members of the Audit Committee shall have no relationships with management, the Corporation and its related entities that in the opinion of the Board may interfere with their independence from management and from the Corporation. In addition, an Audit Committee member shall not receive, other than for service on the Board or the Audit Committee or other committees of the Board, any consulting, advisory, or other compensatory fee from the Corporation or any of its related entities, parties or subsidiaries. The members of the Audit Committee shall possess the mix of characteristics, experiences and skills to provide an appropriate balance for the performance of the duties of the Audit Committee and in particular each member of the Audit Committee shall be "financially literate" and at least one member shall be a "financial expert" as defined by relevant securities legislation or regulations.

- (b) The members of the Audit Committee shall be appointed by the Board to hold office from the time of their appointment until the next annual general meeting of the shareholders or until their successors are appointed. Unless a Chair and a Secretary are appointed by the Board, the members of the Audit Committee may designate a Chair and a Secretary by a majority vote of all the Audit Committee members.
- (c) The Audit Committee may invite, from time to time, such person as it may see fit to attend its meeting and to take part in discussion and consideration of the affairs of the Audit Committee. However, any such persons invited may not vote at any meeting of the Audit Committee.
- (d) The Board, may, at any time, remove any member of the Audit Committee at its discretion and may accept the resignation of any member of the Audit Committee. Vacancies at any time occurring on the Audit Committee shall be filled by the Board.

3. Meetings and Procedure

- (i) The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate. Such meetings shall be held by telephone or by any other mean which enables all participants to communicate with each other simultaneously.
- (ii) The Audit Committee may fix its own procedure at meetings and for the calling of meetings except as may be otherwise provided by the Board.
- (iii) A quorum for the transaction of business at an Audit Committee meeting shall be a majority of the Audit Committee members. All decisions and recommendations made by the Audit Committee shall be made by a majority vote of the members present at the meeting.
- (iv) An “*in-camera*” session of the members of the Audit Committee shall be held as part of each meeting of the Audit Committee.
- (v) Notice of meetings shall be given by letter, facsimile, email or telephone not less than 24 hours before the time fixed for the meeting. Notice of meetings shall state the date, the place and the hour at which such meetings shall be held. Members may waive notice of any meeting.
- (vi) The minutes of the Audit Committee meetings shall accurately record the significant discussions of, and decisions made by, the Audit Committee, including all recommendations to be made by the Audit Committee to the Board and shall be distributed to Audit Committee members as well as to all the directors of the Corporation, with copies to the Chief Executive Officer of the Corporation.
- (vii) The Audit Committee shall report to the Board on all proceedings and deliberations of the Audit Committee at the first subsequent meeting of the Board, and at such other times and in such manner as the Board may require or as the Audit Committee in its discretion may consider advisable.

4. Responsibilities and Duties

To achieve its objectives, the Audit Committee shall:

- (a) Monitor and review the quality and integrity of the Corporation's accounting and financial reporting process through discussions with management, the external auditor and the internal auditor. This will include a review of the annual and quarterly financial statements and Management's Discussion and Analyses (“MD&As”) to be filed with regulatory authorities and provided to shareholders, and

financial statements and other financial disclosure included in prospectuses, earnings press releases and other similar documents. The Audit Committee shall also review the Corporation's annual information form and other similar documents. These reviews will include:

- (i) discussions with management and the external auditor and a consideration of the report by the external auditor to the Audit Committee of matters related to the conduct of an audit;
 - (ii) discussions with the external auditor respecting the auditor's judgment regarding both the acceptability and quality of the financial statements including the critical accounting policies and practices used by management in their preparation, alternative treatments and disclosures of financial information within generally accepted accounting principles that have been considered by management and their ramifications, the selection of changes in significant accounting policies, the method used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the degree of aggressiveness or conservatism, as the case may be, of the accounting policies adopted by the Corporation, the process used by management in formulating particularly significant accounting estimates and the basis for the external auditor's conclusions regarding the reasonableness of those estimates;
 - (iii) a review of significant adjustments arising from an audit;
 - (iv) a review of disagreements with management over the application of accounting policies as well as any disclosure in the financial statements. The Audit Committee is responsible for the resolution of disagreements between management and the external auditor regarding financial reporting;
 - (v) a review of all material off-balance sheet transactions and other relationships with non-consolidated entities that may have a material current or future effect on the financial condition of the Corporation including their disclosure or lack thereof in the applicable quarterly or annual financial statements;
 - (vi) a review of the external auditor's suggestions for improvements to the Corporation's operations and internal controls;
 - (vii) a review of the nature and size of unadjusted errors of a non-trivial amount;
 - (viii) a review to ascertain that various covenants are complied with; and
 - (ix) the selection of, and changes in, accounting policies and consideration of the appropriateness of such selections and changes.
- (b) Determine, based on its review and discussion, whether to recommend the approval by the Board of the annual and quarterly financial statements and related MD&A, and the financial disclosure in any such annual information forms, earnings press releases, prospectuses and other similar documents.
- (c) Review with management, the external auditor and legal counsel, the Corporation's procedures to be satisfied that it complies with applicable laws and regulations, and any significant litigation, claim or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the Corporation and the disclosure or impact on the results of these matters in the quarterly and annual financial statements. The Audit Committee should be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, and must periodically assess the adequacy of those procedures.

- (d) Meet with the Corporation's external auditor to review and approve their audit plan with particular emphasis on risk factors which could lead to a material misstatement of the financial statements, the scope and timing of the audit, the assumptions and decisions that have been made in developing the plan and co-ordination of work between the external auditor and the internal audit department. The Audit Committee is responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation.
- (e) Review and approve estimated audit and audit-related fees and expenses for the current year. Pre-approve any significant additional audit and audit-related fees over the estimated amount. Review and approve audit and audit-related fees and expenses for the prior year. The authority for the determination and payment of fees to the external auditor rests solely and exclusively with the Audit Committee. The Corporation shall ensure that funding is available to the Audit Committee for payment of compensation to the external auditor.
- (f) Review
 - (i) and approve, or delegate to a member of the Audit Committee the responsibility to review and approve, the nature of all non-audit services, as permitted by securities legislation and regulations, to be provided by the Corporations' external auditor prior to the commencement of such work. In this regard the Audit Committee will prepare a report for presentation to the shareholders of the Corporation quarterly or annually, as required, regarding the Audit Committee's approval of such non-audit services in the period. The pre-approval of non-audit services by a member of the Audit Committee to whom such authority is delegated must be presented to the Audit Committee at its first scheduled meeting following such pre-approval;
 - (ii) and implement from time to time a process in connection with non-audit services performed by the external auditor.
- (g) Review a report from the external auditor that in the external auditor's professional judgment it is independent of the Corporation and discuss this report with the external auditor in order to evaluate the objectivity and independence of the external auditor. The Audit Committee should specifically require the external auditor to confirm that it is a registered public accounting firm as prescribed by various applicable securities regulations and to confirm that it is not the subject of any other inquiry or investigation by governmental or professional authority relating to any audit conducted by the firm.
- (h) Receive reports on any consultations between management and other public accountants respecting accounting principles to be applied in preparing the quarterly or annual financial statements, and on any incidents involving fraud or illegal acts of which management, the internal audit department or the external auditor become aware. In this regard, review the relevant control procedures with management to satisfy itself that such matters are adequately guarded against.
- (i) At least once each year:
 - (i) Meet privately with management to assess the performance of the external auditor.
 - (ii) Meet privately with the external auditor, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of the audit, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work and their evaluation of the Corporation's financial, accounting and audit personnel and systems.

- (j) Evaluate the performance of the external auditor, and if so determined, recommend that the Board either take steps to replace the external auditor or provide for the reappointment of the external auditor by the shareholders.
- (k) Regarding the services provided by the internal audit department, the Audit Committee will:
 - (i) meet privately with internal audit, amongst other things, to understand any restrictions placed on them or other difficulties encountered in the course of their audits, including instructions on the scope of their work and access to requested information and the level of co-operation received from management during the performance of their work;
 - (ii) periodically review and approve the mandate, reporting relationships and resources of the internal audit group;
 - (iii) review the objectivity, qualifications, adequacy and experience of the internal audit staff and approve the appointment, dismissal or replacement of the head of the internal audit department;
 - (iv) review and approve annually the planned scope for the internal audit program, its objectives, and the resources required to attain these objectives;
 - (v) periodically throughout each year review the reports of the internal audit department which describe the activities of the internal audit department for the preceding period; and
 - (vi) review the working relationship between the internal audit department and the external auditor, and between the internal audit department and management.
- (l) Obtain from both the internal audit department and the Corporation's external auditor the major audit findings and internal control recommendations reported during the period under review, the response of management to those recommendations, and review the follow-up performed by management and the internal audit department in order to monitor whether management has implemented an effective system of internal accounting control.
- (m) Review significant emerging accounting and reporting issues, including recent professional and regulatory pronouncements, and assess their impact on the Corporation's financial statements.
- (n) Establish policies and procedures for the receipt, retention and treatment of complaints received by the Corporation from employees, shareholders and other stakeholders regarding accounting issues and financial reporting, internal accounting controls and internal or external auditing matters. The Audit Committee should be satisfied that sufficient controls are in place with the objective that all such complaints can be received anonymously and with an appropriate degree of confidentiality and that potential employee informants are aware of the process that is in place. The Audit Committee should also be satisfied that processes are in place with the objective that all such complaints, regardless of significance, are presented to the Audit Committee.
- (o) Review policies for approval of senior management expenses.
- (p) Review the process relative to the periodic certifications by the Chief Executive Officer and the Chief Financial Officer of the Corporation in respect of financial disclosures, the existence of any significant deficiencies in the design or operation of internal controls which could adversely affect the Corporation's ability to record, process, summarize and report financial data and any significant changes in internal controls or changes to the environment in which the internal controls operate, including corrections of material deficiencies and weaknesses.

- (q) Review with management the Corporation's computer systems, including procedures to keep the systems secure and contingency plans developed to deal with possible computer failures.
- (r) Review and approve all related party transactions as such term is defined from time to time in "*Regulation 61-101 respecting Protection of Minority Security Holders in Special Transactions*" of the Autorité des marchés financiers and Multilateral Instrument 61-101 issued by the Ontario Securities Commission, as may be amended from time to time.
- (s) Review risk management systems and controls, especially in relation to derivatives, foreign currency exposure, hedging and insurance.
- (t) Whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the Audit Committee as the Audit Committee may consider appropriate. The Corporation shall ensure that funding is available to the Audit Committee in respect of the aforementioned activities.
- (u) Report regularly to the Board on the activities, findings and conclusions of the Audit Committee.
- (v) Review this Charter on an annual basis and recommend to the Board any changes to it that the Audit Committee considers advisable.
- (w) Complete a self-assessment annually to determine how effectively the Audit Committee is meeting its responsibilities.
- (x) Perform such other functions as may be delegated from time to time by the Board.
- (y) Review the process for the rotation of the lead audit partner, the concurring partner and any other audit engagement team partner of the external auditor of the Corporation.
- (z) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.

OTHER

- (a) Public Disclosure

The Audit Committee shall:

- (i) Review and approve the Corporation's Public Disclosure Policy and any changes related thereto and satisfy itself that such policy is consistent with current developments and best practices;
- (ii) Where practicable, management will review with the Audit Committee or the Chairman of the Audit Committee draft news releases to be disseminated to the public related to earnings warnings or financial results forecasting by the Corporation which are expected by management to be material in relation to the market price of any of the Corporation's securities.

- (b) Risk Identification and management

The Audit Committee shall make all reasonable efforts to identify and address material financial and other risks to the business and affairs of the Corporation and its subsidiaries and make recommendations in that regard to the Board of Directors of the Corporation. The Audit Committee shall review and discuss with management, the internal audit department and the external auditor all major financial risk exposures and

the steps management has taken to monitor/control those exposures. The Audit Committee shall be entitled, from time to time, to retain experts and consultants to assist the Audit Committee with the discharge of such mandate. The Audit Committee shall have the discretion in the discharge of these duties to address risks to the Corporation's and its subsidiaries' revenues and costs, as well as potentially corrupt or other practices that may lead to loss or depreciation of business reputation.

(c) Contingent Liabilities

The Audit Committee shall monitor contingent liabilities of the Corporation and its subsidiaries. In the discharge of this duty, the Audit Committee shall have the discretion to retain experts and consultants and to review, without limitation, workplace safety, environmental issues and any other matters, whether of a financial nature or otherwise, that can give rise to a contingent liability. The Audit Committee shall make recommendations, from time to time, to the Board of Directors of the Corporation on these matters.

(d) Corporate Authorizations Policies

The Audit Committee shall:

- (i) Periodically review and approve policies relative to the financial control, conduct, regulation and administration of subsidiary companies;
- (ii) Periodically review any administrative resolutions adopted from time to time pursuant to the Corporation's By-laws pertaining to the establishment of procedures relative to commitment and transaction authorizations, the determination of the officers or other persons by whom any instrument in writing or document is to be executed and the manner of execution thereof;
- (iii) Review, monitor and approve the Corporate Donations Policy and any changes thereto and the annual Corporate Donations Budget; and
- (iv) Review, monitor and approve any other financial expenditure policies that would affect the Corporation's and its subsidiaries' financial condition or reputation.

(e) Performance to Budget

The Audit Committee shall review actual financial performance compared to budget.

(f) Responsibilities

Nothing contained in the above mandate is intended to assign to the Audit Committee the Board of Directors' responsibility regarding the Corporation's compliance with applicable laws or regulations or to expand applicable standards of liability under statutory or regulatory requirements for the directors or the members of the Audit Committee. Even though the Audit Committee has a specific mandate and its members have financial experience and expertise, it is not the duty of the Audit Committee to plan or conduct audits, or to determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such matters are the responsibility of management, the internal auditor and the external auditor.

Members of the Audit Committee are entitled to rely, absent knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, and (iii) representations made by management as to the non-audit services provided to the Corporation by the external auditor.

August 6, 2009