

2010 Second Quarter Financial Results

August 5, 2010



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Financial Highlights – Results of Operations

Q2 10 / Q2 09

| <i>(millions)</i> | Q2 2010 | Q2 2009 | Change |
|--------------------------------|----------|----------|----------|
| Operating Revenue | \$ 2,625 | \$ 2,330 | \$ 295 |
| Operating Income (Loss) | \$ 75 | \$ (113) | \$ 188 |
| EBITDAR | \$ 333 | \$ 135 | \$ 198 |
| Net Income (Loss) | \$ (203) | \$ 155 | \$ (358) |
| Operating Margin | 2.9% | (4.8)% | 7.7 PP |
| EBITDAR Margin | 12.7% | 5.8% | 6.9 PP |
| RASM (cents) | 14.8 | 13.9 | 6.6% |
| CASM (cents) | 16.4 | 16.6 | (0.9)% |
| CASM excl. Fuel (cents) | 12.2 | 12.7 | (4.2)% |

Note: The net loss in Q2'10 includes a charge of \$54 million in interest expense related to AC's secured term credit facility as well as foreign exchange losses of \$156 million

Financial Highlights – Financial Position and Cash Flow

Q2 10 / Q2 09

| <i>(millions)</i> | Q2 2010 | Q2 2009 | Change |
|---|----------|----------|----------|
| Cash Flow from (used for) Operations ⁽¹⁾ | \$ 320 | \$ (91) | \$ 411 |
| Additions to Capital Assets | \$ (23) | \$ (49) | \$ 26 |
| Free Cash Flow | \$ 297 | \$ (140) | \$ 437 |
| Cash, Cash Equivalents & Short-term Investments at June 30 | \$ 1,815 | \$ 907 | \$ 908 |
| Adjusted debt/equity ratio % at June 30 | 81.0% | 89.7% | (8.7) pp |

(1) includes cash used for fuel hedge settlements, terminations & premiums, net fuel hedge collateral deposits, excess of employee future benefit funding over expense and changes in non-cash working capital

Non-Operating Expense

Q2 10 / Q2 09

| <i>(millions)</i> | Q2 2010 | Q2 2009 | Change |
|---|-----------------|----------------|----------------|
| Net Interest Expense ⁽¹⁾ | \$ (129) | \$ (88) | \$ (41) |
| Loss on Assets | \$ - | \$ (71) | \$ 71 |
| Gain (Loss) on Financial Instruments | \$ (18) | \$ 79 | \$ (97) |
| Total Non-Operating Expense | \$ (147) | \$ (80) | \$ (67) |

(1) Q2 10 includes a charge of \$54M in interest expense related to Air Canada's secured term credit facility

Q2 2010 Versus Q2 2009

| | Passenger Revenue (%) | Capacity (ASMs) (%) | Traffic (RPMs) (%) | Passenger LF (PP) | Yield (%) | RASM (%) |
|----------------|-----------------------|---------------------|--------------------|-------------------|--------------|--------------|
| Canada | ↑ 6.8 | ↓ 0.2 | ↑ 2.9 | ↑ 2.5 | ↑ 3.7 | ↑ 7.0 |
| US Transborder | ↑ 11.3 | ↑ 7.3 | ↑ 10.3 | ↑ 2.0 | ↑ 0.8 | ↑ 3.6 |
| Atlantic | ↑ 12.8 | ↑ 2.4 | ↑ 3.2 | ↑ 0.7 | ↑ 9.2 | ↑ 10.0 |
| Pacific | ↑ 37.3 | ↑ 17.5 | ↑ 27.0 | ↑ 6.7 | ↑ 8.1 | ↑ 16.9 |
| Other | ↑ 15.3 | ↑ 10.1 | ↑ 12.7 | ↑ 1.8 | ↑ 2.2 | ↑ 4.5 |
| Total | ↑ 12.4 | ↑ 5.3 | ↑ 8.7 | ↑ 2.6 | ↑ 3.3 | ↑ 6.6 |

Total Operating Expense ↑ 4.4%

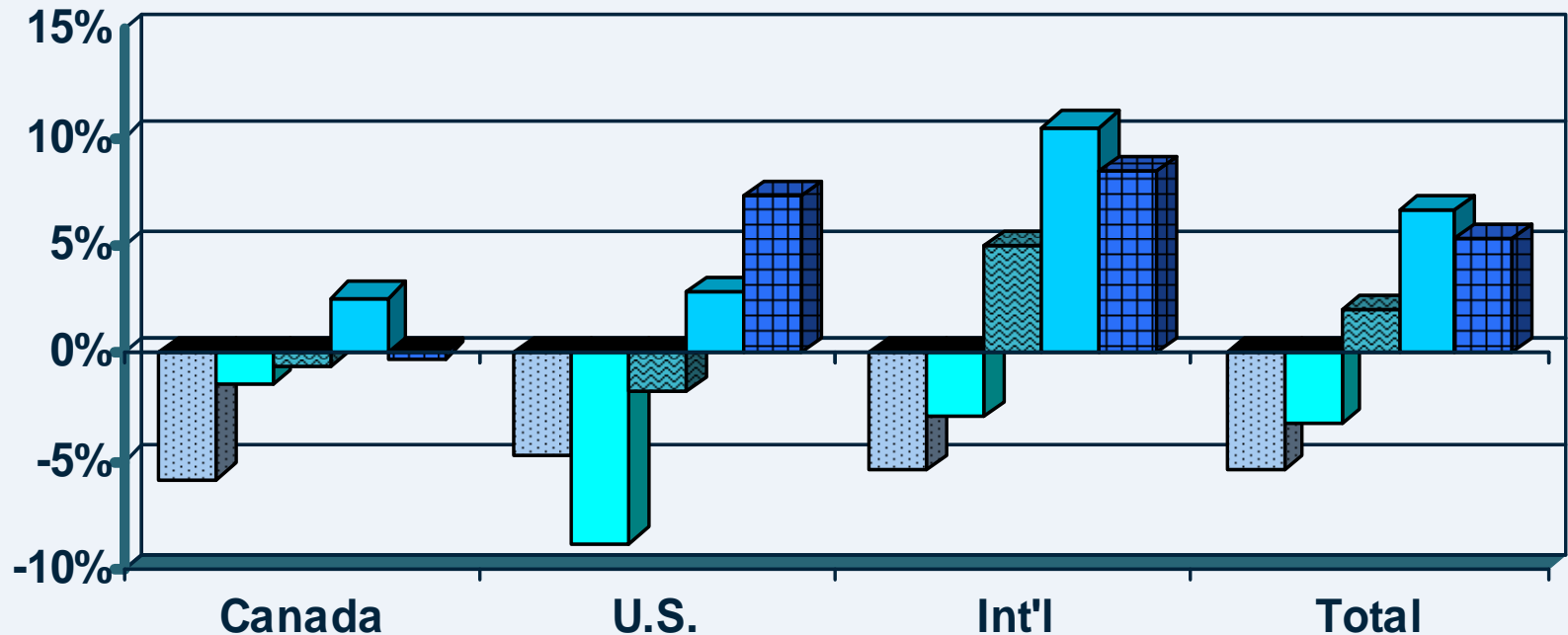
Total CASM ↓ 0.9%

Total CASM - excluding fuel ↓ 4.2%

System Capacity Increased 5.3% due to Expanded Int'l Oper. & Leveraging Toronto Hub as a Global Transfer Point

(Y-O-Y Changes in Capacity)

% Change in ASMs

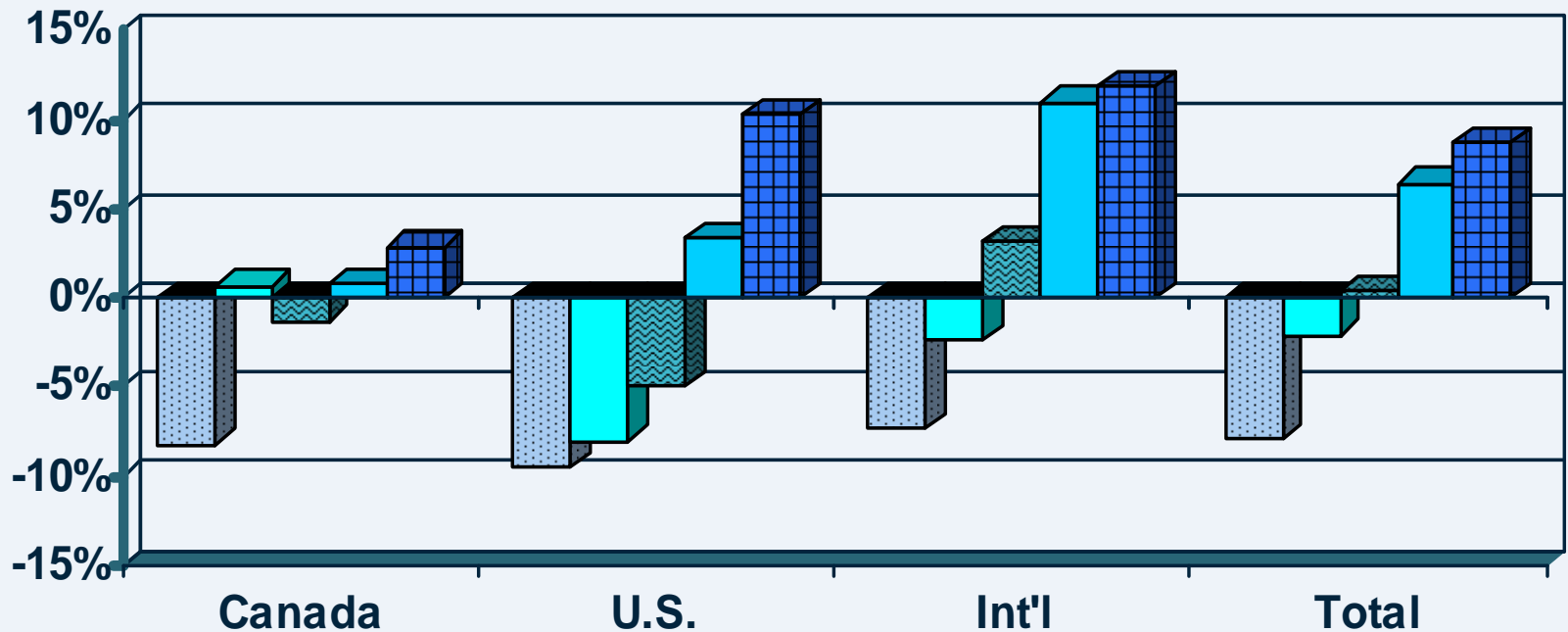


■ Q2 2009/2008 ■ Q3 2009/2008 ■ Q4 2009/2008 ■ Q1 2010/2009 ■ Q2 2010/2009

System Traffic Increased 8.7% on Capacity Growth of 5.3%

(Y-O-Y Changes in Traffic)

% Change in RPMs

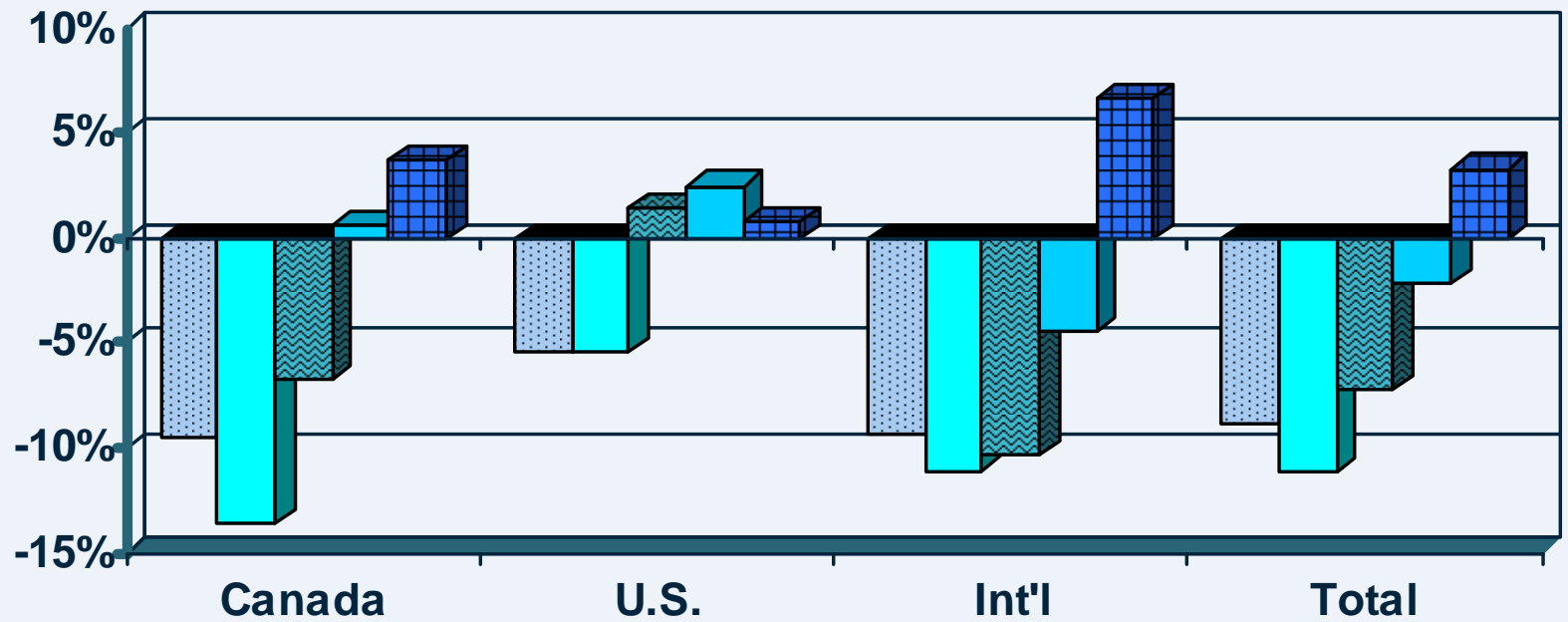


■ Q2 2009/2008 ■ Q3 2009/2008 ■ Q4 2009/2008 ■ Q1 2010/2009 ■ Q2 2010/2009

Yield Up 3.3% due to Modest Improvement in the Economic Environment Compared to Q2'09

(Y-O-Y Changes in Passenger Yield)

% Change in Yield



Q2 2009/2008

 Q3 2009/2008

 Q4 2009/2008

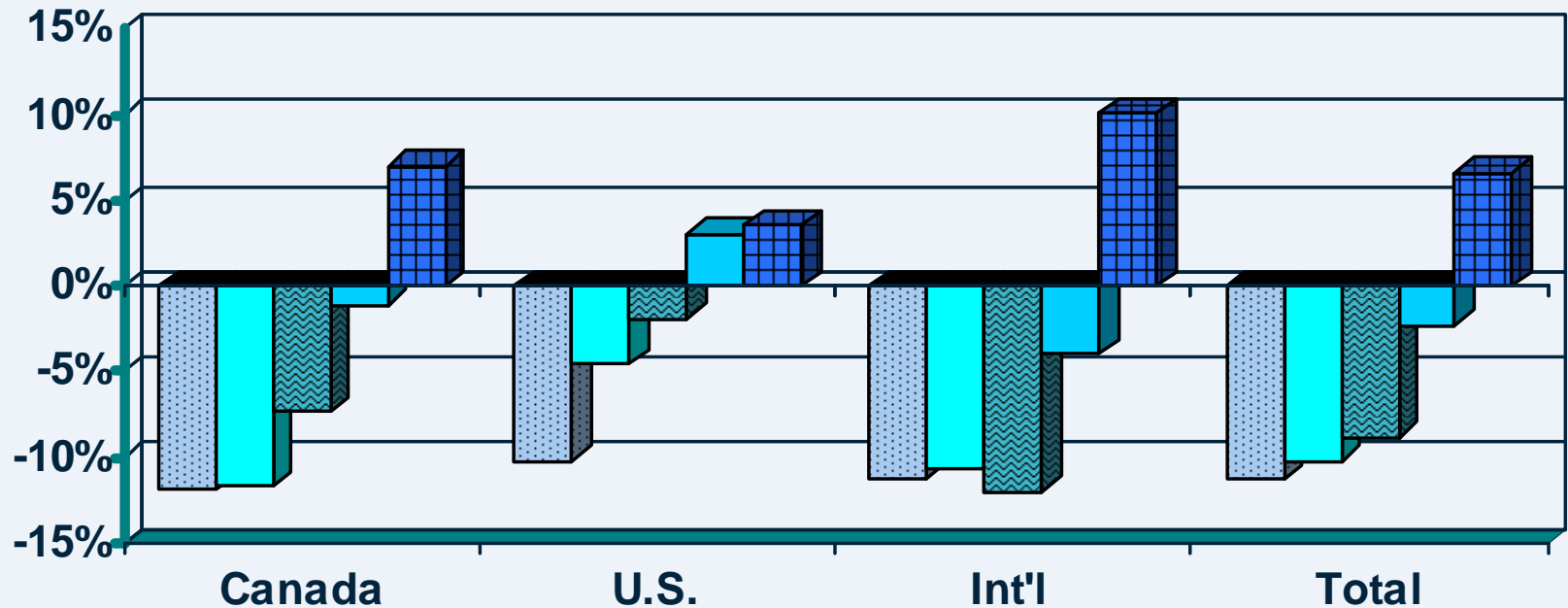
 Q1 2010/2009

 Q2 2010/2009

System RASM Increased 6.6% due to 3.3% Yield Growth and 2.6 PP Passenger Load Factor Improvement

(Y-O-Y Changes in Revenue per ASM)

% Change in RASM

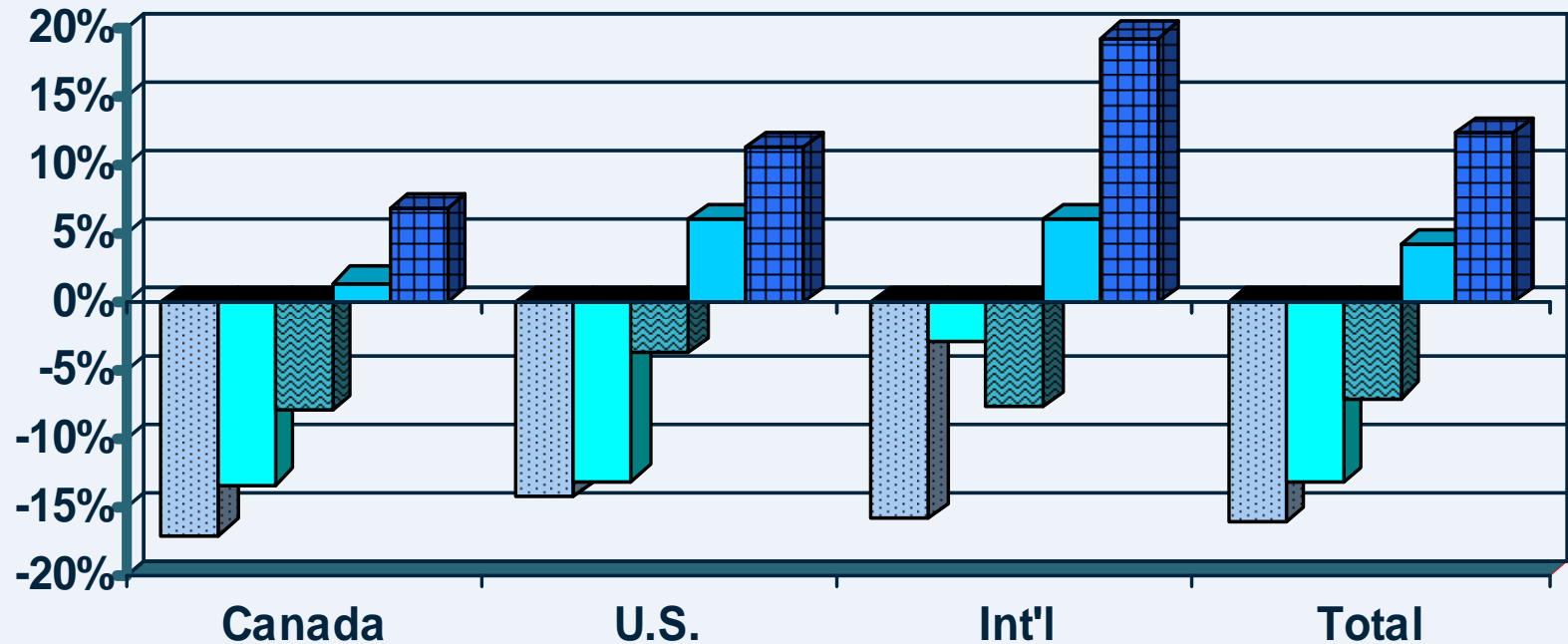


Q2 2009/2008
 Q3 2009/2008
 Q4 2009/2008
 Q1 2010/2009
 Q2 2010/2009

System Revenues Increased 12.4% due to 8.7% Traffic Growth and 3.3% Yield Improvement

(Y-O-Y Changes in Passenger Revenue)

% Change in Revenue



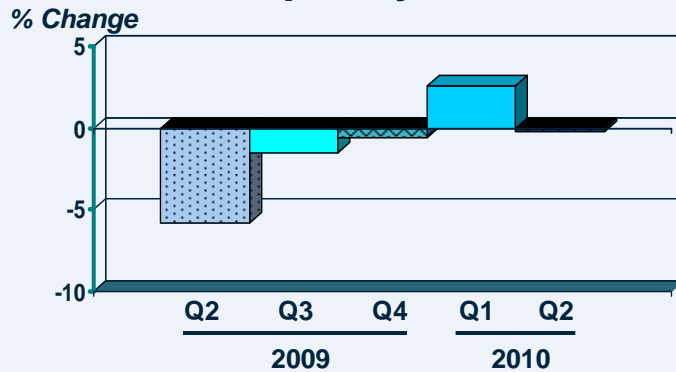
Q2 2009/2008
 Q3 2009/2008
 Q4 2009/2008
 Q1 2010/2009
 Q2 2010/2009

Canada –

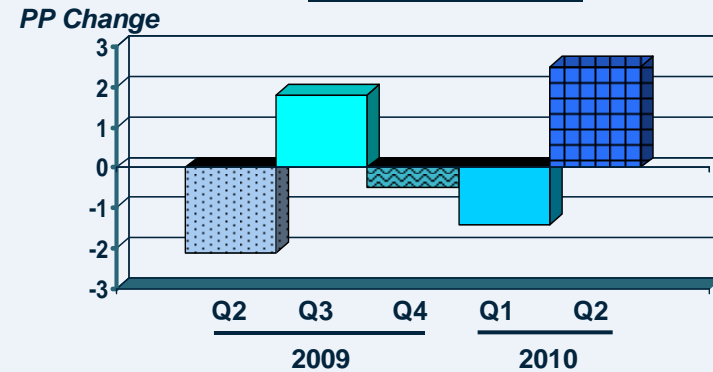
RASM Incr. 7.0% due to 3.7% Yield growth and 2.5 PP LF Improvement

Y-O-Y Change

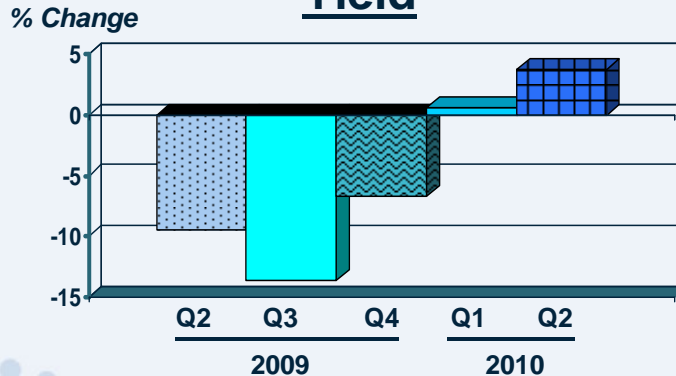
Capacity (ASM)



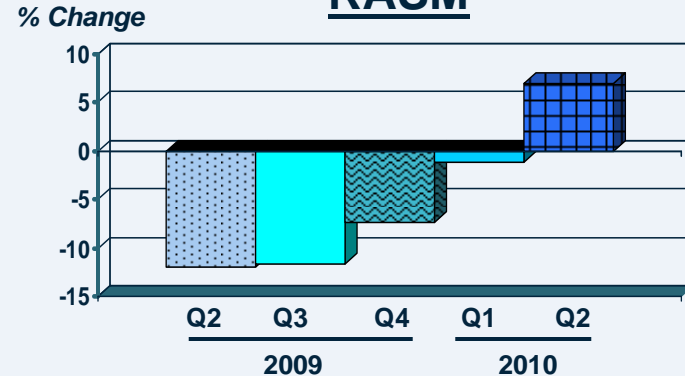
Load Factor



Yield



RASM

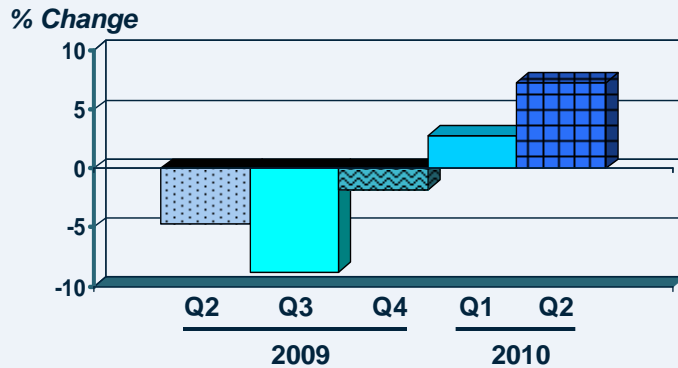


US Transborder –

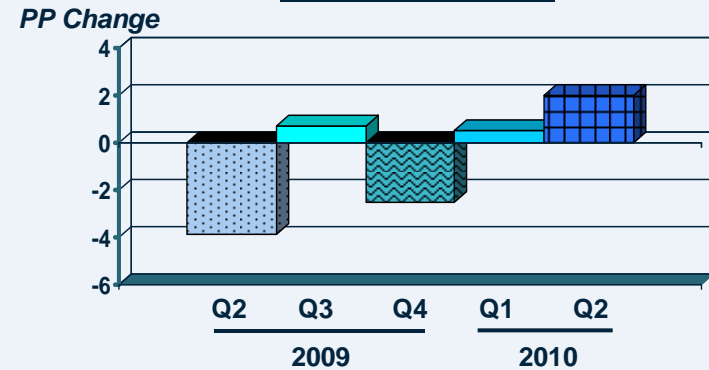
RASM Increased 3.6% due Mostly to 2.0 PP LF Improvement – But Also a 0.8% Higher Yield

Y-O-Y Change

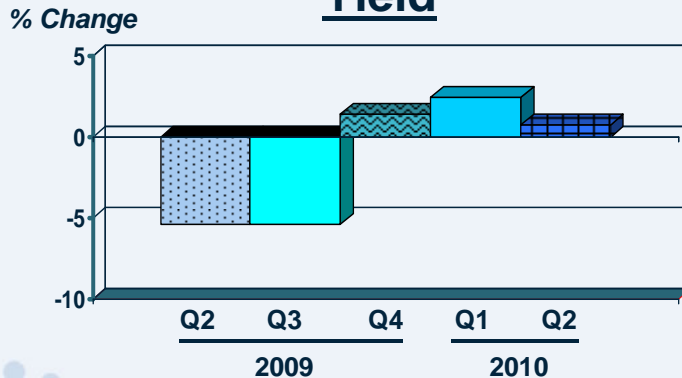
Capacity (ASM)



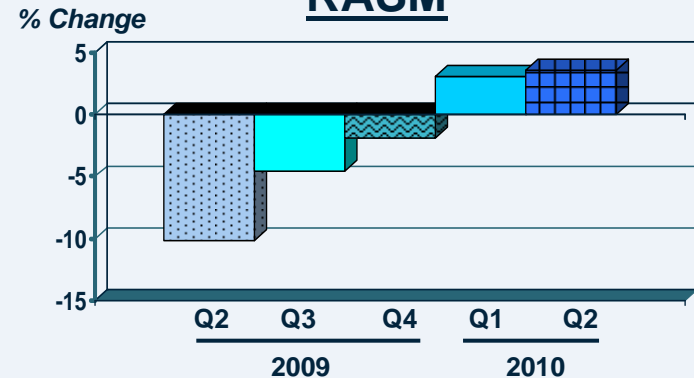
Load Factor



Yield



RASM

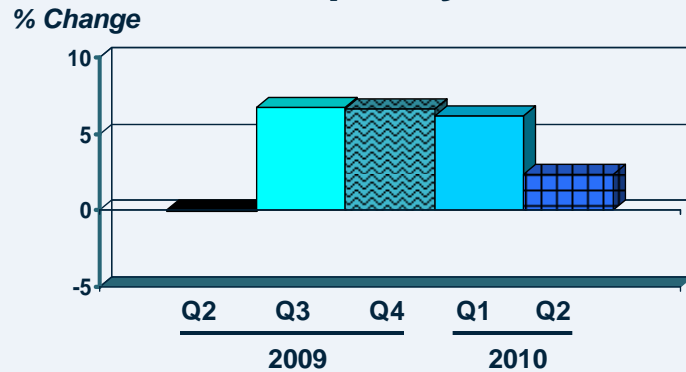


Atlantic –

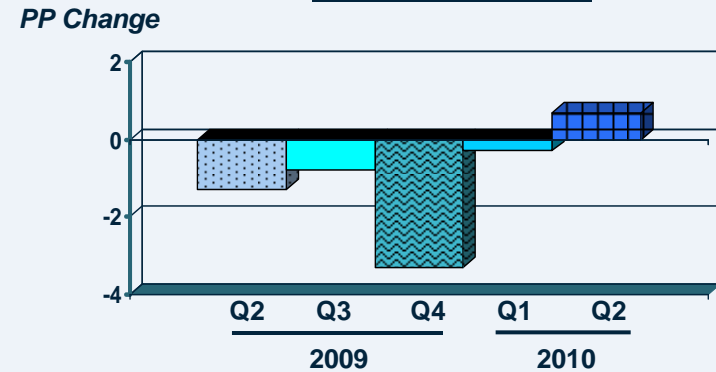
RASM Increased 10.0% due Mostly to 9.2% Yield Growth – But also a 0.7 PP LF Improvement

Y-O-Y Change

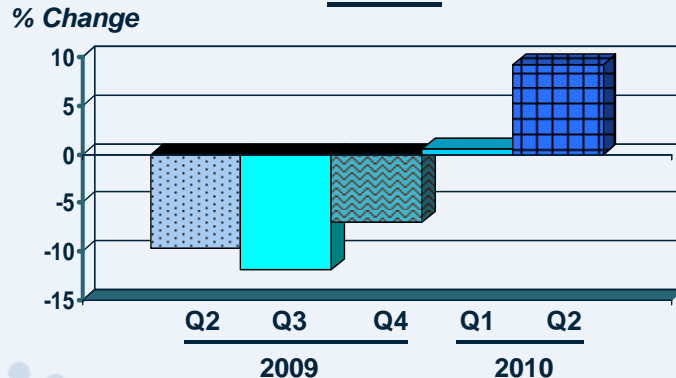
Capacity (ASM)



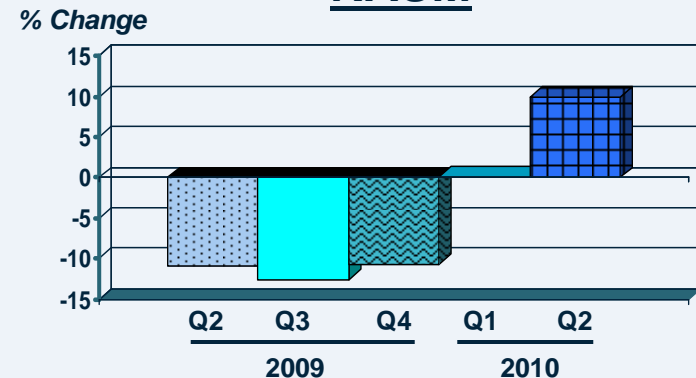
Load Factor



Yield



RASM

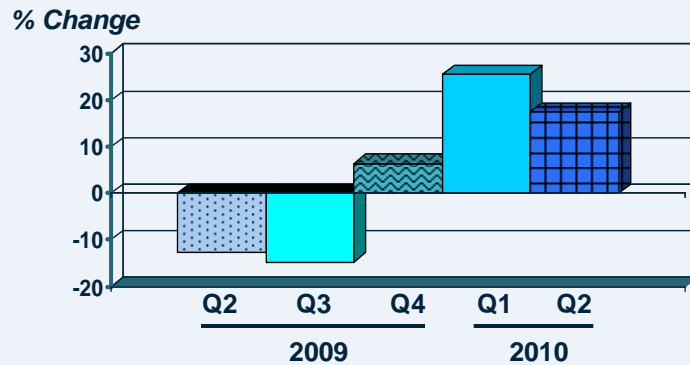


Pacific –

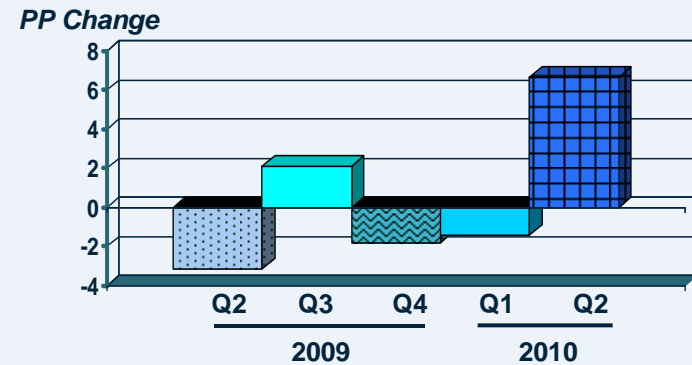
RASM Increased 16.9% due to 8.1% Higher Yield and 6.7 PP Load Factor Improvement

Y-O-Y Change

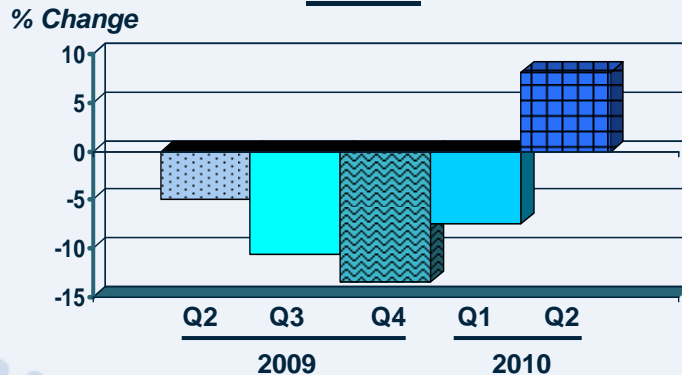
Capacity (ASM)



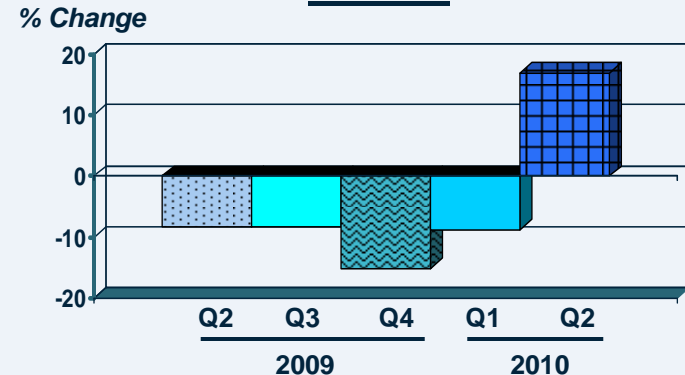
Load Factor



Yield



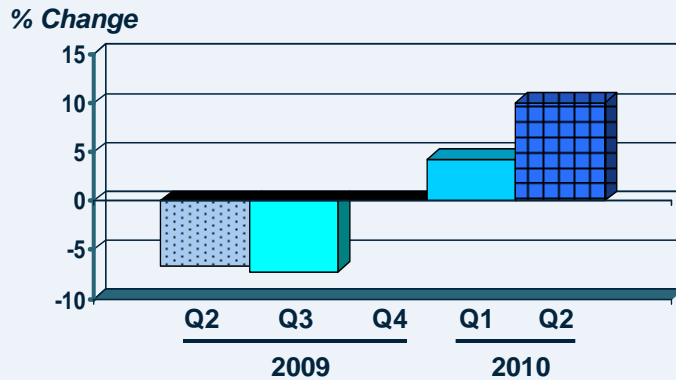
RASM



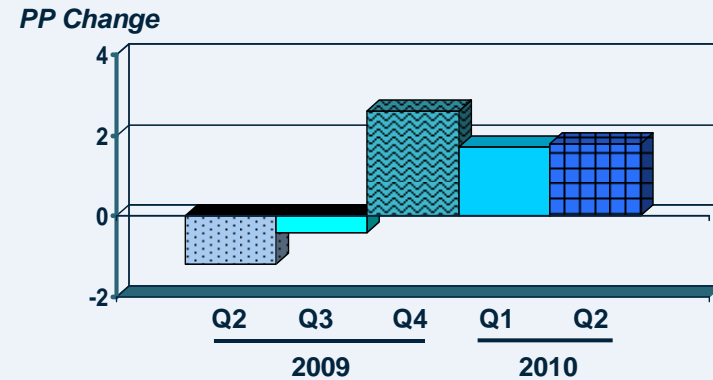
Australia, Caribbean, Mexico & S. A. ("Other") – RASM Incr. 4.5% due to 2.2% Higher Yield & 1.8 PP LF Improvement

Y-O-Y Change

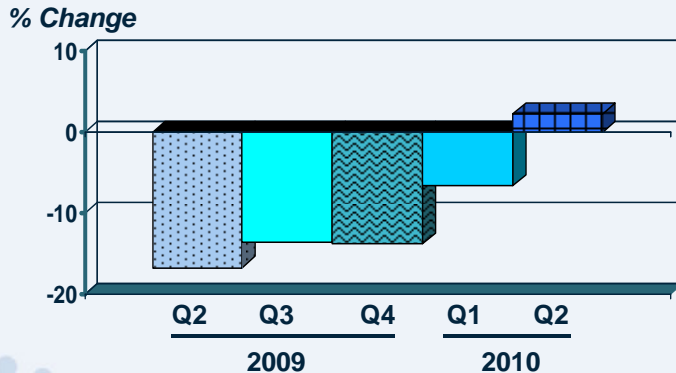
Capacity (ASM)



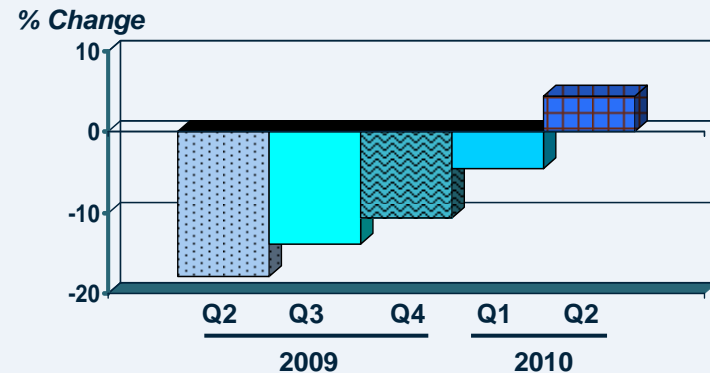
Load Factor



Yield



RASM

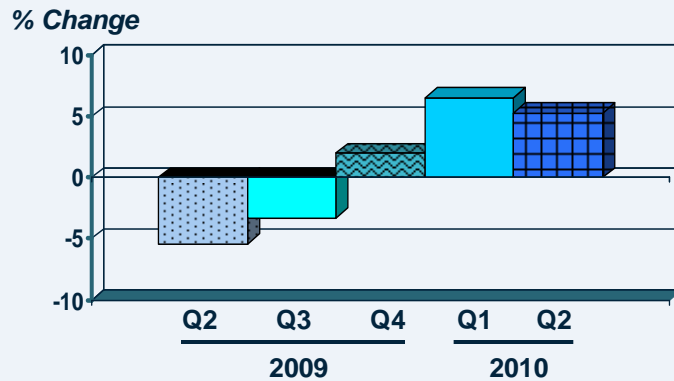


Total –

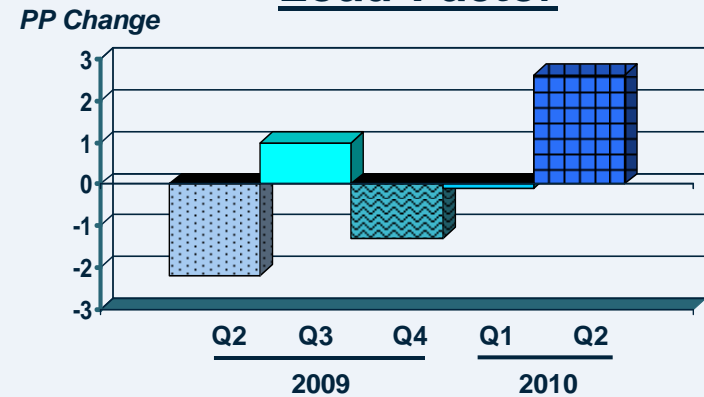
RASM Incr. 6.6% due to 3.3% Higher Yield and 2.6 PP LF Improvement

Y-O-Y Change

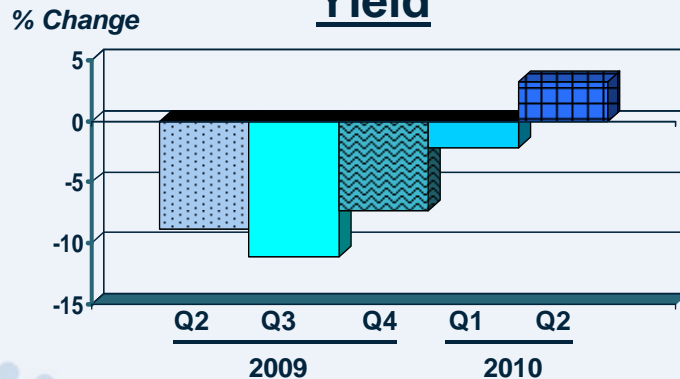
Capacity (ASM)



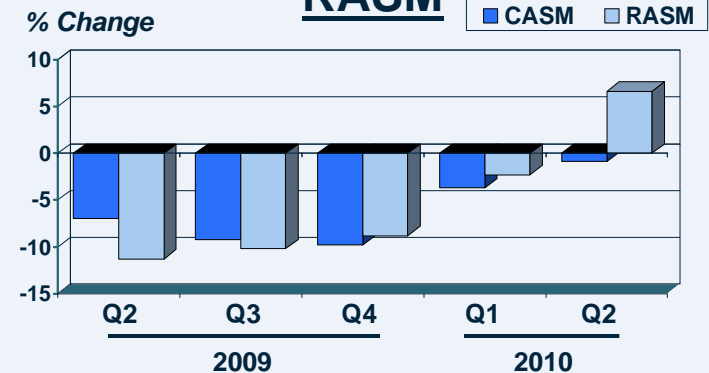
Load Factor



Yield



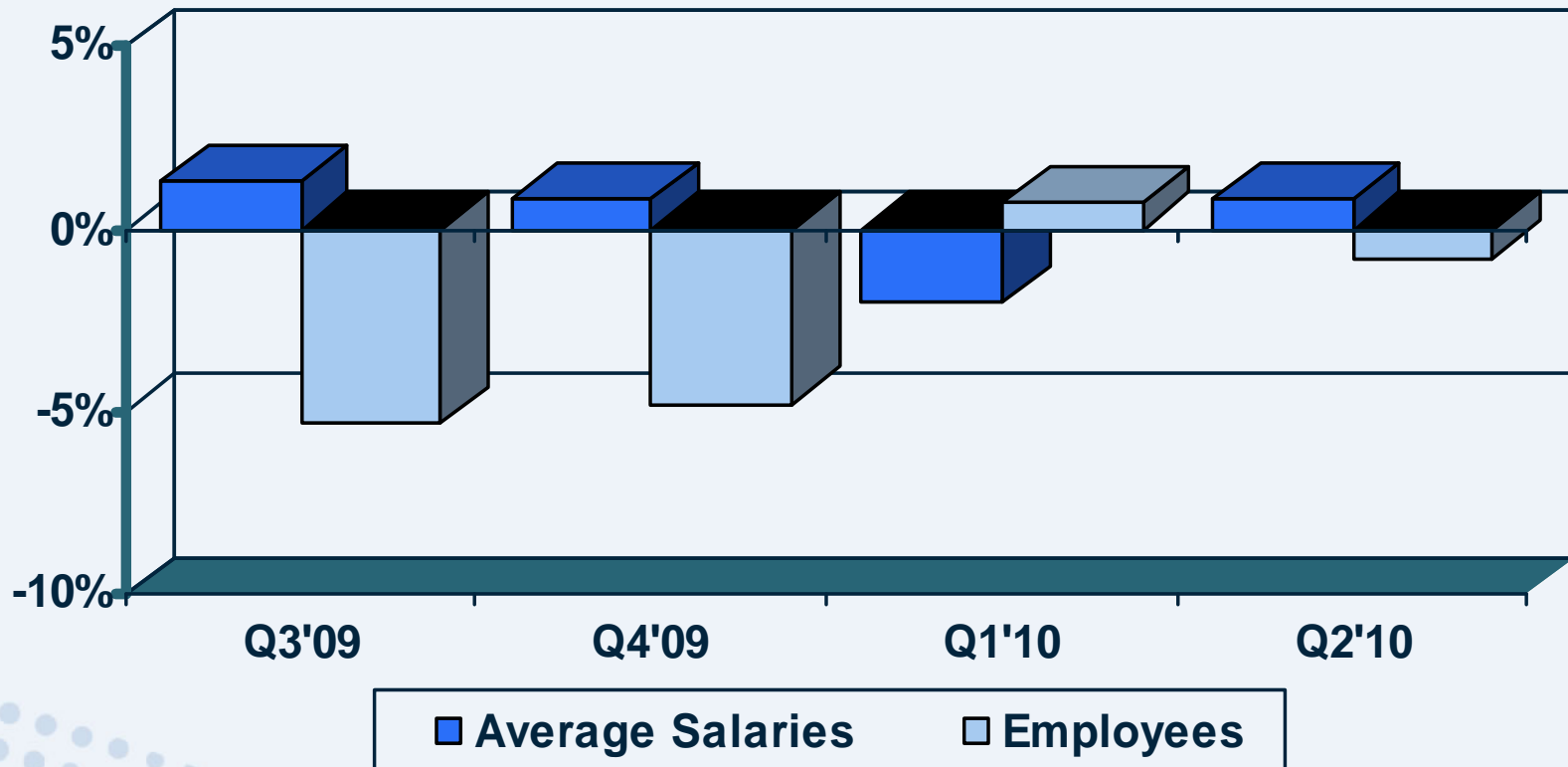
RASM



S&W Expenses Up 8.0% due to Increase in Pension Expenses – Employee Levels Decreased by 0.8%

(Y-O-Y Change – Average Salaries & Employees)

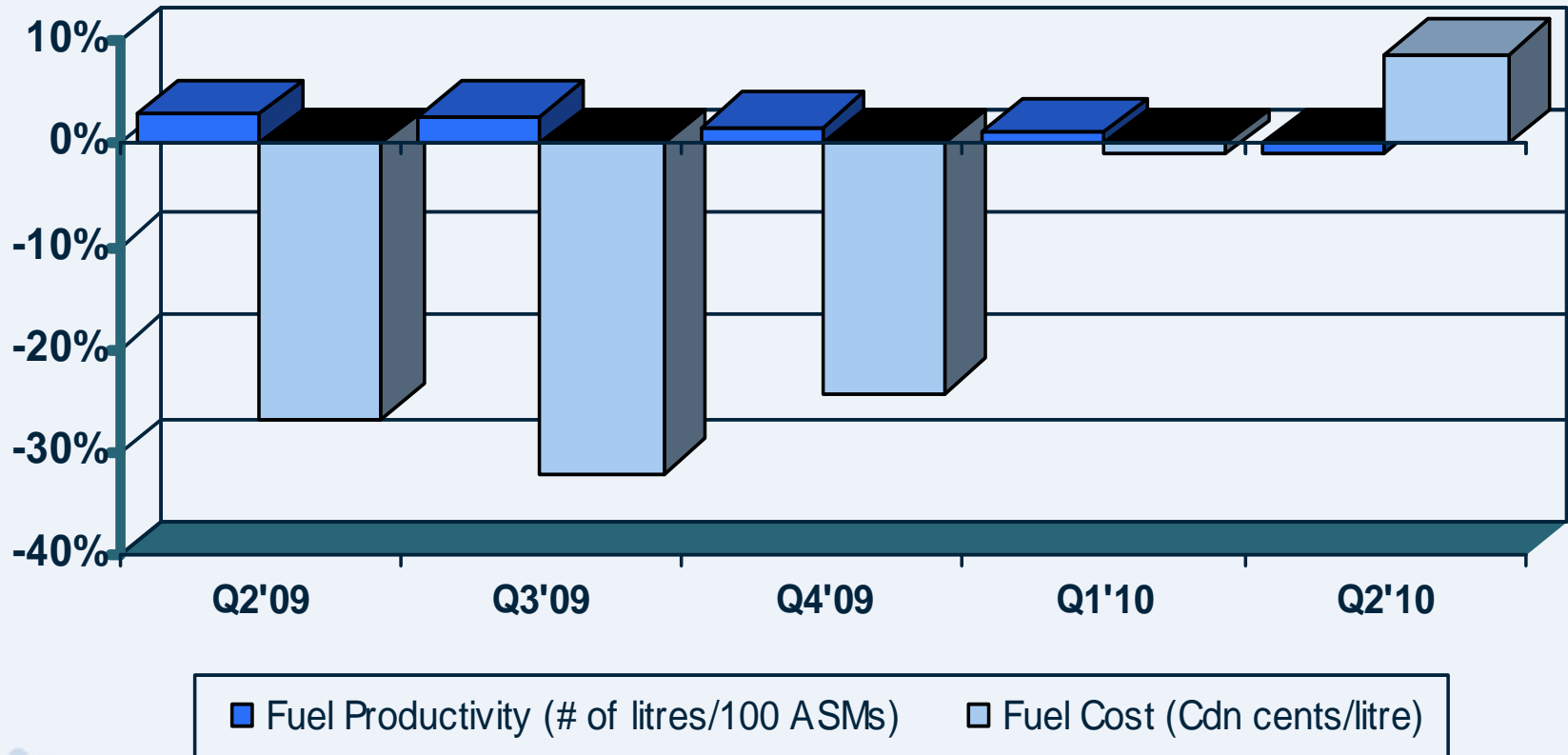
% Change Y-O-Y



Fuel Cost Per Litre Up 8.7% – Fuel Productivity Down 0.9% – Economic Cost of Fuel Per Litre Up 24%

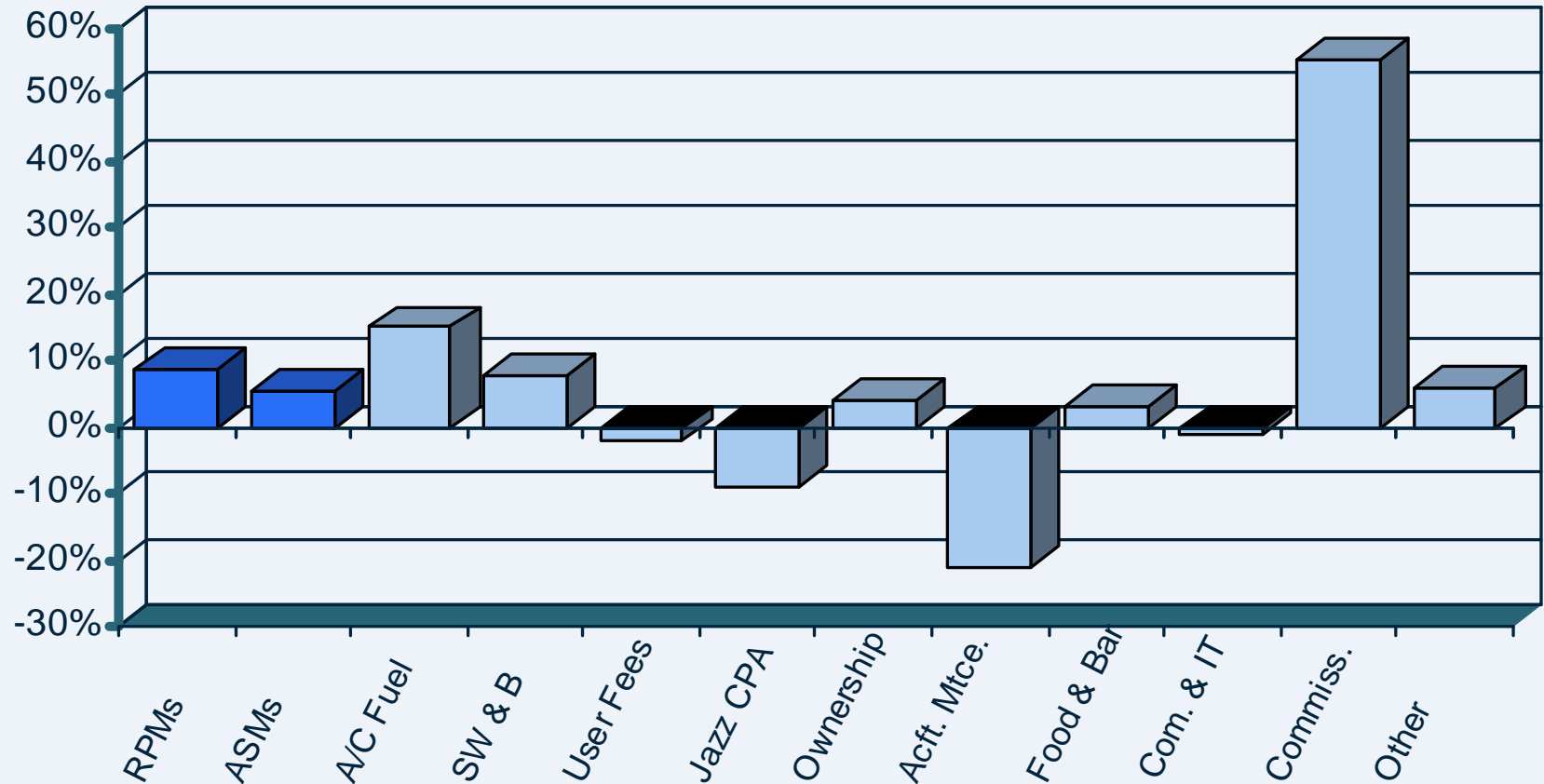
(Fuel Productivity & Cost per Litre)

% Change Y-O-Y



Oper. Exp. Up \$107M Largely on 5.3% Capacity Growth & Higher Fuel Prices – Partly Offset By Lower Acft. Mtce. Exp.

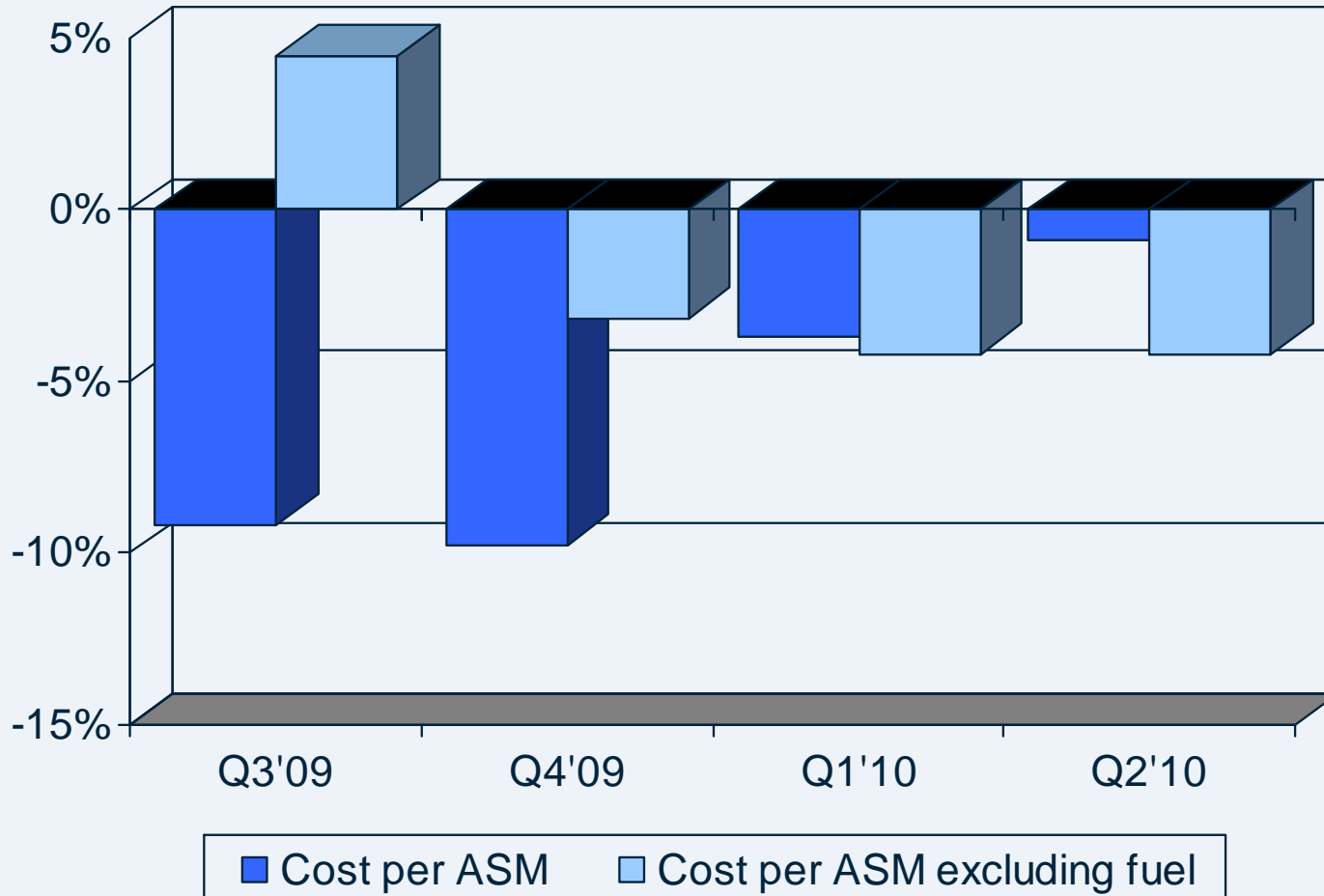
% Change Y-O-Y



Q2 2010/2009

Unit Cost Down 0.9% – Down 4.2% Excluding Fuel Favourable FX Largest Contributing Factor

% Change Y-O-Y



Further Information

For further information on Air Canada's public disclosure file, including *Air Canada's Second Quarter 2010 MD&A* dated August 5, 2010 and *Air Canada's Annual Information Form*, consult Air Canada's website at **aircanada.com** or SEDAR at **www.sedar.com**



