Good morning ladies and gentlemen and thank you for giving me the opportunity of providing you with some context on Air Canada, our recent successes, our future direction, and where we see opportunities.

Air Canada is Canada’s largest provider of scheduled passenger services in the domestic market, the Canada-U.S. transborder market and the international market to and from Canada based on available seat miles. The airline’s 2011 market share of 55 percent in the domestic market, 37 percent in the international market to and from Canada, and 36 percent in the U.S. transborder market are all significantly above our nearest competitor.

Consistent with one of our key priorities of leveraging the strengths of our international network, as a percent of total passenger revenues, for the first time, international passenger revenues in 2011 surpassed domestic passenger revenues. Historically, operating margins have been the highest in our international markets.

Fleet Flexibility to Adjust to Market Demand

We have many different aircraft types in our fleet which facilitate the redeployment of capacity when changes in demand occur.

Our mainline fleet, at about 12 years, is one of the youngest among the major North American legacy carriers.

The five-year collective agreement recently concluded with our pilots is a key element in allowing us to better manage the fleet and productivity. The new agreement improves our competitive position by allowing certain adjustments to our
relationship with feeder airlines and the makeup of the mainline fleet. More specifically, the changes made to the agreement make it possible for us to do business with a multiple number of regional partners, whereas in the past we were limited in this regard. It also provides us with the ability to operate up to 60 76-seat regional jets at the regional level.

Earlier this week, we announced our intention to transfer 15 Embraer 175 aircraft from our mainline fleet to Sky Regional Airlines who will fly these aircraft on behalf of Air Canada under an existing capacity purchase agreement. These 15 Embraer 175 aircraft will continue flying on short-haul routes, primarily from Toronto and Montreal to destinations in the northeast U.S., at significantly lower costs. We expect to transfer these aircraft to Sky Regional in the February to June timeframe.

We've also started looking at our options vis-à-vis other narrow body aircraft in our fleet and expect to complete our analysis in the next 12 months. Our narrow body fleet has been well staged from an age perspective so we are in no rush to make a decision. Our expectation is that new narrow body aircraft, if we think that makes sense, will not be required until late this decade.

From a wide body perspective, we plan to introduce two new Boeing 777 aircraft into our mainline fleet. The arrival of these new Boeing 777 aircraft in June and September 2013 and the introduction of new Boeing 787 aircraft starting early in 2014 will allow us to introduce new routes at the mainline carrier and release aircraft from our existing fleet to a new low-cost leisure carrier.

As you know, a key structural change in aviation over the past decade has been the creation of low-cost airlines which has caused a fundamental shift in the competitive dynamic of the industry. After thorough evaluation, we have decided to form an integrated leisure group, combining the activities of Air Canada’s tour operator business, Air Canada Vacations, with a new low-cost leisure airline. This new leisure low-cost carrier will allow us to pursue opportunities in markets where we are not adequately cost competitive under the mainline brand. We plan to commence service in June 2013 with two Boeing 767-300ER aircraft and two Airbus A319 aircraft which will be released from our mainline fleet. I will discuss this new venture in a little more detail later in the presentation.

Slide 7 – Air Canada Express – Important Part of N.A. Strategy

Air Canada’s network is enhanced through capacity purchase agreements with Jazz, Sky Regional, and several Tier 3 providers. These airlines fly under the Air Canada Express banner and provide important feed to the airline’s hubs across Canada.

Jazz, the largest regional airline in Canada, is an important part of Air Canada’s North American strategy. Jazz operates 125 aircraft on behalf of Air Canada, while other third party carriers operate another 22.
Over the last year or so, Jazz has been retiring a number of CRJ-100 aircraft and replacing them with the much more efficient Q400s. There will be a total of 21 Q400s in the Jazz fleet by May 2013 which will help lower our overall cost structure.

And, as I said earlier, 15 Embraer aircraft will now be added to this feeder network as a result of our new arrangements with Sky Regional.

Slide 8 – Industry-Leading Products and Services Provide Competitive Edge

We have one of the most respected brands in Canada and we continue to leverage our strengths globally. We have many industry-leading products and service offerings, the most highly-valued loyalty program (Aeroplan) in the industry, Maple Leaf Lounges, a highly-regarded Concierge service, and a new and refurbished fleet, including our long-haul Executive First service featuring lie-flat suites.

As you are probably aware, many airlines have or are currently implementing premium economy products. With the deliveries of our Boeing 787 aircraft fast approaching, we are studying this product extensively.

Slide 9 - Other Leading Services Contribute to Profitability

Air Canada also generates annual revenues of over $1 billion from its Cargo division, its tour operator, Air Canada Vacations, and its charter services, Air Canada Jetz.

Air Canada Cargo provides direct services to over 150 Canadian, U.S. and international destinations and has sales representation in over 50 countries.

Air Canada Vacations is a leading Canadian tour operator that operates in the outbound leisure travel market that offers vacation packages, including air transportation, hotel accommodation, car rentals and cruises, to more than 100 destinations.

Air Canada Jetz is a premium charter service for corporate clients and operates year-round. Air Canada Jetz’ clients include all Canadian professional sports teams and several U.S. based NHL teams. It also offers services to ad hoc musical and government groups.

Slide 10 – Pension Update

While Air Canada pension plans have been performing well from an investment perspective, the current low interest rate environment has resulted in a significant increase in the liabilities associated with the airline’s defined benefit pension plans. Under Canadian Pension Funding Regulations, which are significantly different than those found in the U.S. and uncompetitive to companies like Air Canada, the solvency discount rate is based on long-term government bonds and
the deficit (on a solvency basis) is amortized over a relatively short period of five years.

Based on actuarial valuations at January 1, 2012, the aggregate solvency deficit in Air Canada’s Canadian defined benefit pension plans was $4.2 billion. The increase in the aggregate solvency deficit of $2.0 billion from January 1, 2011 was mainly due to a decrease in the solvency discount rate from 4.5 percent to 3.3 percent, partly offset by a 6.8 percent return on plan assets. This performance, by the way, reflects a first decile performance based on the CIBC Mellon universe of large funds in Canada.

Since July 2009, Air Canada has been operating under a pension funding relief agreement with the federal government, which fixed past service contributions at $150 million for 2011, $175 million for 2012 and $225 million for 2013. These special funding regulations expire in 2014.

As we get closer to 2014, and working under the assumption that interest rates will remain at their current levels, we are looking at a number of different scenarios to address the potential pressure of increased funding requirements, including extending the special funding relief regulations that were put in place in 2009. We are currently in discussions with the federal government and will update the market when we have more information to provide.

On an encouraging note - The collective agreements we concluded with our major Canadian unions in the last year and a half contain pension amendments aimed at ensuring the long-term sustainability of Air Canada’s pension plans. These amendments are expected to result in a reduction of an estimated $1.1 billion to the solvency deficit. In addition, new hires now participate in new pension plan arrangements which reduce the volatility of Air Canada’s pension obligations for those employees. These changes remain subject to regulatory approvals.

Slide 11 – Building a Stronger Airline

Slide 12 – Air Canada’s Business Strategy

The key components of our strategy of creating value for stakeholders and lowering the overall risk profile of the airline are:

1) Leveraging our network and competitive strengths internationally;

2) Reducing costs and generating incremental revenues;

3) Engaging with customers with a particular focus on premium passengers and premium products; and

4) Transforming the corporate culture to one that embraces leadership, accountability and entrepreneurship and developing a strong employee brand.
We have also been focusing on improving the strength of our financial position and have reduced adjusted net debt significantly over the last several years.

Slide 13 – **Building on a Powerful Global Network**

Air Canada is the 15th largest commercial airline in the world, yet Canada is only 36th largest in terms of population among the world’s countries. Air Canada serves close to 34 million customers annually and operates in excess of 1,500 scheduled flights each day and provides passenger service to almost 180 destinations worldwide.

We are leveraging our strengths internationally since higher margins are generally available. Furthermore, we have access to the world through bilateral air agreement and route authorities.

Slide 14 – **Star Alliance and Joint Venture Enhance Market Presence**

Air Canada is a founding member of the 27-member Star Alliance, the largest alliance in the world. As a founding member, we have had many years of working closely with other alliance members for the benefit of our customers. Through a comprehensive worldwide network, we are able to offer customers access to over 1,300 airports in over 190 countries.

An important aspect of our international expansion program is the continued development of commercial alliances with major international carriers to extend our global reach and enhance market presence. In this regard, in addition to our membership in Star Alliance, Air Canada, Lufthansa and United are parties to a revenue sharing transatlantic joint venture, which we refer to as A++, which is increasing our presence in several U.S. and international markets. This joint venture is an important strategic development which we expect will yield long-term benefits for the airline. Subject to securing regulatory approvals, we seek to implement a similar revenue sharing joint venture on Canada-U.S. transborder flights.

Slide 15 – **Leveraging World Class Hubs**

We have been focusing our efforts on capturing more international-to-international flow traffic through our main hubs in Toronto, Vancouver and Montreal. In particular, we continue to work with the Greater Toronto Airport Authority to capitalize more fully on the strategic geographical and infrastructure advantages of our main hub in Toronto. In fact, connecting traffic, also referred to as sixth freedom traffic, at Toronto Pearson has grown over 160 percent since 2009.
Continuous Cost Transformation and Improvement

At Air Canada, cost transformation and improvement is a critical objective and a key element to sustainable profitability.

In mid-2009, we launched a cost transformation program, referred to as the CTP, identifying and implementing initiatives with a goal of generating annualized revenue gains and cost savings, including through contract and operating process improvements and productivity gains. By the third quarter of 2011, we had exceeded our overall CTP target of $530 million, on a run-rate basis.

Following this very successful program - A business transformation team was formed at Air Canada whose main objective is to drive waste out of business processes. For example, we are working towards lowering fuel consumption by increasing the use of ground power instead of using auxiliary power units on the aircraft. Other initiatives include improving aircraft turnaround times, optimizing the use of ground support equipment and reducing credit card fees and catering costs, to name a few.

As you are also all probably aware, Aveos filed for court protection pursuant to the CCAA on March 19th and issued a notice of termination to all of its employees the following day.

Following Aveos’ CCAA filing, we entered into a contract with Lufthansa Technik to maintain the engines on our narrow body fleet. We are also concluding terms with independent and experienced service providers to perform airframe maintenance on our entire fleet of 205 aircraft. With respect to our components maintenance work, we are making some progress on securing an experienced, cost competitive MRO supplier and expect to have an agreement in place by January 2013.

The new third party maintenance agreements, negotiated at market terms, are expected to result in meaningful unit cost savings and better turnaround times over the long-term.

Launch of Low-Cost Airline in 2013

As I said earlier, we view our participation in the low-cost segment of the market as important in responding to market realities and meeting long-term strategic goals.

A few days ago, we unveiled plans to form an integrated leisure group, combining the activities of our tour operator business, Air Canada Vacations, with a new low-cost leisure airline to launch in 2013. We also announced the appointment of Michael Friisdahl, who has a wealth of experience in the international leisure travel business, as President and Chief Executive Officer to lead this new leisure group. The new leisure group will be a wholly-owned subsidiary of Air Canada.
By combining the low cost carrier with the strong brand reputation of Air Canada Vacations and leveraging the established marketing and distribution channels of both Air Canada Vacations and Air Canada, we will be able to compete more effectively in this highly dynamic and expanding market.

As I said earlier, the new low-cost leisure carrier will commence service in June 2013 with two Boeing 767-300ER aircraft and two Airbus A319 aircraft that will be released from our mainline fleet.

It will serve popular holiday destinations in Europe and the Caribbean that are either currently underserved, or that do not generate adequate profitability with Air Canada's existing cost structure. At launch, the leisure carrier will assume select Air Canada leisure services and will also operate certain new destinations not currently operated by Air Canada.

The leisure carrier will increase its fleet as Air Canada starts to take delivery of new Boeing 787 Dreamliner aircraft in 2014, thereby freeing up aircraft for transfer to the leisure carrier. As this occurs and subject to commercial demand, the leisure carrier may operate up to 20 Boeing 767-300ER aircraft and 30 Airbus A319 aircraft (20 of which can be transferred from the mainline fleet), for a total of 50 aircraft.

The low-cost carrier will operate under the principle of maintaining a long-term cost structure at or below that of low-cost competitors. If we can bring our costs more in line with our competitors on these routes, we believe travelers would prefer to fly with Air Canada. We have a strong and resilient brand, reputation for safety and reliability, as well as the ability to fly virtually anywhere because of the route rights we have.

We plan on releasing further details on the leisure airline’s summer 2013 program, schedule and product later this fall.

The carrier’s plans are subject to obtaining the necessary regulatory approvals.

Slide 18 – Delivering “Best in Class” Service

Although our brand is strong and resilient, we know that we can’t take it or our customers for granted. We are committed to maintaining the loyalty and confidence of our customers and are always working on initiatives designed to do just that.

We’ve had some positive developments recently which indicate that our efforts are paying off. I’m proud to say that Air Canada has once again been recognized as the Best International Airline in North America in the Skytrax World Airline Awards. This annual survey of more than 18 million travelers is regarded in the industry as a key benchmarking tool for airline passengers’ satisfaction levels. We
consider this an honour to be recognized with this award for the third consecutive year and a testament to the skill and professionalism of our employees.

Air Canada was also recently awarded “Best Flight Experience to Canada” in Executive Travel Magazine’s 2012 Leading Edge Awards – and this is our 5th consecutive year winning this award.

Slide 19 – Driving Premium RASM Growth

Growth of the premium class segment is a key element of Air Canada’s long-term success. In the second quarter of 2012, premium unit revenue, on a system-basis, increased 4.6 percent over the corresponding quarter in 2011. This improvement was driven by an increase in business travel demand and our continued efforts on promoting our award-winning business class services and products.

Premium RASM improvements since 2009 have consistently been above the overall passenger RASM.

Slide 20 – Enhancing Culture to Increase Competitiveness

Another cornerstone of our business strategy is to transform the corporate culture to one that embraces leadership, accountability and entrepreneurship.

Up until last year, we had made enormous progress on the culture front and the many industry honours awarded to Air Canada were proof that employees were participating in the airline’s transformation.

With the difficult labour situation we experienced over a period of about 18 months, our culture change initiatives, to some degree, were put on hold and the overall marathon labour process did somewhat impact employee morale. Having said that – I truly believe that the vast majority of our employees are true professionals who work tremendously hard to take care of customers and get them to their destinations safely. They take ownership to resolve customer concerns, deliver great customer service and promote the Air Canada brand, regardless of challenges.

Nevertheless, with our principal labour agreements behind us, we have started to take steps at getting this important priority back on track, including recently celebrating our employees and our achievements throughout the past 75 years.

Slide 21 – Financial Performance

Slide 22 – First Six Months 2012 and Annual Guidance

And now, I’d like to give you a very brief summary of our financial performance for the first six months.
We recorded EBITDAR of $489 million and an EBITDAR margin of 8.2 percent in the first six months of 2012.

We achieved unit passenger revenue growth of 3.4 percent, system-wide, while CASM, ex fuel and the cost of ground packages at Air Canada Vacations, increased 2.2 percent. Our guidance for 2012 is for CASM, excluding fuel and ACV ground package costs, to increase between 0.5 percent and 1.5 percent, indicating a much slower CASM growth in the second half of 2012.

We continue to successfully generate incremental revenues from various passenger-related services, including ticket changes, cancellation fees, seat selection, baggage and upgrades. In the first six months of 2012, ancillary revenue per passenger increased 28 percent over the corresponding period in 2011, with baggage revenues accounting for the majority of this growth.

We are managing our capacity conservatively this year with projected full year ASM capacity growth of 0.5 to 1.5 percent over 2011, in line with GDP growth expectations in Canada.

We plan on reporting on our third quarter financial performance on November 8, 2012.

Slide 23 – Improving Operating Margin and Cost Structure

While our RASM is higher than U.S. legacy carriers, our unit costs are also higher. While we’ve made significant progress in lowering unit costs over the last couple of years through our cost transformation program, in the medium term, there are several other opportunities for us to further lower our costs.

The three key areas which comprise the majority of the CASM ex fuel difference between Air Canada and U.S. legacy airlines are airport fees, maintenance expense and ownership costs.

Between airport rent, airport infrastructure, navigation fees and charges, and other direct and indirect taxes, we estimate Air Canada would save approximately $700 million if it was a U.S. airline with the same volume of business. We have been discussing this important issue with the government with the objective to reduce these costs to allow us to become more cost competitive. This $700 million could be reinvested to develop new routes, acquire new aircraft, create jobs, build new facilities and lower airfares.

With respect to maintenance, as I mentioned earlier, we are currently in the process of finalizing various third party maintenance agreements which will result in lower unit costs and improved turnaround times.

Finally – Due to past withholding tax rules in Canada, we have leased more of our aircraft than our U.S. peers. Subject to available financing, we expect to
purchase future aircraft which would potentially reduce our overall ownership costs.

Slide 24 – **Maintaining Strong Liquidity Position**

Our liquidity position remains strong. At June 30th, our cash balances amounted to close to $2.4 billion, which represented 20% of annual operating revenues, well above our 15% minimum target, and $124 million higher than what our cash balances were at the end of June 2011.

Slide 25 – **Improving Strength of Balance Sheet**

As you can see from the slide, we’ve been making significant progress in reducing adjusted net debt over the last several years. The decrease was mainly the result of long-term debt and finance lease obligation payments in addition to higher cash balances. As most of our debt and leases are U.S. currency denominated, the stronger Canadian dollar is also favourable to Air Canada in that it reduces net debt balances.

At the end of June of this year, adjusted net debt stood at $4.2 billion, down $353 million from December 31, 2011.

Slide 26 – **Making Progress on Transformation**

Slide 27 – **Committed to Improving Profitability**

So – in conclusion – With our labour agreements now in place with our main Canadian unions for the next several years, we are bringing a renewed focus to our core priorities.

- We have a powerful brand franchise and competitive advantages that we will continue to capitalize on, including a world-class loyalty program and award winning products and services. We’ve been extremely successful in growing sixth-freedom traffic through our main Canadian hubs, particularly at Toronto Pearson where connecting traffic has grown over 160 percent since 2009. We plan to continue to leverage these hubs.

- We look forward to the introduction of Boeing 787 aircraft into our fleet starting at the beginning of 2014, not only because they are a great aircraft and our customers will love them, but also because they are much more efficient from a cost perspective and will allow us to serve new markets.

- The launch of a low-cost carrier in 2013 will not only provide us with opportunities to compete more effectively in leisure markets, it will also lower units costs and lower the risk of seasonality.

- We have been successful in promoting our industry-leading premium class product, as evidenced by continued traffic and revenue growth in this
cabin, and we continue to look for ways to maximize premium cabin revenues. We also intend to continue to broaden our access to corporate customers by focusing on small to medium size enterprises.

- As I mentioned earlier, our product and service offerings are industry-leading and constantly evolving, and we will continue to introduce new products and services, such as premium economy if appropriate, in order to increase our competitiveness.

- We will leverage the positive changes in our collective agreements to better compete in the current industry environment and to reduce costs.

- And last but not least – we will continue our cost reduction efforts and will continue to capitalize on new opportunities, including those related to our maintenance contracts.

Slide 30 – **GO FAR**

Thank you for your attention. Now, I believe we have some time for questions.