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Air Canada – Leading Share in all Markets

Strong Recovery and Performance in 2010

Continued Improvement in the First Half of 2011

Air Canada's Business Strategy
Air Canada – Canada's Largest Domestic, U.S. Transborder, and International Airline
Leading Share in All Markets

**Domestic**
- WJA 36%
- Other Airlines 8%

**Air Canada** 56%

40% of passenger revenues

**International**
- Other Airlines 30%
- BA 5%
- AF 3%
- LH 4%
- CATH 7%
- KLM 4%
- TRZ 8%

**Air Canada** 39%

41% of passenger revenues

**Transborder**
- WJA 15%
- Other Airlines 8%
- LCC 4%
- DAL 8%
- CAL 6%
- AMR 11%
- TRZ 8%
- UAL 13%

**Air Canada** 35%

19% of passenger revenues

Source: OAG, based on available seat miles (ASMs) from Jan 2010 to Dec 2010; AC Revenue Split based on Jan 2010 to Dec 2010
Extensive Global Network – Star Alliance Membership and Joint Venture Enhance Market Presence

- **15th Largest Airline in the World**
- **178 direct destinations**
- **330 aircraft**
- **>1,400 daily flights**
- **>32M passengers carried**
Star Alliance Membership Offers Customers More Choice

- 27 Members
- 181 Countries Served
- 1,160 airports
- 4,023 Aircraft
- 21 K Daily Departures
- 970 Lounges
- >600M Passengers/year

Voted Best Airline Alliance in the 2011 Skytrax World Airline Awards™
**Fleet Mix Provides Flexibility to Adjust to Market Demand**

- Average age of 11.2 yrs – one of the youngest among major North American carriers
- Increased use of aircraft in current fleet supports vast majority of capacity growth in 2011
- Boeing 787's will provide growth opportunities in late 2013

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</tr>
<tr>
<td>EMBRAER 175</td>
<td>15</td>
<td>73</td>
</tr>
</tbody>
</table>
Air Canada Express

Air Canada express acts as a feeder to Air Canada's scheduled routes

- Dash 8 400s operated by
  - Jazz (1)
  - Sky Regional (5)

- Beech 1900s operated by
  - Air Georgian (13)
  - Central Mountain Air (2)
  - EVAS Air (3)
Industry-Leading Products and Services

- Loyalty program
- Maple Leaf Lounges
- Concierge program
- Lie-flat beds in Executive First
- Personal seat back entertainment at every seat
- Mobile-friendly booking and check-in
Other Leading Services by Air Canada

- Canada's largest regional airline with over 800 daily flights
- Premium provider of jet charter services
- Canada's largest provider of air cargo services
- One of Canada's leading tour operators
Strong Recovery and Performance in 2010
**Strong Recovery and Performance in 2010**

- EBITDAR\(^{(1)}\) of $1.386B – Highest in airline's history
- EBITDAR Margin\(^{(1)}\) of 12.9% up 5.9 pp
- Record Passenger load factor of 81.7%
- Unit passenger revenue (RASM) up 3.6%
- Premium cabin RASM increased 16.8%
- CASM, excluding fuel, down 4.5%
- Raised $1.1B in new liquidity from high yield debt offering
- Cash, cash equivalents and short-term investments of $2.2B

\(^{(1)}\) Before a net adjustment to a provision for cargo investigations
Improved Liquidity Position

Note: Liquidity is comprised on unrestricted cash and cash equivalents and short-term investments

(1) Trailing 12-month operating revenues as at March 31, 2011
(2) Trailing 12-month operating revenues as at June 30, 2011
Improved Financial Position in 2010

- Cash, cash equivalents and short-term investments of $2.2B in 2010
- Cash from operations of $864M – Highest cash operating results in Air Canada's history
- Free cash flow of $746M, a $1.145B improvement from 2009
- Adjusted net debt and non-controlling interest to adjusted net debt and non-controlling interest plus equity ratio of 74.3%, a 5.8 pp improvement

Focus on debt reduction in 2011 and 2012 as Air Canada makes scheduled debt repayments
Financial Highlights for First Half 2011

- EBITDAR of $545M – up 14%
- EBITDAR Margin of 9.6% up 0.3 pp
- Passenger load factor of 80.4%
- Unit passenger revenue (RASM) up 3.6%
- Premium cabin RASM increased 5.4%
- CASM, excluding fuel, down 4.5%
- Net debt, including capitalized operating leases of $4.4B, decreased $890M from June 30, 2010
- Cash, cash equivalents and short-term investments of $2.3B
Leveraging New Opportunities for Revenue Growth and Cost Transformation

- Committed to making cost containment/reduction a permanent part of culture

- Expect to achieve annual benefits of $530M by YE 2011\(^{(1)}\)
  - $475M achieved as at June 30, 2011 on the $530M target for end of 2011 (run-rate)
  - $330M achieved as at December 31, 2010 - $30M more than CTP target for 2010

- Formed business transformation team to implement best practice findings and lower cost structure

\(^{(1)}\) As reported on August 4, 2011
Disciplined Capacity Management Resulted in Record Load Factor of 86.4% for July 2011
After 2013, Air Canada’s projected committed expenditures are $3,624M.

Air Canada has financing commitments from Boeing and the engine manufacturers covering 31 of the 37 Boeing 787 firm aircraft orders.

Excludes certain maintenance events which are capitalized under IFRS.

*as reported on August 4, 2011
June 27, 2011 – a new four-year collective agreement was ratified with CAW, representing 3,800 call centre and airport customer service staff.

The CAW agreement includes pension amendments that would impact the solvency deficit and pension obligations. Amendments to the pension plans are subject to regulatory approval.

Changes to pension arrangements applicable to CAW employees hired after the date of ratification has been referred to binding arbitration for resolution. A decision in respect of CAW represented employees is expected in early September.

August 19, 2011 – a tentative collective agreement was reached with CALDA, representing dispatchers.*

Negotiations with IAMAW, representing mechanics and baggage handlers, are resuming in coming weeks.

A tentative collective agreement with ACPA, representing pilots, was not ratified. Next steps are being discussed with ACPA towards finalizing new agreement over the coming months.

A tentative collective agreement with CUPE, representing flight attendants, was not ratified. Air Canada is assessing the situation and deciding on next steps.

*subject to ratification by CALDA membership
Mitigating higher fuel prices through surcharges and fare increases is management’s key focus.

Target is to hedge at least 35% of next 12 months' consumption.

Given that close to 80% of fuel hedge portfolio is comprised of call options, AC has minimal collateral risk.

Relationship between jet fuel prices and CAD/US exchange rate helps reduce fuel price exposure.

Net USD exposure is covered 41% (as at June 30, 2011) for the next 12 months.

Approximately 10% of ROY 2011 fuel consumption is subject to floor price of US$86/barrel.

Fuel Hedging Positions
(at June 30, 2011)

- Average capped price
- US$107/bbl
- US$120/bbl

- 38% ROY 2011
- 6% 2012
Air Canada's Business Strategy

- Building on the Air Canada brand and global network
- Leveraging new opportunities for revenue growth and cost transformation
- Engaging with customers with a focus on premium passengers and products
- Enhancing the corporate culture and developing a strong employee brand
Disciplined Approach to Growth

• Higher margins generally available in international markets
• Unused route rights create opportunities

New and enhanced routes summer 2011
Leveraging World Class Hub at Toronto Pearson and Other Major Canadian Airports

- Toronto Pearson is centre of catchment area with less traffic congestion
- Focus on increasing global connecting traffic via Canada
- Strong brand franchise and industry-leading product provide competitive edge
- Terminal improvements at Toronto Pearson enabled Air Canada & most Star Alliance operations to be consolidated in one terminal
Cost Transformation Program on Track*

- Cost transformation work integrated within core Finance Group
- New business transformation team fully engaged
  - Executive involvement
  - Ongoing refinement of scope and deliverables
  - Work with cross functional teams to implement best practices

Target: $530 million
Completed: $475 million

*as reported on August 4, 2011
Focus on Premium Passengers and Products Resulting in Premium RASM Growth

Note: RASM – Reflects passenger revenues per available seat mile
Steadily Increasing Satisfaction Levels

Positive Shift in Culture is Reflected in Customer Satisfaction levels

- **Business Class**
  - "overall satisfaction" = +10 pp
  - "likelihood to recommend" = +7 pp
  - "overall employee attitude" = +6 pp

- **Economy Class**
  - "overall satisfaction" = +9 pp
  - "likelihood to recommend" = +6 pp
  - "likelihood to choose AC again" = +6 pp

(Reflects 2010 versus 2009)

20% Improvement in Employee Engagement
Best International Airline in North America

Best Airline in North America (6th consecutive year)
Best Airline in Canada
Best Flight Attendants in North America
Best In-Flight Services in North America
Best North American Airline for Business Class Service
Best North American Airline for International Travel
Best Airline Web Site

Reader's Digest Canada's second annual "Most Trusted" poll voted Air Canada:
Canada's Most Trusted Airline

A UK based Global Reputation Pulse survey of Canadian companies found that Air Canada:
Recorded the single largest year-over-year jump in reputation of any company in the study

2010 Agents' Choice Award by Travel Press & Travel Courier
Favourite Scheduled Airline

2010 Executive Travel magazine's "Leading Edge Awards"
Best airline for flights to Canada from anywhere in the world

2010 International Sales Person of the Year Onboard Sales Conference
Most Improved Airline of the Year

2010 Ipsos Reid Business Traveller Survey named Air Canada
Canada's favourite airline for business travel
Enhancing Corporate Culture

- Promoting leadership, ownership and entrepreneurship
- Emphasis on cost containment is forging a more entrepreneurial culture
- New training courses for managers: continuous improvement and change management
- Empowering employees to make decisions
- 2010 performance rewarded
  - Over $51 million to front-line employees
  - $13 million in shares granted to eligible employees
- Industry honours are indication Air Canada employees are participating in transformation
Full Year Outlook*

Available seat miles (system) ......................... Increase 3.5 to 4.5%
Available seat miles (Canada) ....................... +/- 0.5%
CASM, excluding fuel expense ...................... Decrease 1-3%
Canadian dollar per U.S. dollar ..................... $0.98
Fuel price – cents per litre .......................... $0.85

*As reported on August 4, 2011

Canadian economy will continue to recover
Air Canada’s Investment Proposition

- Extensive global network
- One of the world’s leading air carriers – twice winner of the Skytrax award for *Best International Airline in North America* in 2010 and in 2011
- Powerful and respected brand franchise
- Industry-leading product and award-winning business class – generating market leading RASM
- Strong financial performance in 2010 and improved financial performance in the first half of 2011
- Committed to lowering cost structure and debt levels
- Positive shift in corporate culture
Go Far...