

AIR
CANADA

ANNUAL
REPORT
2012





MESSAGE FROM THE PRESIDENT & CEO

Calin Rovinescu



We made significant progress in 2010 toward the goal of achieving long-term, sustained profitability. Although we benefited from the general upturn in the global airline industry, our strong performance in 2010 was also due to deliberate actions taken to transform and strengthen the company. The goal for 2011 and beyond is to build on these achievements and make continuous improvement part of our culture at Air Canada.

For 2010, we reported EBITDAR of approximately \$1.4 billion, more than double that of 2009 and the highest in Air Canada's history. Our operating income (before a net reduction of \$46 million to a provision for cargo investigations) of \$361 million was an improvement of \$677 million from a year earlier. We reported net income of \$107 million or 37 cents per diluted share, reversing a net loss of \$24 million or 18 cents per share a year earlier. While 2010 was a strong year for Air Canada, the results achieved demonstrate that we have the focus to succeed in our challenge of sustained profitability. The current year will not be without challenges, notably rising fuel prices, a still uncertain global economy, competitive changes within the industry and other factors, but we believe the company has the flexibility to respond quickly to these changing circumstances.

We will be in negotiations with our unions this year as our Canadian collective agreements are up for renewal in the first half of 2011. We have been engaged in productive dialogue and have been sharing information with our unions on a regular basis for the past two years. Based on what we have achieved in 2010 by working together, it is management's belief that we have a good foundation to reach mutually satisfactory agreements that will enhance our ability to execute our priorities.

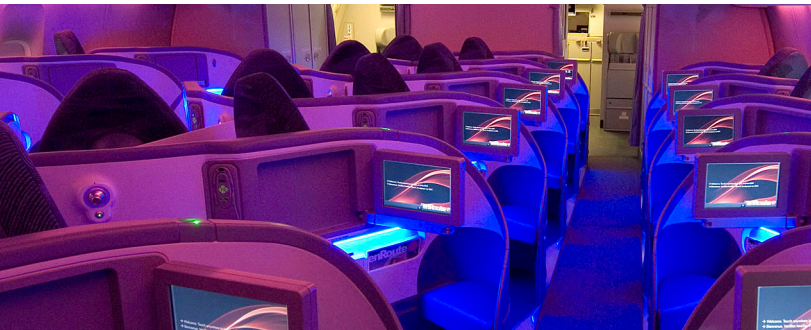
Most importantly, I want to thank Air Canada's 26,000 employees for their commitment, dedication and professionalism.

Equally, I thank our customers, shareholders, suppliers and other stakeholders for their ongoing support and loyalty. The airline business is complex and impacted by many events, but we are encouraged by the many improvements of 2010. We look forward with renewed enthusiasm to the future.

Calin Rovinescu
President & CEO

MISSION

Connecting Canada to
the World



VISION

Building Loyalty Through
Passion and Innovation

VALUES

Underpinning our core values that inform all we do as individuals and collectively at Air Canada. These values serve as touch stones to guide our actions.



AT A GLANCE



STRATEGY

In 2010, Air Canada improved its reputation as one of the world's leading international air carriers. Significant progress was made on executing and delivering on its four key priorities and this, coupled with improving economic conditions, allowed Air Canada to record operating income (before a net reduction of \$46 million to a provision for cargo investigations) of \$361 million in 2010, a \$677 million improvement from 2009. EBITDAR (before a net reduction of \$46 million to a provision for cargo investigations) of \$1,386 million in 2010 was the highest EBITDAR recorded in the airline's history. See section 20 "Non-GAAP Financial Measures" of this MD&A for additional information. Air Canada's financial strategy is to continue to improve both the level and sustainability of its earnings and, in turn, maximize long-term value for its stakeholders. In 2011, Air Canada plans to build on the progress it achieved in 2010 and focus on the following four key priorities:

- 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 premium products;
- Enhancing the corporate culture and developing a strong employee brand.

In 2011, Air Canada will continue to remain disciplined in its approach to growth. Air Canada believes that Canada's multiethnic demographic profile provides the airline with opportunities to benefit from a growing demand for international travel. Combined with a powerful brand franchise and an industry leading international product, Air Canada plans on leveraging its network in order to benefit from the higher margins generally available in international markets. The airline will also continue leveraging its world class hub at Toronto Pearson International Airport and other Canadian hubs with the objective of increasing global connecting traffic via Canada. Toronto Pearson International Airport has a geographic advantage due to its proximity to densely populated markets and is also a destination for a large number of business and leisure travelers. The Greater Toronto Airport Authority has made terminal improvements, including improvements that enabled Air Canada and most of its Star Alliance® partners to consolidate operations in one terminal, thereby facilitating transfer traffic and improving the customer experience. These improvements have strengthened the position of Toronto Pearson International Airport as a major gateway for global flow traffic.

In 2010, Air Canada expanded its capacity to Asia, Europe and the U.S. by close to 11%. Air Canada recognizes the growing importance of the Asian travel market and, in 2010, increased Pacific traffic by over 22% from 2009. The decision to add capacity to this market was driven, in part, by Canada being granted Approved Destination Status from China, a designation that makes it easier for Chinese nationals to visit Canada. Furthermore, aided by the addition of services to Geneva, Rome, Brussels, Athens, Copenhagen and Barcelona, Air Canada also increased 2010 traffic in the Atlantic market by 6.7% from 2009 levels. These additional services are strengthening the airline's European flagship routes of London, Paris and Frankfurt. Air Canada also added service to a number of U.S. cities in 2010, including San Diego, Portland (Oregon), Cincinnati, Memphis, Portland (Maine), Syracuse (New York) and New Orleans, with the goal of growing connecting traffic from the U.S. in support of its international expansion initiatives. An important aspect of Air Canada's international expansion program is the continued development of commercial alliances with major international carriers to extend the airline's global reach and enhance market presence. This is being achieved through Air Canada's membership in Star Alliance® which allows the airline to offer its customers a choice of 1,160 airports.

FOCUS ON SELLING PREMIUM SEATS

Engaging with customers with a focus on premium passengers and premium products. Customer satisfaction and growth of the premium class segment are key elements to Air Canada's long term success. AirCanada's goal is to continuously meet and exceed customer expectations by delivering consistently friendly, professional and "best in class" service. In 2011, Air Canada will remain focused on premium passengers and products to build on its success in 2010, which reflected passenger revenue growth of \$378 million or 23 per cent in the premium cabin when compared to 2009. The airline will continue to focus on better managing its premium class cabin to maximize revenues, seeking new opportunities to increase premium revenues, and broadening access to corporate customers. Air Canada is one of the most respected brands in Canada, and Air Canada plans to continue to leverage this strength to attract premium revenue, particularly on its international service. Air Canada has one of the youngest fleets among North American legacy carriers, with an average age of 10.7 years at December 31, 2010. The airline's investment in Boeing 777 and Embraer aircraft and industry-leading on-board products, including personal in-flight entertainment systems and in-seat power outlets accessible at virtually every seat, showcase the advantages of flying Air Canada. In addition, customers are increasingly recognizing the value of the airline's Maple Leaf Lounges, its concierge program and its loyalty program.

In 2010, Air Canada was recognized with the following awards, reflecting the skill and professionalism of its employees as well as the quality of its product offerings:

any airline in the world in the magazine's annual reader survey.

- 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

More than 25,000 readers of Global Traveler magazine.

Readership survey of frequent international travelers, for a third consecutive year. research firm, Skytrax, for their 2010 World Airline Awards.

Furthermore, in 2010, 71% of Canadian business travelers surveyed by Ipsos Reid in their 2010 Canadian Business Travel Study named Air Canada as their preferred airline, the third consecutive year of improvement in the airline's ratings. The continued year-over-year improvements in monthly customer satisfaction ratings and the numerous industry awards won in late 2009 and 2010 is evidence that the airline has been successful in engaging with its customers in 181 countries. In addition, through its transatlantic joint venture with United Airlines and Deutsche Lufthansa AG, referred to as A++, Air Canada is strengthening its market presence in North America and Europe, the Middle East as well as Africa and India. In early October 2010, Air Canada announced a joint venture in the Canada-U.S. market with United Airlines, subject to obtaining regulatory approvals, making the necessary filings, and finalizing the arrangements and documentation. This joint venture will provide Air Canada with benefits and revenue synergies allowing the airline to compete more effectively. By managing pricing, scheduling and sales, Air Canada will be better able to serve customers by offering more travel options, while reducing travel times. The Canada-U.S. transborder joint venture is expected to come into effect in 2012.

SELLING HOT SEATS



GOOD
BETTER
BEST



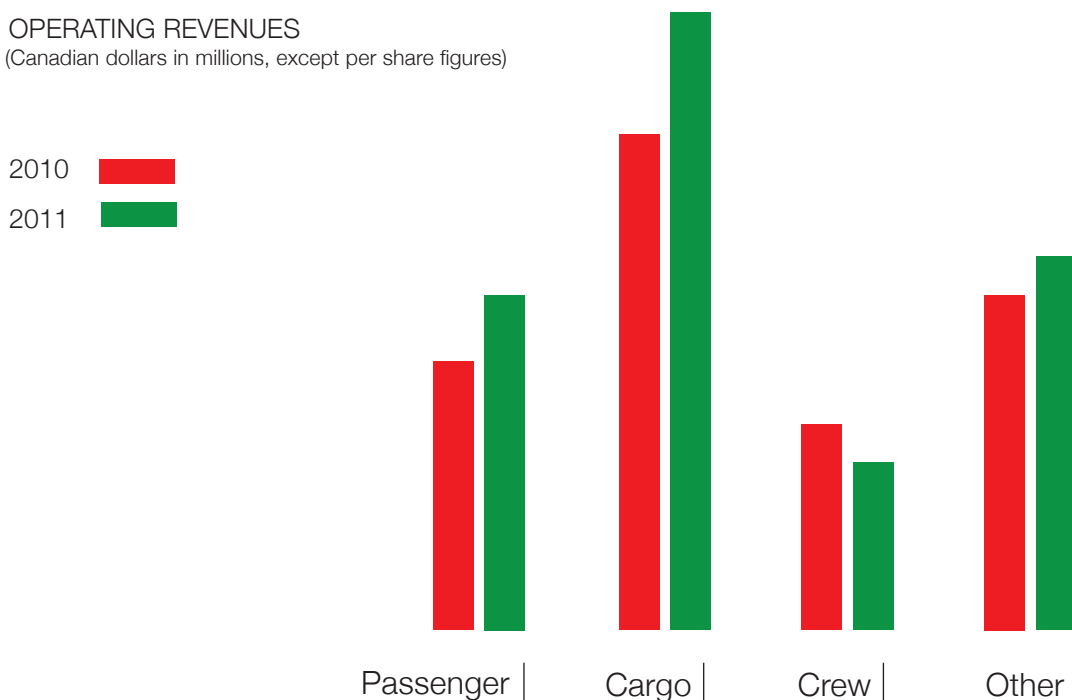
OPERATION

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In 2011, Air Canada will continue to remain disciplined in its approach to growth. Air Canada believes that Canada’s multiethnic demographic profile provides the airline with opportunities to benefit from a growing demand for international travel. Combined with a powerful brand franchise and an industry leading international product, Air Canada plans on leveraging its network in order to benefit from the higher margins generally available in international markets. The airline will also continue leveraging its world class hub at Toronto Pearson International Airport and other Canadian hubs with the objective of increasing global connecting traffic via Canada. Toronto Pearson International Airport has a geographic

OPERATING REVENUES
(Canadian dollars in millions, except per share figures)



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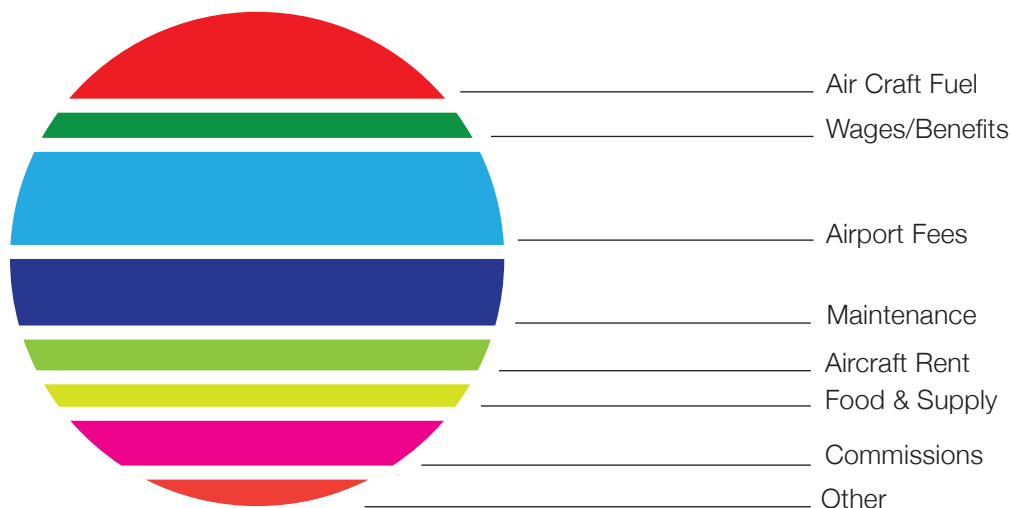
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BUDGET CUTS



OPERATING BUDGET SEGREGATION (Canadian dollars in millions)



Corporate Profile

Air Canada is Canada's largest domestic, U.S. transborder and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market and in the international market to and from Canada. In 2010, Air Canada, together with Jazz and other regional airlines operating flights on behalf of and under commercial agreements with Air Canada, operated, on average, 1,470 daily departures to 59 destinations in Canada, 59 destinations in the U.S. and 60 destinations in the Canada-Europe, Canada-Pacific, Canada-Caribbean/Central America and Canada-South America markets. In 2010, Air

Canada carried over 32 million passengers and provided passenger service to 178 destinations on five continents. Air Canada is a founding member of the Star Alliance® network. The Star Alliance® network includes 27 member airlines. Through its membership in the Star Alliance® network, Air Canada is able to offer its customers access to approximately 1,160 destinations in 181 countries, as well as reciprocal participation in frequent flyer programs and use of airport lounges.

Air Canada also operates a domestic and international cargo division, Air Canada Cargo, and a tour operator, Air Canada Vacations.

aircanada.com

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