MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Rates Air Canada's New Debt Issues; Positive Outlook

Global Credit Research - 09 Sep 2013

Approximately $1.4 billion of debt securities affected

Toronto, September 09, 2013 -- Moody's Investors Service assigned B2 1st lien senior secured and Caa2 2nd lien senior secured ratings to Air Canada's proposed debt issues. Air Canada's Caa1 corporate family, Caa1-PD probability of default and SGL-3 speculative grade liquidity ratings remain unchanged. The ratings outlook remains positive.

Issuer: Air Canada

..Assignments:

....US$100M 1st Lien Senior Secured Bank Credit Facility, Assigned B2, LGD2, 24%

....US$700M 1st Lien Senior Secured TLB, Assigned B2, LGD2, 24%

C$300M 1st Lien Senior Secured Notes, Assigned B2, LGD2, 24%

US$300M 2nd Lien Senior Secured Notes, Assigned Caa2, LGD4, 58%

RATINGS RATIONALE

Proceeds from the new debt issues will be used to refinance Air Canada's existing $900 million (USD equivalent) and USD $200 million first and second lien debt instruments, respectively, for which the associated B2 and Caa2 ratings will be withdrawn once the new transaction closes. The new debt will be secured by the same diverse pool of collateral that supports the existing debt issues but will be enhanced with an additional ten spare engines. The collateral package also includes accounts receivables, certain owned real property, certain Pacific routes and related gate leaseholds and landing slots, landing slots at London's Heathrow, New York's LaGuardia and Washington's Reagan airports and ground equipment.

Air Canada's Caa1 corporate family rating is primarily driven by the company's very high adjusted leverage, growing competition from lower-cost carriers, increasing fuel costs and the potential that the significant capacity additions planned by Air Canada and its primary domestic competitor will pressure yields and/or margins. The company's very high cost structure arising from its legacy carrier status and Moody's expectation that the company's free cash flow will be modestly negative over the next few years due to elevated capital expenditures also weigh on the rating. Favorably, the rating reflects Air Canada's meaningful scale, leading market share of domestic, trans-border and international routes in and out of Canada and benefits from its position in the Star Alliance network.

The positive ratings outlook reflects the potential that Air Canada's ratings could move higher if the company's earnings continue to improve through upcoming capacity additions.

An upgrade could occur if adjusted leverage is sustained below 7.5x and cash is maintained above 15% of revenues. Downward rating pressure could occur if Debt/ EBITDA is forecast to rise above 9x or should cash trend towards 10% of revenues.

The principal methodology used in this rating was the Global Passenger Airlines Methodology published in May 2012. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Saint-Laurent, Quebec, Air Canada is the largest provider of scheduled passenger services in Canada. Revenues for 2012 were approximately $12 billion.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Darren M. Kirk
VP - Senior Credit Officer
Corporate Finance Group
Moody's Canada Inc.
70 York Street
Suite 1400
Toronto, ON M5J 1S9
Canada
(416) 214-1635

Donald S. Carter, CFA
MD - Corporate Finance
Corporate Finance Group
(416) 214-1635

Releasing Office:
Moody's Canada Inc.
70 York Street
Suite 1400
Toronto, ON M5J 1S9
Canada
(416) 214-1635

MOODY'S
INVESTORS SERVICE