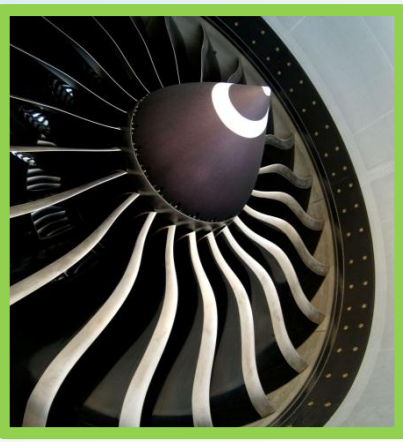
AIR CANADA

Presents at the

J.P. Morgan

Global High Yield & Leveraged Finance Conference


Miami, Florida

February 24, 2014

4 STAR AIRLINE SKYTRAX

WORLD AIRLINE AWARDS 2013 WINNER SKYTRAX

Best Airline in North America

Caution Regarding Forward-looking Information

Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Such statements may be included in this presentation and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements may be based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, energy prices, currency exchange and interest rates, employee and labour relations, competition, pension issues, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout Air Canada's public disclosure file available at www.sedar.com, including section 18, Risk Factors, of Air Canada's 2013 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 12, 2014.

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Air Canada Achieved Record Earnings in 2013 and is…

…among the 20 largest airlines in the world

…the only international carrier in North America to receive a four-star ranking by Skytrax

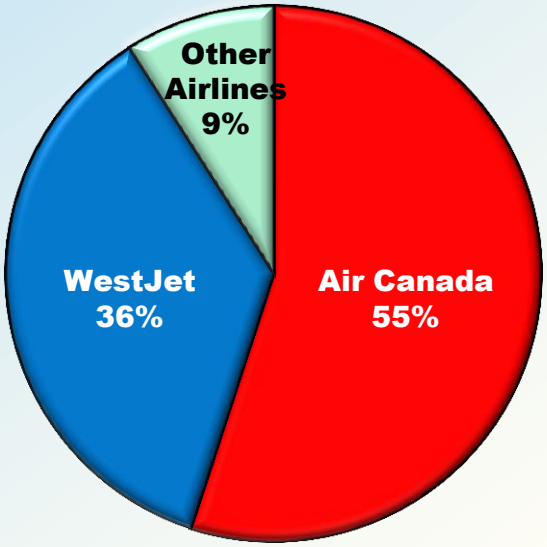
…the best airline in North America

…a founding member of Star Alliance

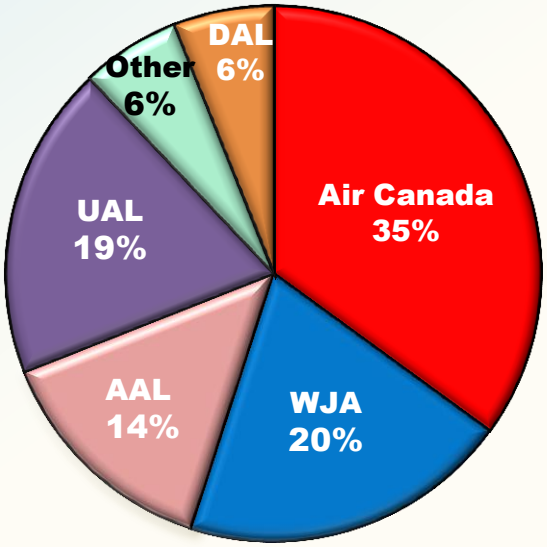
…one of Canada's top 100 employers

Air Canada has Leading Share in All Markets

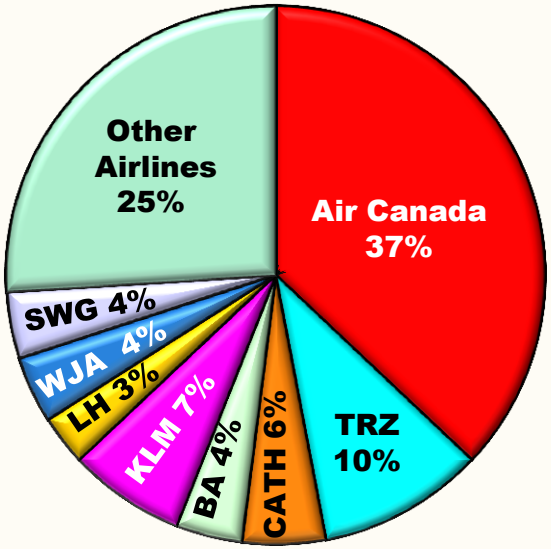
Domestic
accounts for **38%**
of passenger
revenue



Transborder
accounts for **20%**
of passenger
revenue



International
accounts for **42%**
of passenger
revenue



- Source: OAG data, based on full year 2013 available seat miles (ASMs)
- AC Revenue Split based on 2013 full year revenues

Growth Directed at International Markets and at Lower Unit Costs

181 Direct Destinations:

- **60 in Canada**
- **54 in the U.S.**
- **67 internationally**

Among the 20 largest airlines globally

- **352 aircraft**
- **~1,500 daily flights**
- **~36M passengers carried**

Powerful Global Network

Enhancing Market Presence Through Star Alliance, Commercial Agreements & Joint Venture

STAR ALLIANCE

- **28** Members
- **195** Countries Served
- **1,328** Airports
- **21,900** Daily Departures
- **>727M** Passengers/year
- **>4,700** Aircraft
- **>1000** Lounges

A++ Partnership with United and Lufthansa Delivers Tangible Benefits to Air Canada

- Global market presence leveraging each carriers' strengths in their home markets
- Coordinated approach to pricing, inventory management and capacity in this market segment
- Access to corporate contracts in all markets where offered by A++ partners
- Results have been impressive:
  - Increased U.S. sixth freedom traffic and revenue
  - Growth in all POS U.S. sales channels
  - Increased corporate revenue on all services
  - Growth in LHA/UAL traffic on Air Canada's Atlantic services
  - Improved average fares for local and behind/beyond traffic

AIR CANADA

Austrian

brussels airlines

Lufthansa

SWISS

UNITED

Leveraging Air Canada's Competitive Advantages

- ✓ Widely-recognized and respected brand
- ✓ Extensive and expanding global network
- ✓ Flexible fleet mix including high-density Boeing 777 and Boeing 787s
- ✓ Air Canada *rouge* with its lower cost structure
- ✓ Maple Leaf Lounges – Concierge Program – lie-flat beds
- ✓ Strong airport infrastructure – Toronto, Montreal, Vancouver, Calgary
- ✓ World-class loyalty program – Air Canada Altitude
- ✓ Star Alliance Membership – Joint Ventures – Codeshare Agreements
- ✓ Numerous bilateral air agreements with other countries

Other Award Winning Services Contribute to Profitability

AIR CANADA CARGO

Canada's largest provider of air cargo services

Won 2013 ***"Carrier of the Year"*** award in all regions of Canada for 2nd consecutive year – Forwarders Choice Awards

AIR CANADA VACATIONS

One of Canada's leading tour operators

Won 2013 ***"Favourite Tour Operator"*** award for the 4th year at Baxter Travel Media's Agents' Choice Awards

Record 2013 Financial Results

- Adjusted net income of $340M or $1.20 per diluted share, an improvement of $285M or $1.00 per diluted share
- EBITDAR of $1.433B, an increase of $113M or 8.6%
- EBITDAR margin of 11.6%, an improvement of 0.7 PP
- Record passenger load factor of 82.8%
- Unit passenger revenue (P-RASM) up 0.6%
- Adjusted CASM improved 1.5%

Excludes benefit plan amendments

Focused on Four Core Priorities

COST REDUCTION AND TRANSFORMATION

INTERNATIONAL GROWTH

CUSTOMER ENGAGEMENT

CULTURE CHANGE

Fleet Revenue and Cost Initiatives

- Fleet changes provide flexibility and lower Air Canada's overall cost structure
- Air Canada *rouge* can operate up to 50 aircraft (30 A319 and 20 Boeing 767 aircraft) and is allowing Air Canada to enhance margins on leisure routes
- Introduced new class of service (Premium Economy Class) on mainline and *rouge* fleets which is aimed at higher-end customers seeking additional comfort
- Continued focus on optimizing revenue stream through new technology, product offering and segmentation

Building a Fleet for the Future

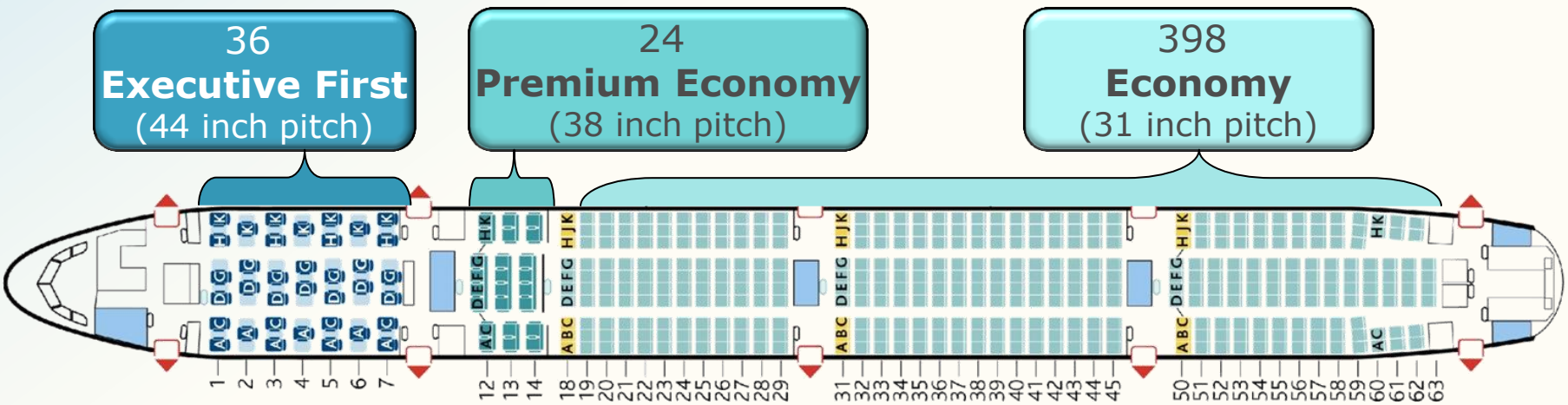
	Actual at	Planned Fleet		
	Dec 2013	Dec 2014	Dec 2015	Dec 2016
Mainline				
Boeing 787	-	6	12	20
Boeing 777-300	16	17	17	17
Boeing 777-200	6	6	6	6
Boeing 767-300	27	21	17	12
Airbus A330-300	8	8	8	8
Airbus A321	10	10	15	15
Airbus A320	41	41	46	46
Airbus A319	30	13	8	8
EMBRAER 190	45	45	25	25
Total Mainline	**183**	**167**	**154**	**157**
Air Canada *rouge*				
Boeing 767-300	2	8	12	15
Airbus A319	8	25	30	30
Total Air Canada *rouge*	**10**	**33**	**42**	**45**
Combined total fleet	**193**	**200**	**196**	**202**

In 2015, Air Canada plans to replace 20 Embraer 190 aircraft with 10 larger narrowbody leased aircraft. The type of replacement aircraft has not yet been determined however, for illustrative purposes, in the table above, Air Canada has assumed these to be five Airbus A320 and five Airbus A321 aircraft.

High-density Boeing 777s and 787s Provide Significant Cost Advantages

- All five new high-density Boeing 777s have been delivered and are in service – estimated CASM reduction of 21% compared to Boeing 777s in current mainline fleet
- Taking delivery of 37 Boeing 787 aircraft starting in spring 2014 to replace less efficient Boeing 767s and to pursue international growth opportunities – estimated CASM reduction of 29% compared to Boeing 767-300ER aircraft

High-density Boeing 777 – three class configuration

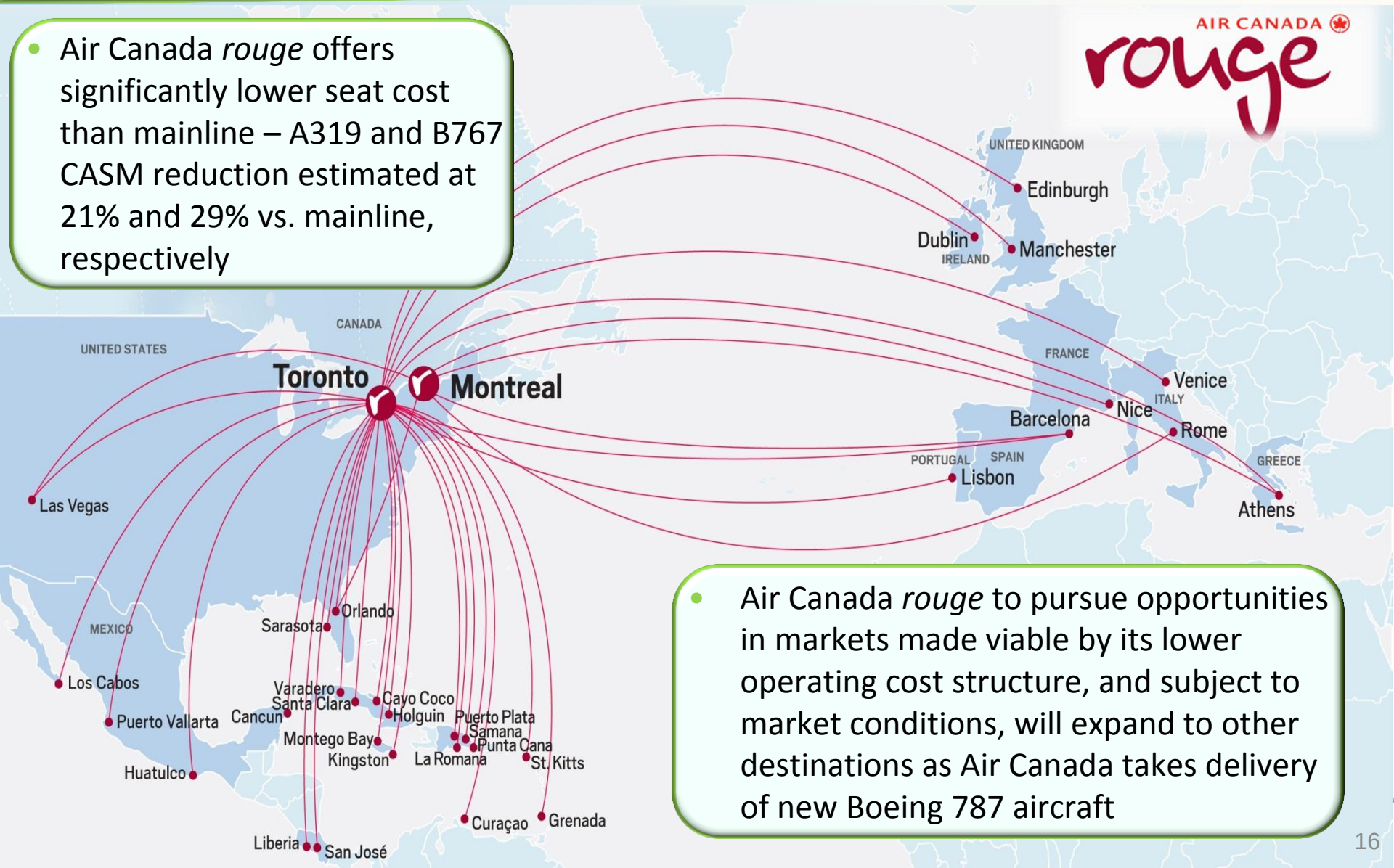


Boeing 737 MAX to Replace Mainline Narrowbody

- Announced plans to renew current mainline Airbus narrowbody fleet with Boeing 737 MAX aircraft, creating one of the world's youngest, most fuel efficient and simplified airline fleets
- The agreement includes firm orders for 33 737 MAX 8 and 28 737 MAX 9 aircraft and provides for options for 18 aircraft and rights to purchase an additional 30 – deliveries are scheduled to begin in 2017
- The 737 MAX incorporates the latest-technology engines to deliver high efficiency, reliability and passenger comfort in the single-aisle market – claimed to achieve a 14 percent fuel-use improvement over today's most fuel-efficient single-aisle airplanes

Air Canada rouge™ is Designed to Position Air Canada Profitably in the Leisure Market

- Air Canada *rouge* offers significantly lower seat cost than mainline – A319 and B767 CASM reduction estimated at 21% and 29% vs. mainline, respectively

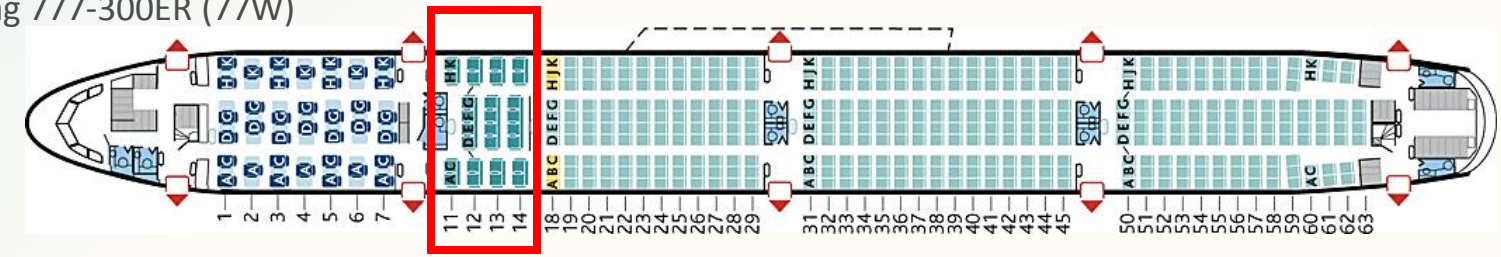


- Air Canada *rouge* to pursue opportunities in markets made viable by its lower operating cost structure, and subject to market conditions, will expand to other destinations as Air Canada takes delivery of new Boeing 787 aircraft

Improving Premium Revenues With New Premium Economy Class

Premium Economy Class

Boeing 777-300ER (77W)



- New class of service on both mainline and *rouge* fleets
- Provides more seating pitch and width than economy class
- Segmented product aimed at higher-end customers seeking to improve comfort and travel experience
- Enhanced travel experience (priority check-in, baggage allowance, on-board meals, bar, etc.)

Air Canada Express – An Important Part of N.A. Strategy

AIR CANADA express provides feeder traffic to Air Canada's scheduled routes

CRJ (41)
50-75 seats

Dash 8 (60)/Q-400 (26)
37-74 seats

Embraer (15)
73 seats

Beech (17)
18 seats

- Jazz fleet at 122 aircraft (including 21 Q-400 aircraft)
  - Replaced CRJ 100/200 with Q400s in western Canada
  - Q-400 aircraft are optimized for short-haul operations and deliver fuel efficiency, passenger comfort and lower operating costs than the aircraft they replace
- New collective agreement with ACPA gives Air Canada flexibility to transfer jets/prop of less than 76 seats to regional carriers
- All 15 of Air Canada's smallest aircraft type, Embraer 175 aircraft, have been transferred to Sky Regional, a lower cost regional provider – reduction in Embraer 175 CASM estimated at 11% vs. Embraer 175 at mainline
- Selected new regional airline to operate a number of regional routes, including U.S. transborder routes, starting in mid-2014

Other Opportunities for Revenue Growth

- Growing ancillary revenues through various passenger-related fees, such as baggage, paid upgrades and seat selection
- Re-launched loyalty program – Air Canada Altitude – and launched Air Canada Corporate Rewards program
- Introducing new Revenue Management System (RMS) – expecting incremental annual revenues in excess of $100 M beginning in 2015
- Implementing customer centricity system (CRM) – platform will allow a 360° view of the customer, targeted campaign management and allow advanced analytics of customer insights
- Agreement with GTAA, over time, should grow international traffic flows on a more cost effective basis

AIR CANADA
CORPORATE
REWARDS

Engaging Our Customers

- Improved on-time performance and reliability
- Improved international connections through major hubs by not having to re-claim luggage
- Improved on-board offerings and consistency of service especially on long-haul international flights
- Streamlined boarding process
- Launched Air Canada *rouge* giving customers a wider choice in leisure travel
- Continued improvements to provide the highest levels of customer service

Culture Change

- Promoting
  - Entrepreneurship
  - Engagement
  - Empowerment
  - Earnings for performance
- Cross-functional approach motivates employees
- Renewed focus on constructive and transparent dialogue
- Talent management and training
- Better understanding of competitive landscape
- Recent industry awards are proof that employees are participating in transformation
- Recognized as one of “Canada’s Top 100 Employers” in Mediacorp Canada Inc's annual national competition

Looking Ahead

Focused on Improving ROIC and Sustainable Profitability

EBITDAR, adjusted net income and ROIC improvement

Execute strategic initiatives

Lower cost structure

Targeted deployment of growth capital

Stronger balance sheet

Lower risk profile

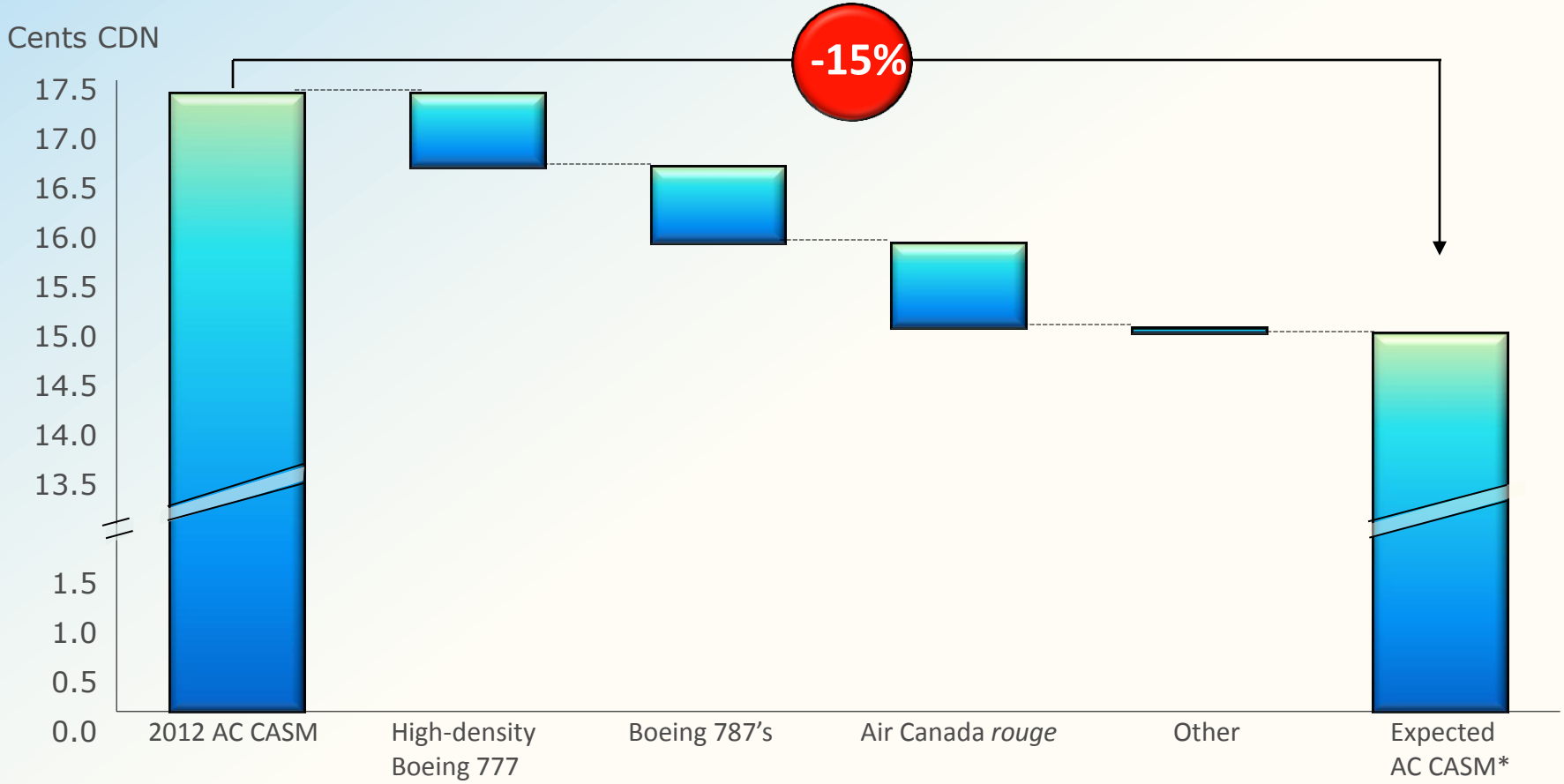
New financing arrangements

Create shareholder value

Increase earnings and ROIC leading to a higher multiple and lower risk profile

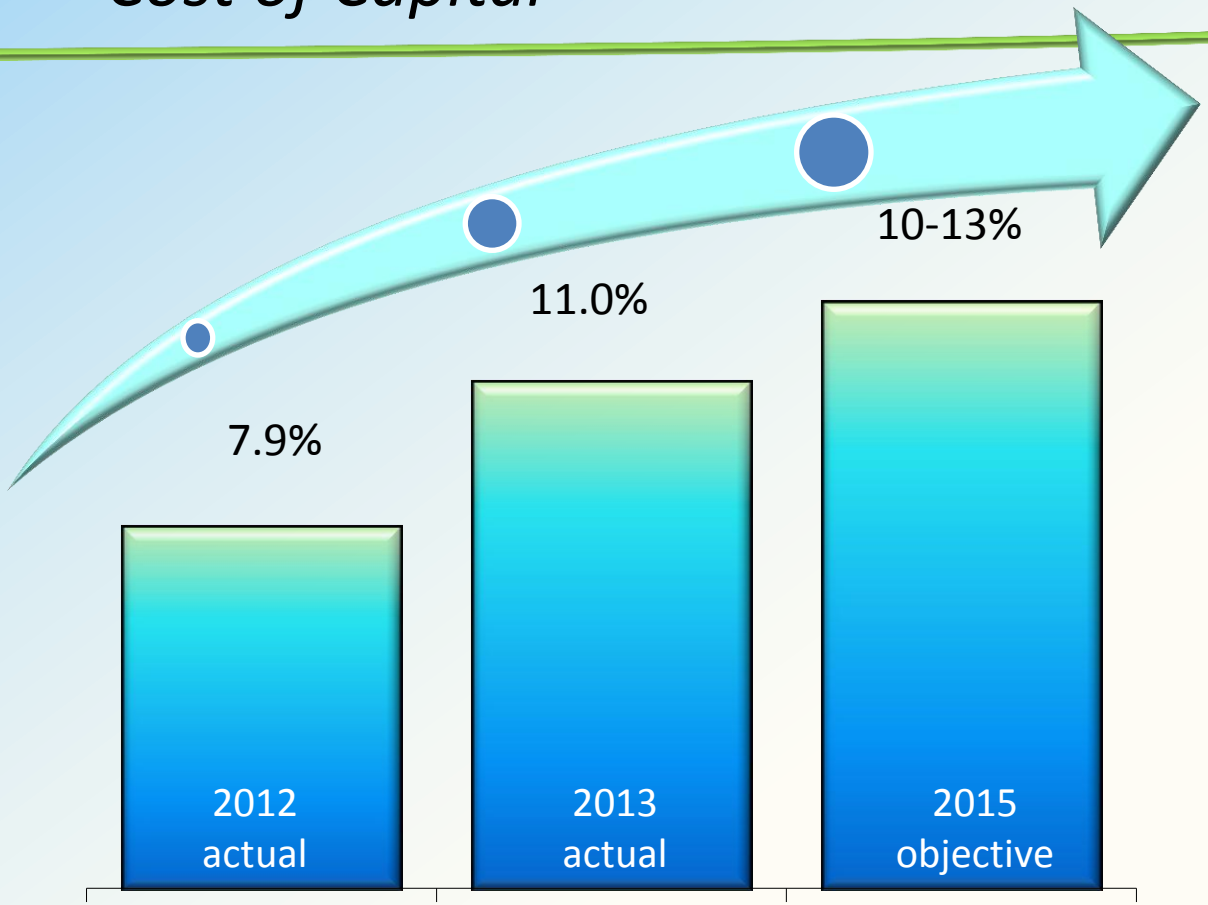
Lower Cost Structure

If implemented today, cost reduction initiatives would be expected to decrease CASM by an estimated 15%



* Assumes that all other cost drivers remain at 2012 levels

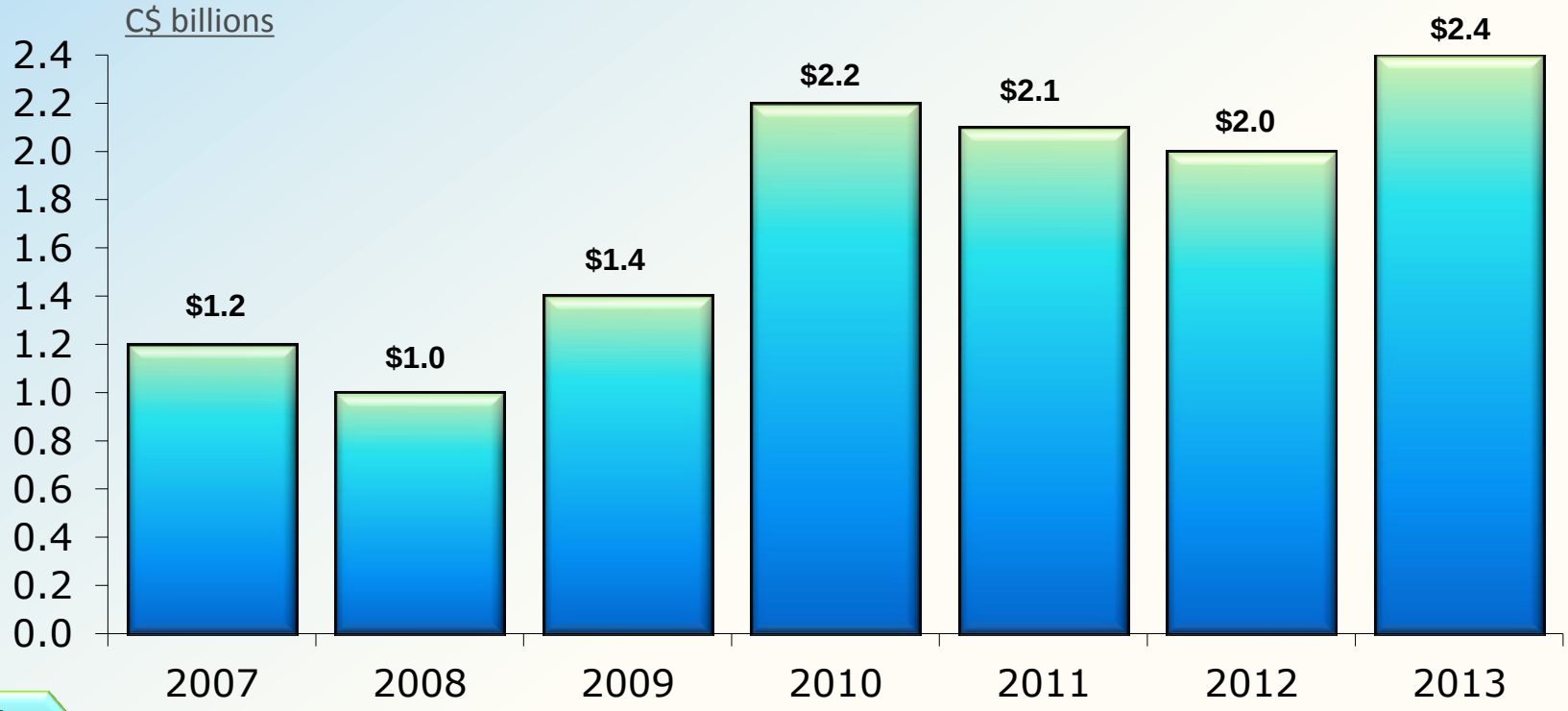
Targeting Return on Invested Capital to Exceed Cost of Capital



- Increase return on invested capital ("ROIC") through strategic investments in aircraft and technology, lower CASM and debt reduction

- Return is calculated based on adjusted net income, excluding interest expense and implicit interest on operating leases
- Invested capital includes average long-term debt and finance leases, average market capitalization and capitalized aircraft operating leases

Maintaining Strong Liquidity Position – Well Above Target Minimum Level of $1.7B

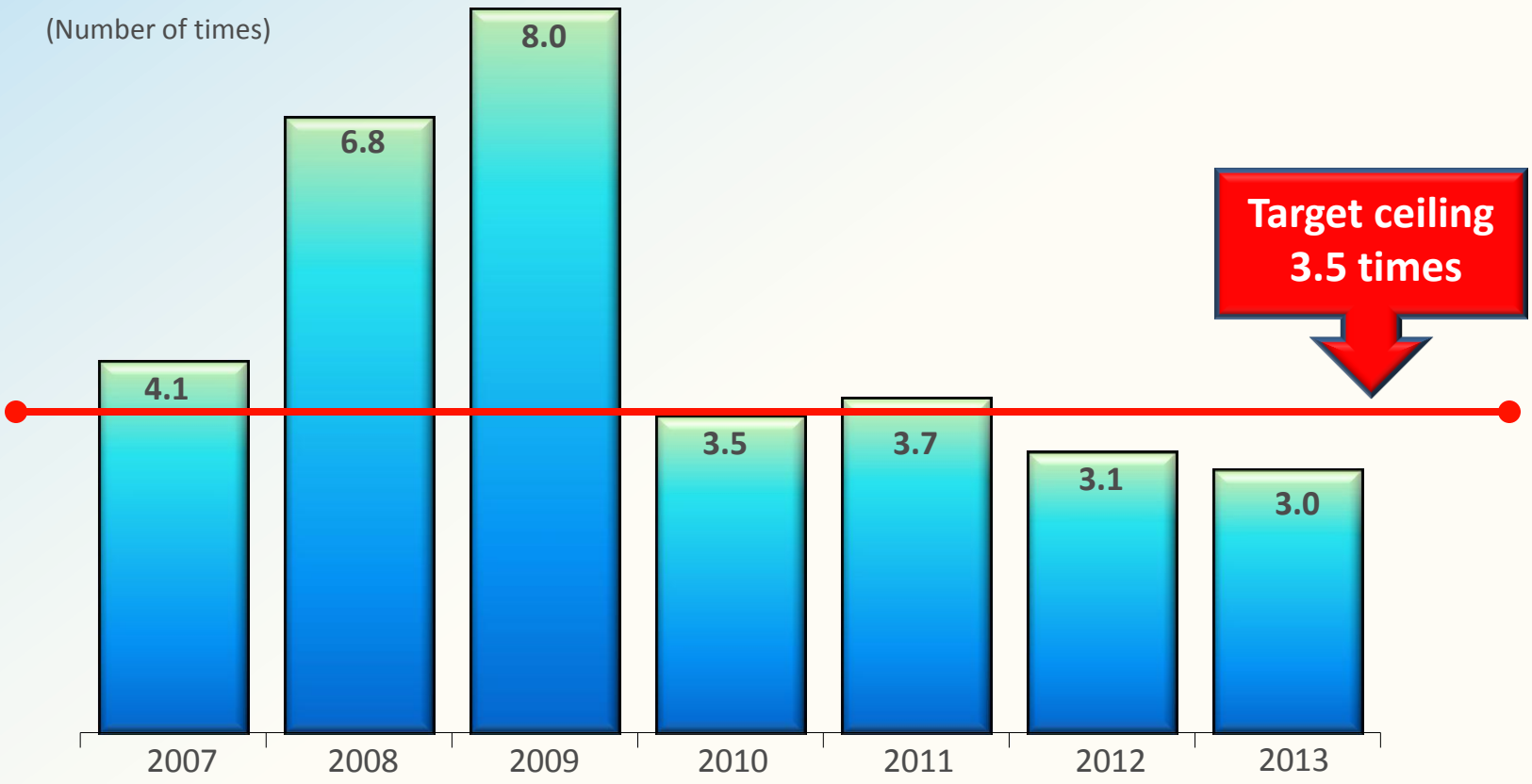


% of trailing 12-month operating revenues	2007	2008	2009	2010	2011	2012	2013
	12%	9%	14%	20%	18%	17%	19%

- Refers to cash, short term investments and the amount of available credit under revolving credit facilities

Managing Financial Leverage

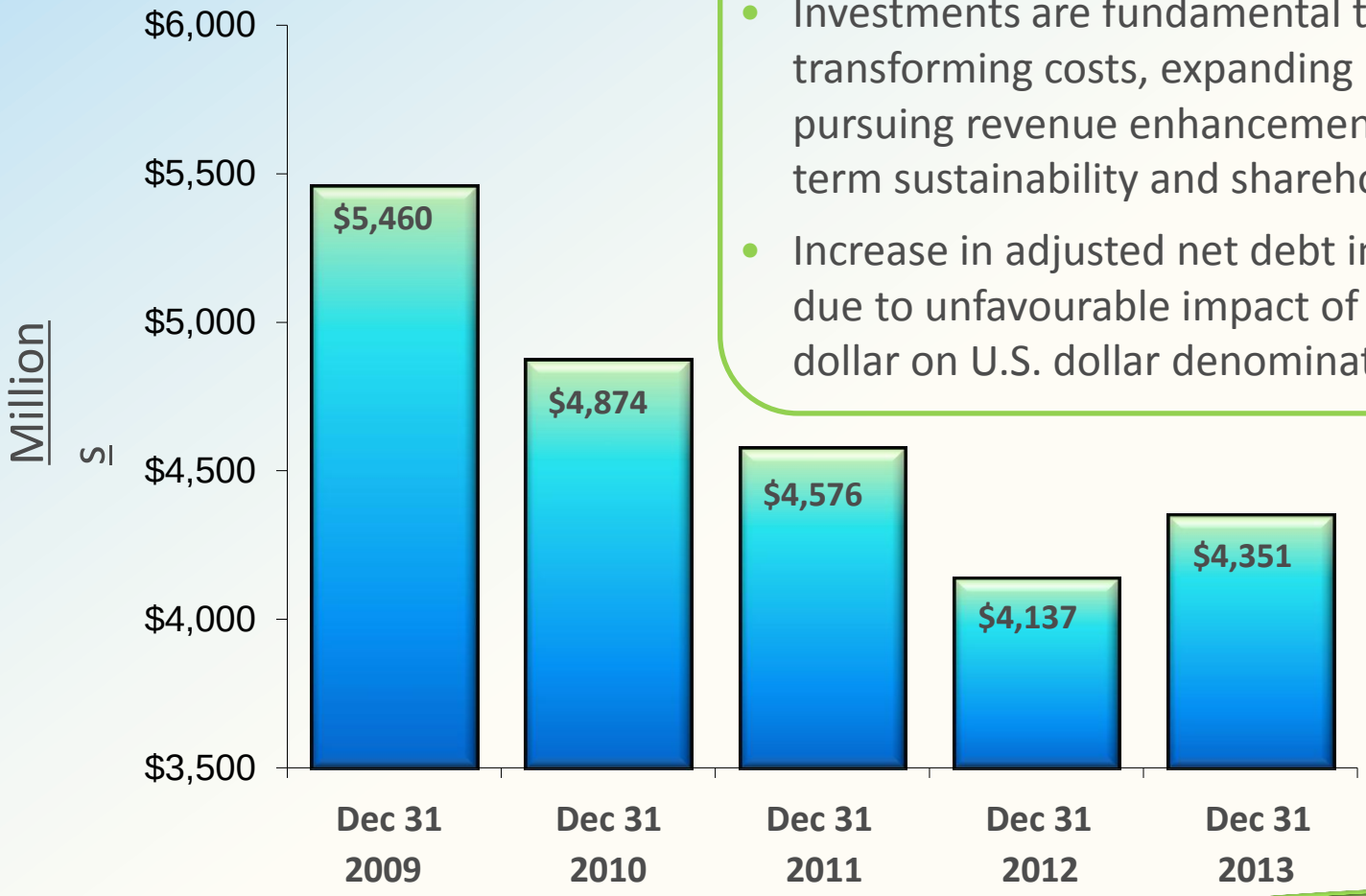
Adjusted Net debt to EBITDAR ratio



- Reflects adjusted net debt to trailing 12-month normalized EBITDAR ratio

Driving Long-term Sustained Profitability Through Investment in Aircraft

- Debt levels increasing due to investment in Boeing 777 and 787 aircraft
- Investments are fundamental to strategy of transforming costs, expanding internationally, pursuing revenue enhancements and driving long-term sustainability and shareholder value
- Increase in adjusted net debt in 2013 almost entirely due to unfavourable impact of weaker Canadian dollar on U.S. dollar denominated debt



New Financing Arrangements

- Implementation of Cape Town Convention (CTC) in Canada provides new and attractive source of aircraft financing and a level playing field with U.S. airlines
- Successfully concluded a private offering of enhanced trust certificates (EETCs) with an aggregate face value of US$715M to finance five new Boeing 777-300ER aircraft – blended coupon rate for all tranches of 4.7% for a maximum term of 12 years
- Successfully refinanced 2010 notes ($1.1B principal amount) with U.S.$400 million senior secured first lien notes; C$300M senior secured first lien notes; U.S.$300M secured second lien notes; and a U.S.$400M senior secured credit facility, comprised of U.S.$300M term loan, and a U.S.$100M revolving credit facility (which has not been drawn upon)
- Refinancing transaction extends the maturity of Air Canada long-term debt to 2019 and lowers the effective interest rate by approximately 300 basis points

Trading Levels

EETC Trading Levels

Tranche	Coupon	Maturity (Avg. Life)	Mid Price	Mid Yield	Amount Issued ($M)	Current Appraiser LTV	Ratings (M/S/F)
A	4.125%	5/25 (5/22)	100.13	4.105%	$424	58.30%	Baa3/A-/A
B	5.375%	5/21 (5/19)	100.75	5.230%	$182	81.10%	B1/BB/BB+
C	6.625%	5/18 (5/18)	102.50	5.948%	$108	94.70%	B3/B/BB

High Yield Notes and Term Loan Trading Levels

Notes					
Date	Issue	Coupon	Price	Amount	Effective Yield (01/31/14)
09/19/13	Senior Secured Notes	6.750%	106.750	$400	5.071%
09/19/13	Senior Secured Notes	7.625%	106.625	C$300	5.971%
09/19/13	2nd Lien Sr. Secured Notes	8.750%	107.750	$300	6.932%
Term Loan					
09/20/13	Term Loan B	L+450 bps	102.500	$300	4.991%

Concrete Actions Taken to Reduce Pension Deficit and Manage Future Risk Profile

As at January 1, 2014, based on preliminary estimates, Canadian registered pension plans are in a small surplus position

All New employees join the defined contribution plan versus historical defined benefit plan

Made changes to defined benefit pension plans which lowered the pension solvency deficit by close to $1B as of January 1, 2014

Concluded an agreement with the Government of Canada on extending special pension funding arrangement to December 31, 2020

Our Investment Proposition

- ✓ Strong brand, extensive and powerful network and award-winning products and services
- ✓ Investing in fleet and products for the future
- ✓ Leveraging opportunities for revenue growth
- ✓ Unrelenting on costs and creatively responding to competition
- ✓ Strong financial performance
- ✓ Engaged employees and profit and results-driven management team
- ✓ On track to execute strategy and well-positioned for earnings growth



AIR CANADA