Presents at the 6th Annual Global Transportation Conference

New York - June 11, 2013
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Agenda

- About Air Canada
- Leveraging Competitive Advantages
- Building a Stronger Air Canada
- Financial Results
- Going Forward
About Air Canada

4 STAR AIRLINE
SKYTRAX
Powerful Global Network

179 Direct Destinations:
- 59 in Canada
- 53 in the U.S.
- 67 internationally

- 15th Largest Airline in the World
- 349 aircraft
- >1,500 daily flights
- ~35M passengers carried

(At June 6, 2013)
Leading Share in All Markets

**Domestic**
accounts for 39% of passenger revenue

- WJA: 35%
- Other Airlines: 10%
- Air Canada: 55%

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

- WJA: 19%
- Other Airlines: 9%
- Air Canada: 17%
- AMR: 10%
- DAL: 6%
- LCC: 4%
- UAL: 2%

**International**
accounts for 41% of passenger revenue

- Other Airlines: 25%
- Air Canada: 35%
- WJA: 4%
- LH: 3%
- DAL: 2%
- AMR: 1%
- BA: 1%
- CATH: 1%
- TRZ: 1%
- KLM: 1%
- SWG: 1%

- Source: OAG data, based on full year 2012 available seat miles (ASMs)
- AC Revenue Split based on 2012 full year revenues
## Fleet Flexibility to Adjust to Market Demand

<table>
<thead>
<tr>
<th></th>
<th>Dec 2012</th>
<th>Planned Fleet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec 2013</td>
<td>Dec 2014</td>
</tr>
<tr>
<td><strong>Mainline</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boeing 787</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Boeing 777-300</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Boeing 777-200</td>
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<td>6</td>
</tr>
<tr>
<td>Boeing 767-300</td>
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<td>27</td>
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<tr>
<td>Airbus A330-300</td>
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<tr>
<td>Airbus A321</td>
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<td>10</td>
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<td>Airbus A320</td>
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</tr>
<tr>
<td>Airbus A319</td>
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<td>30</td>
</tr>
<tr>
<td>EMBRAER 190</td>
<td>45</td>
<td>45</td>
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<tr>
<td>EMBRAER 175</td>
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<tr>
<td><strong>Total Mainline</strong></td>
<td>205</td>
<td>183</td>
</tr>
<tr>
<td><strong>Air Canada rouge™</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boeing 767-300</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Airbus A319</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total Air Canada rouge™</strong></td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td><strong>Combined total fleet</strong></td>
<td>205</td>
<td>193</td>
</tr>
</tbody>
</table>

(As reported on May 3, 2013)
Air Canada Express – Important Part of North American Strategy

- Jazz fleet at 122 aircraft (including 21 Q-400 aircraft)
  - 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 us flexibility to transfer jets/prop of less than 76 seats to regional carriers
- Mainline's smallest aircraft type, Embraer 175 aircraft, progressively being transferred to a lower cost regional provider – Sky Regional
- Sky Regional has a more competitive cost structure than mainline due to lower wages, benefits and overhead costs – reduction in Embraer 175 CASM estimated at 11% vs Embraer 175 at mainline

(at June 6, 2013)
Other Award Winning Services Contribute to Profitability

**Air Canada Cargo**

Canada's largest provider of air cargo services

Won 2012 "Carrier of the Year" award – in western, Eastern & central Canada – Forwarders Choice Awards

**Air Canada Vacations**

One of Canada's leading tour operators

Won 2012 "Favourite Tour Operator" award at Baxter Travel Media's Agents' Choice Awards
## 2012 Awards & Recognition

<table>
<thead>
<tr>
<th>Category</th>
<th>Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 Skytrax World Airline Awards –</td>
<td>Best International Airline in North America</td>
</tr>
<tr>
<td>3rd consecutive year</td>
<td>Ranked the only international Four-Star Airline in North America</td>
</tr>
<tr>
<td>2012 Skytrax ranking:</td>
<td></td>
</tr>
<tr>
<td>Global Traveler magazine – 2012</td>
<td>Best Airline in North America</td>
</tr>
<tr>
<td>4th consecutive year</td>
<td></td>
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<tr>
<td>Executive Travel Magazine – 2012</td>
<td>Best Flight Experience to Canada</td>
</tr>
<tr>
<td>Leading Edge Awards – 5th consecutive year</td>
<td></td>
</tr>
<tr>
<td>Business Traveler magazine – 2012</td>
<td>Best North American Airline for International Travel</td>
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<tr>
<td>5th consecutive year</td>
<td>Best North American Airline Inflight Experience</td>
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<tr>
<td>Premier Travel magazine</td>
<td>Best North American Airline for Business Class Service</td>
</tr>
<tr>
<td></td>
<td>Best North American Airline for International Travel</td>
</tr>
<tr>
<td></td>
<td>Best Flight Attendants in North America</td>
</tr>
</tbody>
</table>
Leveraging Competitive Advantages
Industry-Leading Products & Services

- The only international carrier in N.A. to receive a four star ranking by Skytrax
- Frequent flyer recognition program "Air Canada Altitude"
- Star Alliance membership
- Maple Leaf Lounges
- Concierge program
- Lie-flat beds in Executive First
- Personal seat back entertainment at every seat
- Mobile-friendly booking and check-in
**Investing in New Aircraft, Products & Services**

- Five new high-density Boeing 777s are expected to be strategically deployed on select high-volume, leisure-oriented international routes – estimated CASM reduction of 21% compared to Boeing 777 in current mainline fleet.

- Taking delivery of 37 Boeing 787 aircraft starting in 2014 to replace less efficient Boeing 767s and to pursue international growth opportunities.
  - Combination of fuel and maintenance efficiencies associated with Boeing 787 and greater number of seats drives an estimated 29% CASM reduction compared to Boeing 767-300ER aircraft.

- Air Canada rouge™ will be well-positioned in the growing leisure market.

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**New Boeing 777 – three class configuration**

- **36 Executive First**
  - 44 inch pitch

- **24 Premium Economy**
  - 38 inch pitch

- **398 Economy**
  - 31 inch pitch
Targeting Enhanced Profitability Through Low-cost Leisure Airline

- Air Canada rouge™ to begin service with two Boeing 767 and two Airbus A319s (to be transferred from Air Canada's mainline fleet in 2013) with a transfer of an additional six Airbus A319s expected by year-end 2013
- Air Canada rouge™ may operate up to 20 B767s and 30 A319s
- Air Canada rouge™ to pursue opportunities in markets made viable by its lower operating cost structure – A319 and B767 CASM estimated at 21% and 29% lower than mainline respectively
- Destinations at start-up include Venice, Italy, Edinburgh, Scotland, and sun destinations – announced year round service to Dublin, Ireland beginning in 2014
- Air Canada rouge™ will, subject to market conditions, expand to other destinations as Air Canada takes delivery of B787s thereby freeing up B767s for transfer to Air Canada rouge™
Enhancing Market Presence Through Star Alliance™ & Joint Venture

- **27** Members
- **194** Countries Served
- **1,329** Airports
- **>670M** Passengers/year

Star Alliance – 6th time winner Best Airline Alliance in the 2012 Skytrax World Airline Awards™

- **4,570** Aircraft
- **21,900** Daily Departures
- **>1000** Lounges
Building a Stronger Air Canada
Improving Profitability by Focusing on Four Key Priorities

- Pursuing revenue enhancements and transforming costs to enhance competitiveness
- Expanding internationally and increasing connecting traffic through international gateways
- Engaging with customers, with a particular emphasis on premium class passengers and products
- Fostering positive culture change
Continuous Cost Transformation

- Concluded collective agreements with all major Canadian unions which included modifications to the defined benefit pension plans (subject to regulatory approval)
- Concluded new agreements with maintenance service providers on a cost competitive basis
- Announced launch of Air Canada rouge™ with a lower cost structure to improve profitability in leisure markets
- Entered into an agreement which provides for the transfer of 15 Embraer 175s to lower cost regional operator
- Introducing high density B777s and more efficient B787s in three class service (Economy, Premium Economy and Executive First)
- Actively pursuing other initiatives including: negotiating competitive contracts with key suppliers, proposed change to crew complement requirements, lowering fuel consumption, bettering turnaround times, reducing credit card fees, improving productivity in call centres
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.
Leveraging Opportunities for Revenue Growth

- Growing ancillary revenues through various passenger-related fees including:
  - Paid upgrades
  - Baggage fees
  - Seat selection fees
- Re-branded frequent flyer program (Air Canada Altitude) to build loyalty and generate incremental revenue
- Improved net Aeroplan revenue
  - Reduced Aeroplan frequent flyer accumulation fees to 50% on Tango service for international routes
- Launched loyalty program for small businesses
  - Loyalty program caters to small and medium-size businesses allowing them to earn rewards and complimentary services
- Introducing new Revenue Management System (RMS) which is being phased in over the next two years – expect over $100M of incremental revenues in 2015
Expanding Internationally and Increasing Traffic Through World Class Hubs

- Increasing global connecting traffic via Canada – continued strength of sixth freedom traffic through Toronto Pearson
- Fully automated baggage handling for Air Canada customers connecting to the U.S. through Toronto
- Announced plans for a major international expansion with a focus on key gateways to Asia and launching service to new destinations including Istanbul
Enhancing Culture to Increase Competitiveness

- Promoting
  - Entrepreneurship
  - Engagement
  - Empowerment
  - Earnings for performance
- Emphasis on cost containment is forging a more entrepreneurial culture
- Cross-functional approach to operational excellence is motivating employees, reducing costs and increasing customers’ satisfaction levels
- Renewed focus on constructive, respectful and transparent dialogue with employees through various vehicles including town halls and online forums
- Implementing a talent management plan to focus on defining and developing key behaviours for employees
- Encouraging employee feedback and ideas
- Focused on employee awareness of the importance of achieving financial goals
- Many industry honours and awards are indication Air Canada employees are participating in transformation
Financial Results
Full Year 2012 & First Quarter 2013 Results

**Full Year 2012**

- Adjusted EBITDAR\(^{(1)}\) of $1,327M
- Adjusted EBITDAR\(^{(1)}\) Margin of 10.9%
- Passenger load factor of 82.7% - up 1.1 pp
- Unit passenger revenue (P-RASM) up 3.2%
- Adjusted CASM\(^{(2)}\) increased 1.0%

**First Quarter 2013**

- EBITDAR of $145M
- EBITDAR Margin of 4.9%
- Passenger load factor of 81.0% – up 1.8 pp
- Unit passenger revenue (P-RASM) up 1.1%
- Adjusted CASM\(^{(2)}\) increased 1.4%

\(^{(1)}\) Excludes the impact of benefit plan amendments
\(^{(2)}\) Excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items
Targeting Return on Invested Capital

Return is calculated based on adjusted net income, excluding interest expense and implied interest on off-balance-sheet aircraft operating leases. Invested capital includes average long-term debt, average finance lease obligations, market capitalization and off-balance-sheet aircraft operating leases.

Roadmap

- Increase return on invested capital through strategic investments in aircraft and technology, lower CASM and debt reduction
- Reduce weighted average cost of capital
  - 9.6% (2012 pre-tax)
  - 7.6% (2012 after tax)
Maintaining Strong Liquidity Position – Well Above Target Minimum Level of $1.7B

Note: Liquidity is comprised of unrestricted cash, cash equivalents and short term investments
Solid Progress on Net Debt Reduction

Adjusted net debt down almost $1.5 billion from 2009

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31 2009</td>
<td>$5,460</td>
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<tr>
<td>Dec 31 2010</td>
<td>$4,874</td>
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<tr>
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<td>$4,576</td>
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<tr>
<td>Dec 31 2012</td>
<td>$4,137</td>
</tr>
<tr>
<td>Mar 31 2013</td>
<td>$3,987</td>
</tr>
</tbody>
</table>
Schedule of Principal Repayment on Debt is Manageable

- Assumes potential refinancing
- Includes principal repayments from EETC financing
- U.S. dollar amounts are converted using the March 31, 2013 closing rate of CDN $1.016

C$ (millions)

ROY 2013: 412
ROY 2014: 361
ROY 2015: 485
Managing Financial Leverage

Net debt to EBITDAR ratio*

*(Number of times)*

Target ceiling 3.5 times

*Reflects adjusted net debt to trailing 12-month normalized EBITDAR ratio*
Implementation of Cape Town Convention (CTC) in Canada provides:
- New and attractive source of aircraft financing in the U.S. markets
- Level playing field with U.S. airlines

Successfully concluded a private offering of enhanced trust certificates (EETCs), which relies on CTC, to finance five new Boeing 777-300ER aircraft

Offering comprised of three tranches of certificates (with the A tranche rated investment grade) with a combined face value of US$715M and blended coupon rate for all tranches of 4.7% for a maximum term of 12 years

Positive development for the financing of Air Canada’s upcoming Boeing 787 aircraft deliveries as more financing alternatives overall should lead to more favourable terms
Managing the Risks

- Reached important agreement with Government of Canada on extending pension funding arrangements to January 30, 2021
  - Required payments of at least $150 million annually with an average of $200 million per year over seven years, to contribute an aggregate minimum of $1.4 billion in solvency deficit payments
  - At May 31, 2013 estimated solvency deficit of $1.66 billion including estimated reduction in solvency liabilities from benefit reductions of $1.1 billion, based on January 1, 2012 valuations (subject to OFSI approval)

- Elimination of 90% of company-sponsored defined benefit pension plan accruals for new hires

- Lowering fuel price risk through effective fuel hedging policy
  - Strategy is to hedge at least 40% of the next 12 months’ expected consumption
  - As at April 30th, 2013, hedged 33% of anticipated fuel consumption for remainder of 2013 at WTI-equivalent capped price of US$98 per barrel
  - Hedge portfolio comprised of call options and call spreads – protects against significant spikes in fuel prices and allows Air Canada to benefit fully from declining jet fuel prices
Assuming Funding Relief Adopted

- Reflects funding relief to end of 2020
- Assumed return on asset of 6.7% per year
- Assumed discount rate of 3.0% on January 1, 2013 increasing to 3.3% over the long-term

Note: Actual results will be dependent on a number of factors, including the assumptions used, plan demographics, plan provisions, pension legislation and changes in economic conditions, particularly asset returns and interest rates. See Air Canada’s 2012 and Q1 2013 MD&As for additional information.
**Outlook**

### 2013 Outlook*

- Available seat miles (system) ...................... Increase 1.5 to 2.5%
- Available seat miles (Canada) ..................... Increase 1.5 to 2.5%
- Adjusted CASM**........................................ Decrease 0.5 to 1.5%

### Major Assumptions*

- Canadian dollar per U.S. dollar .................... $1.03
- Jet fuel price – CAD cents per litre ............. 85 cents
- Canadian GDP growth of 1.25% to 1.75%

### 2014 Outlook*

- Available seat miles (system) ..................... Increase 9 to 11%
- Canadian GDP growth of 2% to 3%

* As reported on June 10, 2013

** Adjusted CASM excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items
Going Forward
Roadmap

- Execute strategic and tactical initiatives to reduce CASM
- Strengthen balance sheet and reduce overall risk profile by aggressively managing leverage
- Increase return on invested capital through significant investment in new aircraft, technology, lower CASM and debt reduction
- Strong brand, extensive worldwide network and partnerships, and award-winning service