AIR CANADA

presents AT THE

NATIONAL BANK
FINANCIAL MARKETS

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AIR CANADA IS…

…among the 20 largest airlines in the world

…largest provider of scheduled passenger service in Canada with leading share in all markets

…the only international carrier in North America to receive a four-star ranking by Skytrax and the best airline in North America – 5 years running

…focused on revenue generating, cost reduction and international expansion

…one of Canada's top 100 employers – 2 years running

Record Results

Full Year 2014

- EBITDAR of $1.671B, an improvement of $238M from 2013
- Adjusted net income of $531M or $1.81 per diluted share, an increase of $191M or $0.61 per diluted share from 2013
- Operating revenues of $13.3B, an increase of $890M or 7% from 2013
- Passenger load factor of 83.4%, an improvement of 0.6 pp from 2013
- 38.5M passengers carried, an increase of 7.7% from 2013
- As at January 1, 2015, based on preliminary estimates, solvency surplus in domestic registered pension plans of $780M

Q1 2015

- EBITDAR of $442M, an improvement of $295M from Q1 2014
- Adjusted net income of $122M or $0.41 per diluted share, vs a decrease of ($132M) or ($0.46) per diluted share from Q1 2014
- Operating revenues of $3.2B, an increase of $184M or 6% from Q1 2014
- Passenger load factor of 81.5%, an improvement of 1.2 pp from Q1 2014
- 9.5M passengers carried, an increase of 8.4% from Q1 2014

… And is Building a Diversified and Profitable Global Network

194 direct destinations:

- **64 in Canada**
- **52 in the U.S.**
- **78 internationally**

Among the 20 largest airlines in the world

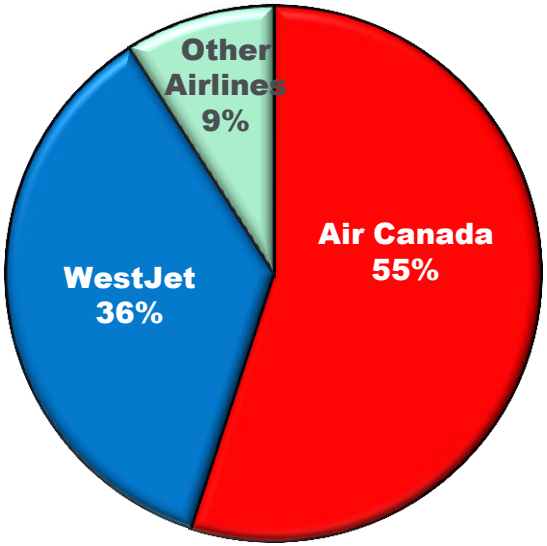
- **>360 aircraft**
- **>1,500 daily flights**
- **>38M passengers carried in 2014**

Access to Canada's wide portfolio of International route rights

… And Continues to Build on its Leading Capacity Share in all Markets

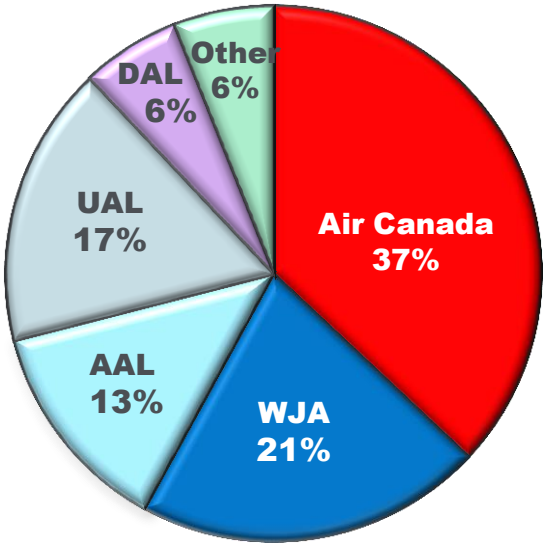
Domestic

accounts for **37%** of passenger revenue



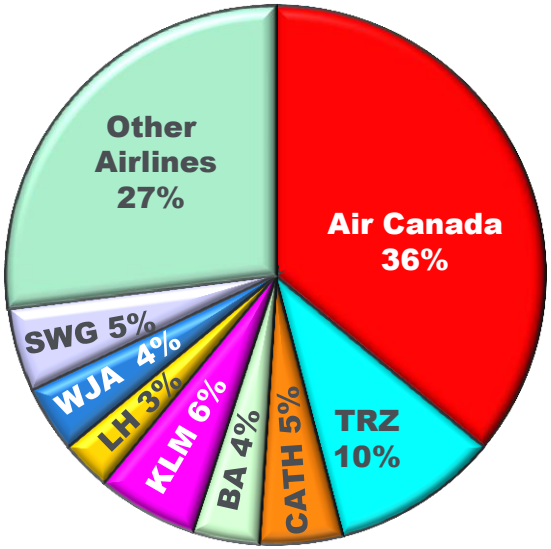
Transborder

accounts for **20%** of passenger revenue



International

accounts for **43%** of passenger revenue



Domestic	Transborder	International
3.4%	9.4%	9.5%

2014 % growth in passenger revenue

By Leveraging its Many Competitive Advantages

- Widely-recognized and respected brand - 77 years of experience
- Extensive and expanding global network
- Star Alliance membership, codeshare and joint venture agreements
- A flexible fleet mix with lower-cost swing capacity
- Air Canada rouge with its lower cost structure
- Industry-leading products and services, including Maple Leaf lounges and concierge program
- Strong airport infrastructure - Toronto, Montreal, Vancouver, Calgary - with access to 6th freedom traffic
- World-class loyalty program – Air Canada Altitude / Aeroplan partnership
- Numerous bilateral air agreements with other countries

Air Canada's Business Strategy is Focused on Four Key Priorities

REVENUE ENHANCEMENT and COST TRANSFORMATION

INTERNATIONAL GROWTH

CUSTOMER ENGAGEMENT

CULTURE CHANGE

Revenue and Cost Initiatives

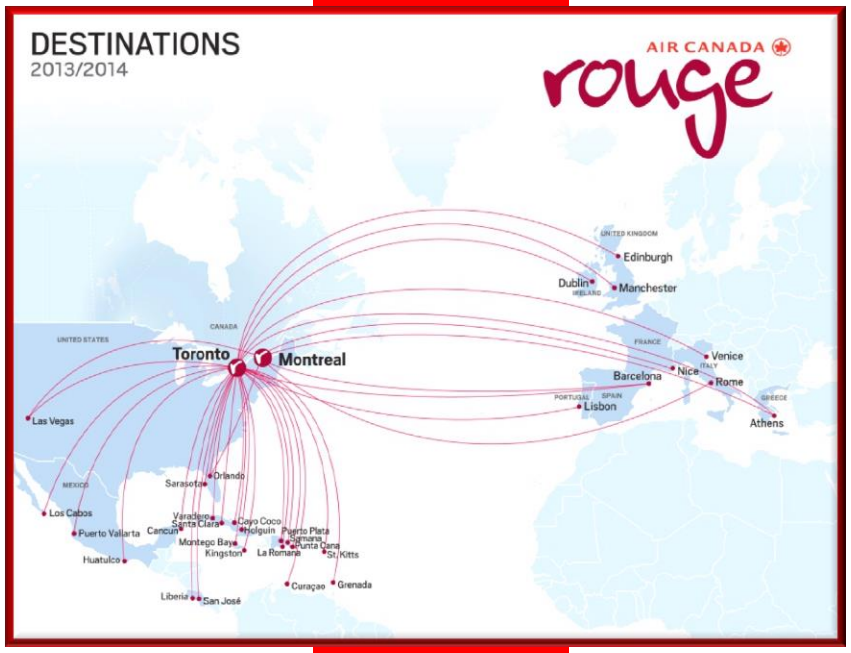
- Fleet additions / reconfigurations lower Air Canada's overall cost structure and improve the airline's competitiveness & profitability
- Air Canada rouge allows Air Canada to enhance margins on leisure routes
- New class of service (Premium Economy Class) on mainline and rouge fleets allows for higher average economy cabin fares
- Continued focus on productivity enhancements and process reform through Business Transformation team

Boeing 787s and Higher-Density 777s Provide Significant Cost Advantages

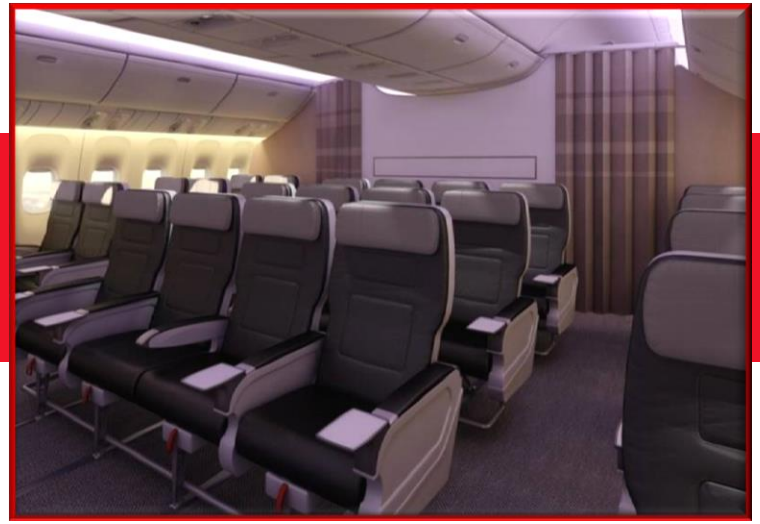
- Five higher-density Boeing 777s operate high-volume, leisure-oriented international routes
- Boeing 787 Dreamliner allows Air Canada to operate existing Boeing 767 routes in a more efficient manner and enables the airline to enter many new international markets made viable by the aircraft's lower operating costs, midsize capacity and longer range

Air Canada Rouge Designed to Position Air Canada Profitably in the Leisure Market

- Lower cost structure allows Air Canada rouge to enhance margins in leisure markets and pursue opportunities in international leisure markets
- Significantly lower unit cost – Airbus A319 and Boeing 767 CASM reduction of 23% and 30% versus same aircraft in mainline, respectively
- New routes include Montreal-Venice, Vancouver-Osaka and transfer from mainline of Toronto-Lima for summer 2015
- New collective agreement with ACPA facilitates the evolution of Air Canada rouge into a stronger leisure carrier with improved fleet renewal flexibility



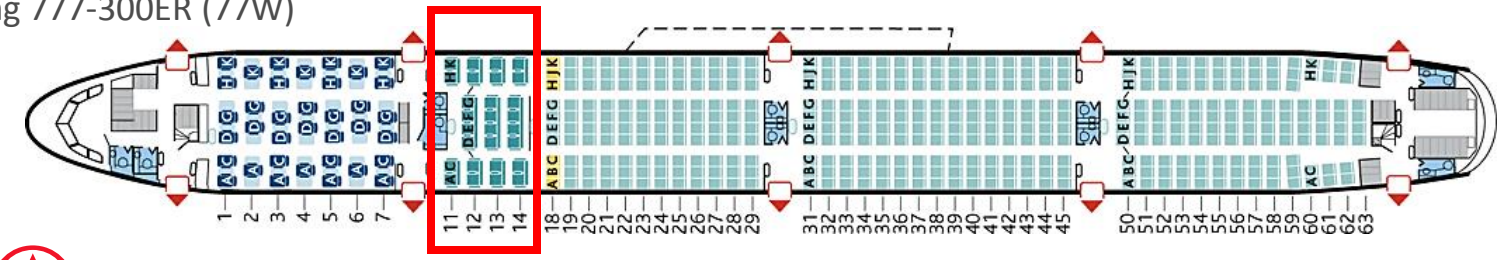
Improving Premium Revenues With New Premium Economy Class



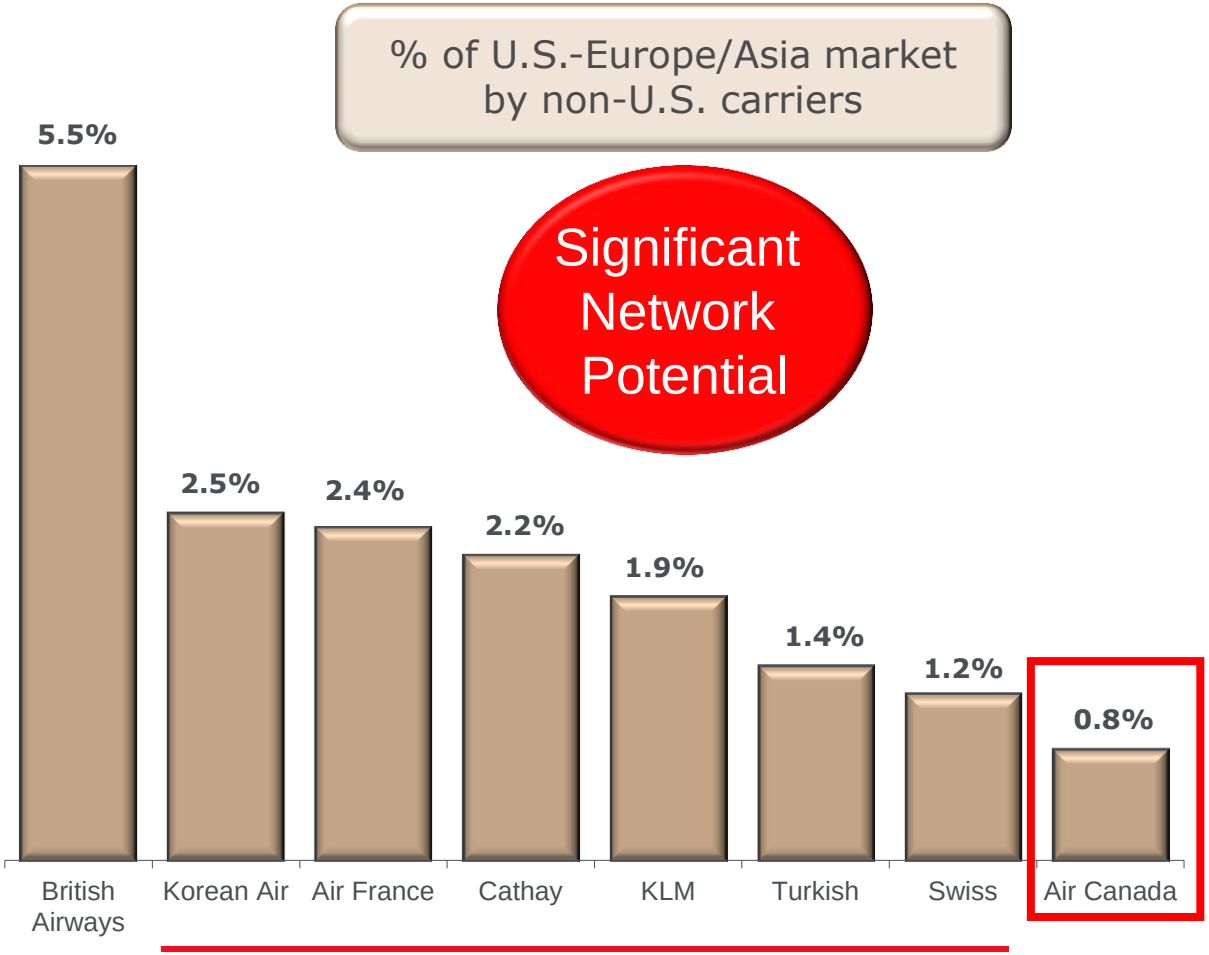
Premium Economy Class

- New class of service on both mainline and Air Canada 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.)

Boeing 777-300ER (77W)



Opportunity to Increase Traffic in the U.S.-International Market



In 2014, Air Canada Transported 1.9M sixth Freedom passengers – sixth freedom traffic has increased 56% since 2010, revenues by 75%

- Air Canada target "fair share" is approximately 1.5%
- Meeting this goal would equate to an additional 1.68M incremental passengers per year and over $605M in incremental revenue
- Canadian hubs have excellent geographic positioning and efficient transit facilities versus other global hubs
- Air Canada covers all major markets in the U.S. with multiple frequencies per day

Other Opportunities for Revenue Growth and Cost Reduction

- Concluded an amended and extended capacity purchase agreement with Jazz – expect approximately $550M in financial value over next six years
- Implementing new Revenue Management System (RMS) – expect incremental annual revenues in excess of $100M – effective in Q2 2015
- Growing ancillary revenues through various passenger-related fees, including baggage, paid upgrades, on-board offerings (meals, iPads, Wi-Fi, etc.), preferred seats and seat selection
- Introducing a merchandising tool to customize, differentiate and combine offerings
- Replacing 20 EMBRAER E190s with five larger Airbus narrowbodies and five Boeing 767s – expected CASM reduction of 10%
- Converting Boeing 777-300/200s into more competitive configurations
- Agreement with GTAA reduces CASM for incremental traffic

Engaging Our Customers

- Investing in products and services, such as the Dreamliner with newly designed cabins and next generation IFE
- Air Canada Altitude which recognizes and rewards frequent flyers
- Air Canada Corporate Rewards – a powerful online tool to help all sized businesses manage their travel, reduce costs and earn rewards
- Implementing a customer relationship management system to gain valuable customer insights
- Improved on-time performance and reliability and streamlined boarding process
- Improved international connections through major hubs – streamlined in-transit process
- Improved on-board offerings and consistency of service
- Launched enhanced Preferred Seat program
- Opened new Maple Leaf Lounge at London Heathrow's new T2 – a total of 21 lounges worldwide

Awards & Recognition

Best Airline in North America

Skytrax World Airline Awards - 2014 — 5th consecutive year
Global Traveler magazine –2014 — 10th consecutive year
Global Traveler's 2014 "Hall of Fame"
TTG Asia Travel Awards – 2014 — 2nd consecutive year

Best North American Airline for Int'l Travel

Business Traveler magazine – 2014 — 7th consecutive year
Premier Traveler magazine – 2013 — 2nd consecutive year

Best Flight Experience to Canada

Executive Travel magazine - 2013 — 6th consecutive year

Best Long-Haul Airline (Americas)

AirlineRatings.com - 2014

Best North American Airline Inflight Experience

Business Traveler magazine - 2014

2014 On-time Performance Service Awards

Placed 5th of all N.A. major carriers for on-time performance

Best Flight Attendants in North American

Premier Traveler magazine - 2014 — 3rd consecutive year

Canada's Favourite Airline for Business Travel

Ipsos Reid
Business Traveller Survey 2014 — 2nd consecutive year

Favourite Scheduled Airline

Baxter Travel Media
Agents' Choice Award — 5th consecutive year

Ranked the only International Four-Star Airline in North America

Skytrax Ranking - 2012

One of Canada's Top Employers

Mediacorp's Top 100 Employers
Project – 2015 — 2nd consecutive year

Gold Medal Employer – 2014
Silver Medal Employer - 2013

Canadian Occupational Safety Magazine

Positive Shift in Culture

Promoting:

Ownership

Engagement

Empowerment

Earnings for performance

Cross-functional approach motivates employees

Renewed focus on constructive and transparent dialogue

Talent management and training

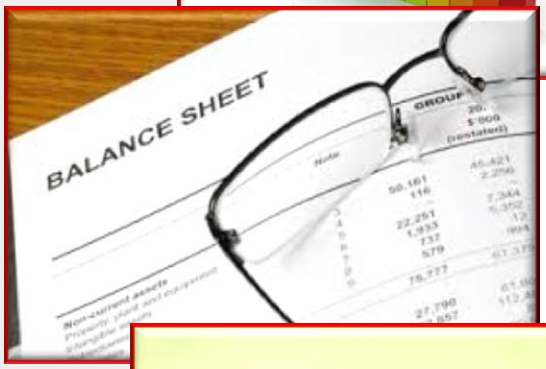
Better understanding of competitive landscape

- ✓ Industry awards are proof of change
- ✓ 10-year collective agreement with ACPA
- ✓ "Canada's Top 100 Employers" award for 2nd consecutive year

Looking Ahead

Focused on Improving EBITDAR Margin, Adjusted Net Income, ROIC & Leverage Ratio

- **EBITDAR Margin, adjusted net income and ROIC improvement**
  - Execute strategic initiatives
  - Lower cost structure
  - Targeted deployment of growth capital
- **Stronger balance sheet**
  - Lower risk profile
  - Manage leverage
  - New financing arrangements
- **Create shareholder value**
  - Increase earnings and ROIC leading to a higher multiple and lower risk profile
  - Share buyback



What We Accomplished and Where We Are Trending

June 2013 Target	As of June 2, 2015
CASM reduction of 15% over medium term (excluding the impact of foreign exchange and fuel prices)	Trending to 21%

June 2013 Targets	FY 2014 Actuals	Q1 2015 Actuals	Achieved
ROIC of 11-13% by 2015	12.1%	15.2%	✓
Leverage ratio < 3.5	3.1	2.6	✓
Unrestricted liquidity > 1.7B	$2.7B	$3.1B	✓

15% CASM Reduction Promise

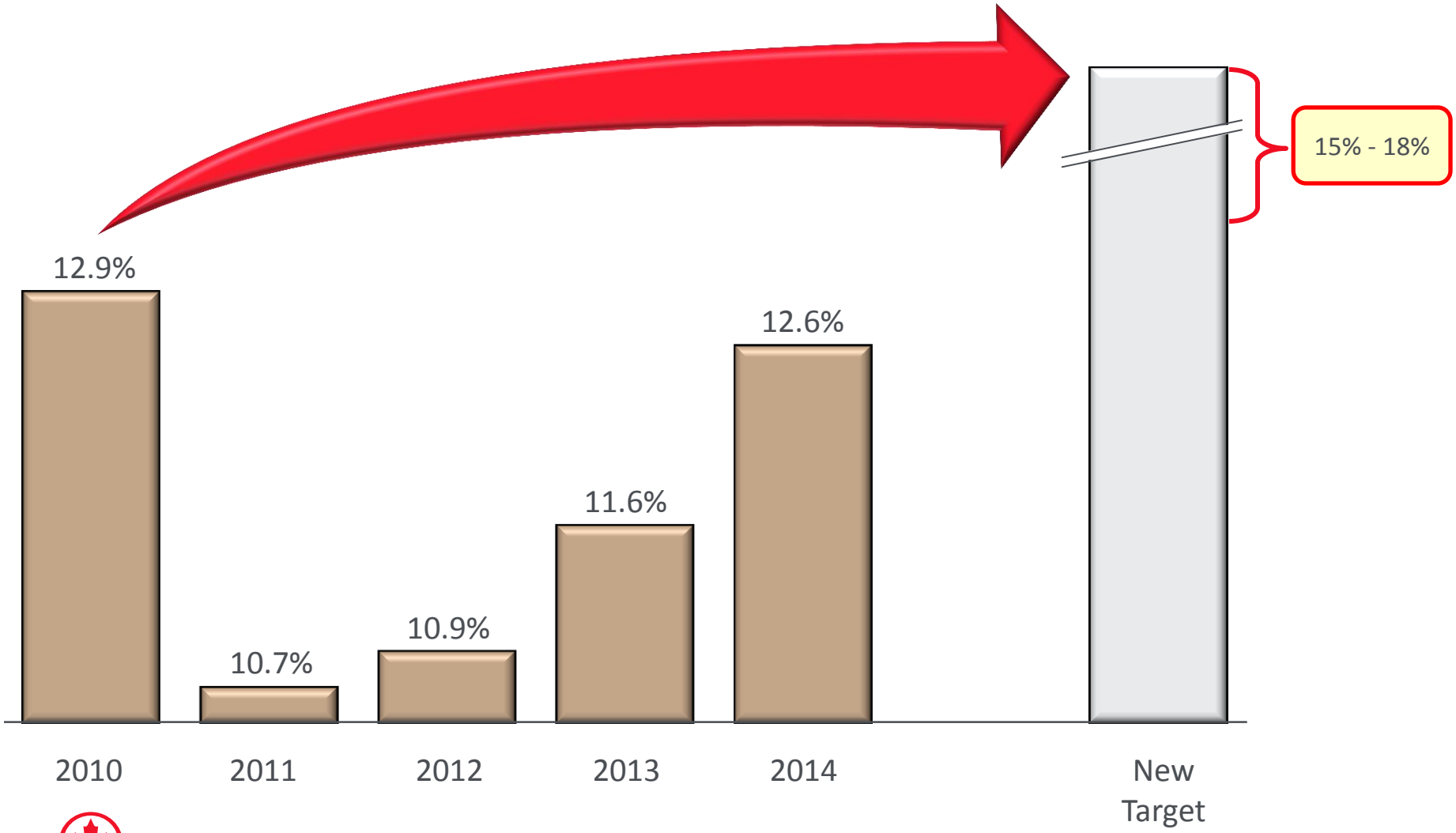
Initiative	Original Benefit	Updated Benefit
Air Canada rouge	21-29% reduction vs mainline	23-30% reduction vs mainline
Boeing 787	29% fuel and maintenance reduction vs Boeing 767	31% fuel and maintenance reduction vs Boeing 767
Boeing 777HD (458 seats)	21% reduction vs Boeing 777 (349 seats)	20% reduction vs Boeing 777 (349 seats)
Other	• Transfer of E175s to Sky Regional • 1:50 flight attendant ratio • Procurement savings • Competitive maintenance contracts • GTAA agreement	All initial initiatives plus a) E190 replacement b) New Jazz CPA c) Boeing 777 densification d) Two additional 777HD in Q2'16

Continuing Focus on Business Transformation Initiatives

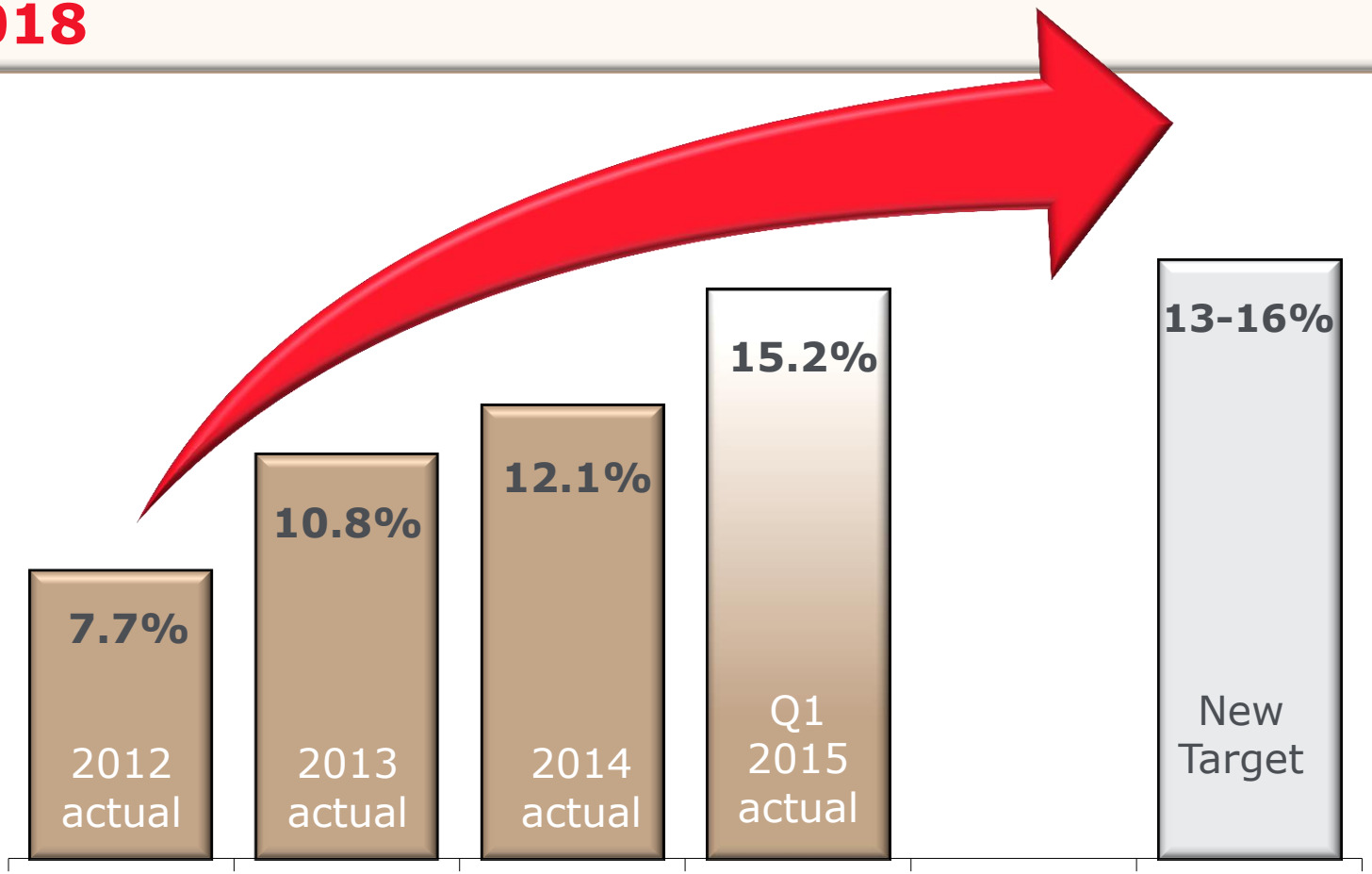
Financial Transformation Continues
New Targets Set for Next Level of Performance Improvement

	Average	Average	New Target
	2010 – 2012	2013 – 2014	2015 – 2018
EBITDAR margin	11.5%	12.1%	15% to 18%
ROIC	5.2%	11.3%	13% to 16%
Leverage ratio by 2018	3.4	3.1	2.2
Pension (deficit) surplus	Jan 1, 2012 ($4.2B)	Jan 1, 2015 $660M	Maintain surplus

EBITDAR Margin – 2015-2018



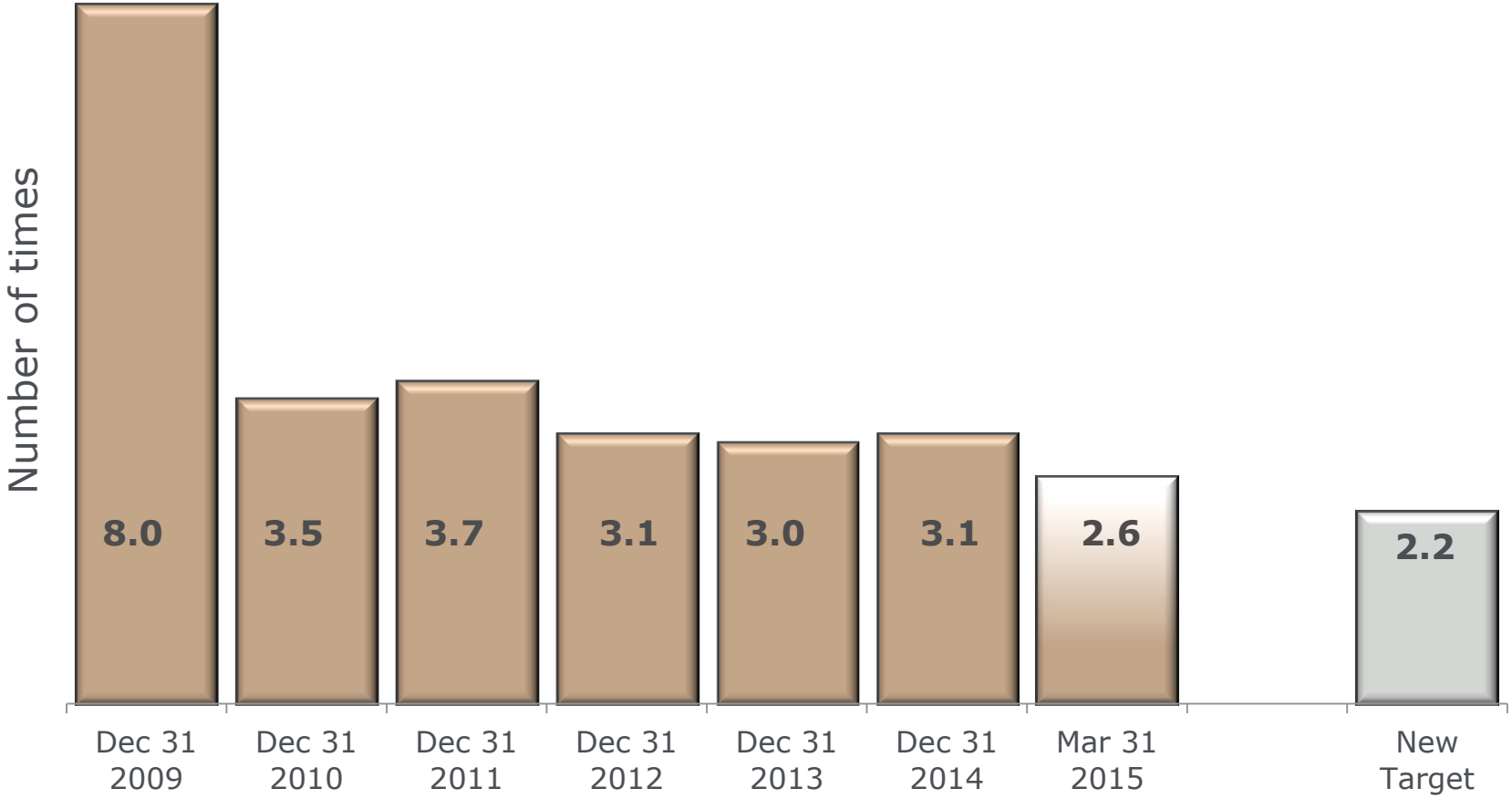
Targeting ROIC to Exceed Cost of Capital 2015-2018



- Return is calculated based on adjusted net income, excluding interest expense and implicit interest on operating leases
- Invested capital includes average Y-O-Y total assets, net of average Y-O-Y non-interest-bearing operating liabilities and the value of capitalized operating leases

Managing Financial Leverage – Target of 2.2 by 2018

Adjusted Net debt to EBITDAR ratio



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

Concrete Actions Taken to Reduce and Manage Future Risk Profile

- Based on preliminary estimates, at May 20, 2015, solvency surplus in domestic registered pension plans of $1.2 billion. In May 2015, Air Canada opted out of the 2014 Regulations
- Since 2013, Air Canada received two notch upgrades from Standard & Poor's and two notch upgrades from Moody's
- Implementation of Cape Town Convention (CTC) in Canada provides new and attractive source of aircraft - Enhanced Equipment Trust Certificates (EETCs)
- Fuel – Use call options to manage fuel risk in the short-term - protects against spikes in fuel prices but allows us to participate 100 percent from a declining fuel price
- Foreign exchange – hedge approximately 65 percent of net U.S. dollar exposure on a rolling 18-month basis
- 10-year collective agreement recently concluded with pilots provides greater stability and long-term cost certainty

Pension Turnaround Story
Significant Reallocation of Capital to Other Uses

- **$5.4 billion improvement in pension solvency position over four years**
  - $3.5 billion of net value created on top quartile investment returns
  - $0.9 billion in pension contributions
  - $1 billion in negotiated pension benefit amendments
- **Opt-out of 2014 Regulations in May 2015**
  - Cash flow savings of $110 million in 2015
  - Release of obligations to pay up to $1.1 billion in past service payments over the next six years
- **Risk largely eliminated**
  - 75% of pension liabilities matched with fixed income products
  - Overall risk profile lower by 50%
  - Significant surplus
- **Improved financial flexibility to fund capital expenditure programs, lower debt levels and return value to shareholders**

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
- ✓ Record financial performance
- ✓ Engaged employees and results-driven management team
- ✓ On track to execute strategy and well-positioned for earnings growth

Thank You