Transforming Air Canada to Deliver Sustained Profitability and Shareholder Value

October 2013

Best Airline in North America
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About Air Canada
Air Canada has Leading Share in All Markets

Domestic accounts for 39% of passenger revenue

Transborder accounts for 20% of passenger revenue

International accounts for 41% of passenger revenue

- Source: OAG data, based on full year 2012 available seat miles (ASMs)
- AC Revenue Split based on 2012 full year revenues
Powerful Global Network – Future Growth Directed at Higher Margin International Markets

Among the 20 largest airlines globally
- 349 aircraft
- >1,500 daily flights
- ~35M passengers carried

176 Direct Destinations:
- 60 in Canada
- 49 in the U.S.
- 67 internationally
Enhancing Market Presence Through Star Alliance & Joint Venture

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

Star Alliance – 6th time winner Best Airline Alliance in the 2012 Skytrax World Airline Awards™
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
  - All POS U.S. sales channels have shown considerable growth
  - Increased corporate revenue on all services
  - LH/UA traffic on AC Atlantic services grew significantly
  - Average fares for local and behind/beyond traffic improved
Products and Services Highly Valued by Our Customers

- 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
Other Award Winning Services Contribute to Profitability

Air Canada Cargo
Canada's largest provider of air cargo services

Air Canada Vacations
One of Canada's leading tour operators

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

Won 2013 "Favourite Tour Operator" award for the 4th year at Baxter Travel Media's Agents' Choice Awards
Second Quarter and First Six Months 2013

**Second Quarter 2013**
- EBITDAR of $385M
- EBITDAR Margin of 12.6%
- Passenger load factor of 83.0%
- Unit passenger revenue (P-RASM) up 0.9%
- Adjusted CASM\(^{(1)}\) decreased 1.4%

**First Six Months 2013**
- EBITDAR of $530M, an increase of 9% yoy
- EBITDAR Margin of 8.8%
- Passenger load factor of 82.0%
- Unit passenger revenue (P-RASM) up 1.0%
- Adjusted CASM\(^{(1)}\) at last year's levels

\(^{(1)}\) Excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items
Focused on Four Core Priorities

- COST REDUCTION AND TRANSFORMATION
- INTERNATIONAL GROWTH
- CUSTOMER ENGAGEMENT
- CULTURE CHANGE
Strategic Initiatives at a Glance

• Grow profitability through international expansion and leisure carrier

• Become a serious player in the U.S. sixth freedom market – focus on international activity at Toronto Pearson Airport

• Enhance margins and improve competitive position through new aircraft, leisure carrier, regional airline diversification and by leveraging the brand and improving customer experience

• Enhance and optimize revenues stream through new technology, product offering and segmentation
### Building a Fleet for the Future

<table>
<thead>
<tr>
<th></th>
<th>June 2013</th>
<th>Planned Fleet</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Dec 2013</td>
<td>Dec 2014</td>
<td>Dec 2015</td>
</tr>
<tr>
<td><strong>Mainline</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boeing 787</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Boeing 777-300*</td>
<td>12</td>
<td>16</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Boeing 777-200</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Boeing 767-300</td>
<td>30</td>
<td>27</td>
<td>21</td>
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<tr>
<td>Airbus A330-300</td>
<td>8</td>
<td>8</td>
<td>8</td>
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</tr>
<tr>
<td>Airbus A321</td>
<td>10</td>
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<tr>
<td>Airbus A320</td>
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<tr>
<td>Airbus A319</td>
<td>38</td>
<td>30</td>
<td>13</td>
<td>8</td>
</tr>
<tr>
<td>EMBRAER 190</td>
<td>45</td>
<td>45</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>EMBRAER 175*</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Mainline</strong></td>
<td>197</td>
<td>183</td>
<td>167</td>
<td>164</td>
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<tr>
<td><strong>Air Canada rouge™</strong></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Boeing 767-300</td>
<td>-</td>
<td>2</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Airbus A319</td>
<td>-</td>
<td>8</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total Air Canada rouge™</strong></td>
<td>-</td>
<td>10</td>
<td>33</td>
<td>42</td>
</tr>
<tr>
<td><strong>Combined total fleet</strong></td>
<td>197</td>
<td>193</td>
<td>200</td>
<td>206</td>
</tr>
</tbody>
</table>

* Subsequent to June 30, 2013, two new 458-seat Boeing 777-300ER aircraft were added to the mainline operating fleet and the seven remaining Embraer 175 aircraft have been transferred to a low-cost regional provider.
**High-density Boeing 777s and 787s Provide Significant Cost Advantages**

- Two of five new high-density Boeing 777s have been delivered and are now in service – estimated CASM reduction of 21% compared to Boeing 777s in current mainline fleet.

- Taking delivery of 37 Boeing 787 aircraft starting in Q1 2014 to replace less efficient Boeing 767s and to pursue international growth opportunities – estimated CASM reduction of 29% compared to Boeing 767-300ER aircraft.
Opportunity to Increase Traffic in the U.S.-International Market

- Air Canada "fair share" is approximately 1.5%
- Meeting this goal would equate to an additional 1.1M incremental passengers per year and over $400M in 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

% of U.S.-Europe/Asia Market by non-US Carriers

Source: PaxIS – TME March 2013
Focusing on the International Activity at Toronto Pearson Airport

- Canada’s largest city and financial powerhouse with a population of 5.5 million in the Greater Toronto Area
- Ranked as one of the most multi-cultural city in the world by UNESCO
- World Class facility to support the goal of World Class Hub
  - Terminal 1 – all Star Alliance carriers under one roof
  - Superior experience vs. U.S. gateways
- Large demand from catchment area to all continents
- Excellent geographical position for connection traffic between South America–Asia and North America–Asia/Europe
rouge is the Tool 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
- Fall/Winter schedule will grow to include additional Caribbean destinations, Mexico, Florida, Las Vegas and beginning in 2014, year-round service to Dublin, Ireland
- 40 routes from four Canadian cities by end of 2014
- Air Canada rouge may operate up to 20 Boeing 767-300ER and 30 Airbus A319
Improving Premium Revenues With New Premium Economy

- New class of service on both mainline and rouge fleets
- Provides more seating pitch and width than economy class
- Segmented product aimed towards 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 North American Strategy

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

Selecting new regional airline to operate certain U.S. regional transborder routes

<table>
<thead>
<tr>
<th>Aircraft</th>
<th>Seats</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRJ</td>
<td>50-75</td>
<td>(41)</td>
</tr>
<tr>
<td>Dash 8</td>
<td>37-74</td>
<td>(60)</td>
</tr>
<tr>
<td>Q-400</td>
<td></td>
<td>(26)</td>
</tr>
<tr>
<td>Embraer</td>
<td>73</td>
<td>(15)</td>
</tr>
<tr>
<td>Beech</td>
<td>18</td>
<td>(17)</td>
</tr>
</tbody>
</table>
Other Opportunities for Revenue Growth

- Growing ancillary revenues through various passenger-related fees, such as bag fees, paid upgrades and seat selection fees
- Improved net Aeroplan revenue
  - Reduced Aeroplan frequent flyer accumulation fees to 50% on Tango service for international routes
- Launched Altitude – brand recognition and rewards program
- Launch of loyalty program for small businesses
  - Loyalty program caters to small and medium-size businesses allowing them to earn rewards and complimentary services
- Introduction of new Revenue Management System (RMS) – being phased in over the next two years
- Implementation of customer centricity system – CRM – platform will allow a 360° view of the customer, targeted campaign management and allow advanced analytics of customer insights
Enhancing Revenue Management System

- Implementation of a new origin-destination based revenue management system

- Benefits will come from better optimization of passenger flows across the network

- Expected incremental revenue in excess of $100M in 2015

Note: Cutover planned for Q4/2014
_Launched Air Canada Altitude_

- Altitude launched on March 1, 2013, a new brand for the program which recognizes & rewards Air Canada's most frequent flyers
- Two new status levels were introduced, for a total of five:
  - Altitude Prestige 25K
  - Altitude Elite 35K
  - Altitude Elite 50K (new)
  - Altitude Elite 75K (new)
  - Altitude Super Elite 100K
- Long time members also recognized through the Altitude Million Mile program
- Altitude offers members upgrades, lounge access, priority reservation & airport services, recognition across the Star Alliance network and threshold gifts, depending on the status reached
- Altitude members are also Aeroplan members, and benefit from Air Canada’s partnership with Canada’s premier coalition loyalty program
Engaging Our Customers

- Substantial investment in product since 2006 gives Air Canada a competitive advantage
- Refurbished Maple Leaf Lounges
- Revamped loyalty program – Altitude
- 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 the boarding process
- Doubled movie content on free on-board entertainment system
<table>
<thead>
<tr>
<th>Awards &amp; Recognition</th>
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<tbody>
<tr>
<td><strong>2013 Skytrax World Airline Awards</strong> –</td>
</tr>
<tr>
<td><em>4th consecutive year</em></td>
</tr>
<tr>
<td><strong>2012 Skytrax ranking:</strong></td>
</tr>
<tr>
<td>• <strong>Best Airline in North America</strong></td>
</tr>
<tr>
<td>• <strong>Ranked the only international Four-Star Airline in North America</strong></td>
</tr>
<tr>
<td><strong>Global Traveler magazine – 2012</strong></td>
</tr>
<tr>
<td><em>4th consecutive year</em></td>
</tr>
<tr>
<td>• <strong>Best Airline in North America</strong></td>
</tr>
<tr>
<td><strong>Executive Travel Magazine – 2013 Leading Edge Awards</strong></td>
</tr>
<tr>
<td><em>6th consecutive year</em></td>
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<tr>
<td>• <strong>Best Flight Experience to Canada</strong></td>
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<tr>
<td><strong>Business Traveler magazine – 2012</strong></td>
</tr>
<tr>
<td><em>5th consecutive year</em></td>
</tr>
<tr>
<td>• <strong>Best North American Airline for International Travel</strong></td>
</tr>
<tr>
<td>• <strong>Best North American Airline Inflight Experience</strong></td>
</tr>
<tr>
<td><strong>2013 Baxter Travel Media Agents’ Choice Award</strong></td>
</tr>
<tr>
<td><em>4th consecutive year</em></td>
</tr>
<tr>
<td>• <strong>Favourite Scheduled Airline</strong></td>
</tr>
<tr>
<td><strong>Premier Travel magazine</strong></td>
</tr>
<tr>
<td>• <strong>Best North American Airline for Business Class Service</strong></td>
</tr>
<tr>
<td>• <strong>Best North American Airline for International Travel</strong></td>
</tr>
<tr>
<td>• <strong>Best Flight Attendants in North America</strong></td>
</tr>
<tr>
<td><strong>2013 Ipsos Reid Business Traveller Survey</strong></td>
</tr>
<tr>
<td>• <strong>Canada’s Favourite Airline for Business Travel</strong></td>
</tr>
</tbody>
</table>
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 multiple awards are proof that employees are participating in transformation
2014 - Looking Ahead
Focused on Improving ROIC 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
Increase return on invested capital ("ROIC") through strategic investments in aircraft and technology, lower CASM and debt reduction

ROIC for trailing 12 months ended June 30, 2013 was 9.5%

NOTE:
- 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, market capitalization and capitalized aircraft operating leases
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
Managing Financial Leverage

Net debt to EBITDAR ratio*

(Year) 2007 2008 2009 2010 2011 2012 Q2 2013
(Number of times) 4.1 6.8 8.0 3.5 3.7 3.1 2.9

Target ceiling 3.5 times

*Reflects adjusted net debt to trailing 12-month normalized EBITDAR ratio
Solid Progress on Net Debt Reduction

Adjusted net debt down almost $1.5 billion from 2009

<table>
<thead>
<tr>
<th>Date</th>
<th>Net Debt (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31 2009</td>
<td>$5,460</td>
</tr>
<tr>
<td>Dec 31 2010</td>
<td>$4,874</td>
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<tr>
<td>Dec 31 2011</td>
<td>$4,576</td>
</tr>
<tr>
<td>Dec 31 2012</td>
<td>$4,137</td>
</tr>
<tr>
<td>June 30 2013</td>
<td>$3,975</td>
</tr>
</tbody>
</table>
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.

- Air Canada recently refinanced its 2010 notes ($1.1B principal amount) with U.S.$400 million senior secured first lien notes due 2019; C$300M senior secured first lien notes due 2019; U.S.$300M secured second lien notes due 2020; and a U.S.$400M senior secured credit facility, comprised of U.S.$300M term loan maturing in 2019, and a U.S.$100M revolving credit facility (which was not drawn upon in connection with the closing).

- The refinancing transaction extends the maturity of Air Canada long-term debt to 2019 and lowers the effective interest rate by approximately 300 basis points.
Concrete Actions Taken to Reduce Pension Deficit and Manage Future Risk Profile

- Elimination of 90% of company sponsored defined benefit pension plan accruals for new hires
- Benefit changes to all defined benefit pension plans resulting in approximately $1.1B reduction in solvency liabilities based on January 1, 2012 actuarial valuations (subject to OSFI approval)
- New funding relief to January 30, 2021 agreed to with the Government of Canada, subject to the adoption of enabling regulations
- Assuming funding relief adopted, plausible conditions (discount rate, return on assets) could have solvency deficit eliminated no later than 2020
Outlook

Current Outlook* - Full Year 2013

- Available seat miles (system) Increase 1.5 to 2.5%
- Available seat miles (Canada) Increase 1.5 to 2.5%
- Adjusted CASM** Decrease 1.5 to 2.0%

Major Assumptions* - Full Year 2013

- Canadian dollar per U.S. dollar $1.03
- Jet fuel price – CAD cents per litre 88 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 October 3, 2013
** Adjusted CASM excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items
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