AIR CANADA

at

CREDIT SUISSE

2014 GLOBAL INDUSTRIALS CONFERENCE

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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 cost reduction and international expansion

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

… And is Building a Diversified and Profitable Global Network

182 direct destinations:

- **60 in Canada**
- **49 in the U.S.**
- **73 internationally**

Among the 20 largest airlines in the world

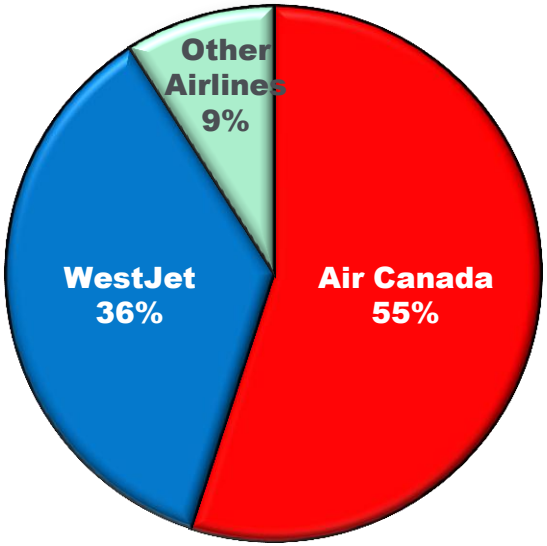
- **~360 aircraft**
- **~1,500 daily flights**
- **~36M passengers carried**

Access to Canada's wide portfolio of International route rights

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

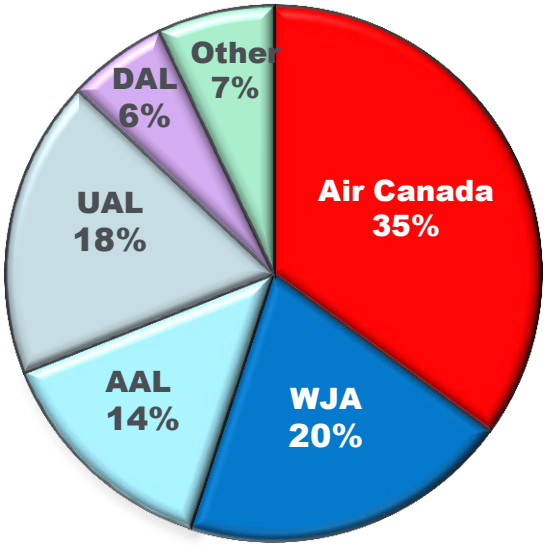
Domestic

accounts for **38%** of passenger revenue



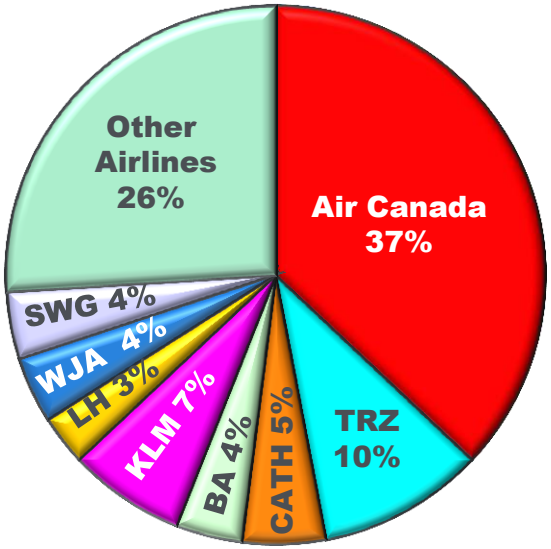
Transborder

accounts for **20%** of passenger revenue



International

accounts for **42%** of passenger revenue



Domestic	Transborder	International
2.6%	9.4%	9.7%

Q3 2014 YTD Y-O-Y % 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
- Optimal fleet for network flexibility, including Boeing 777s and 787s
- 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

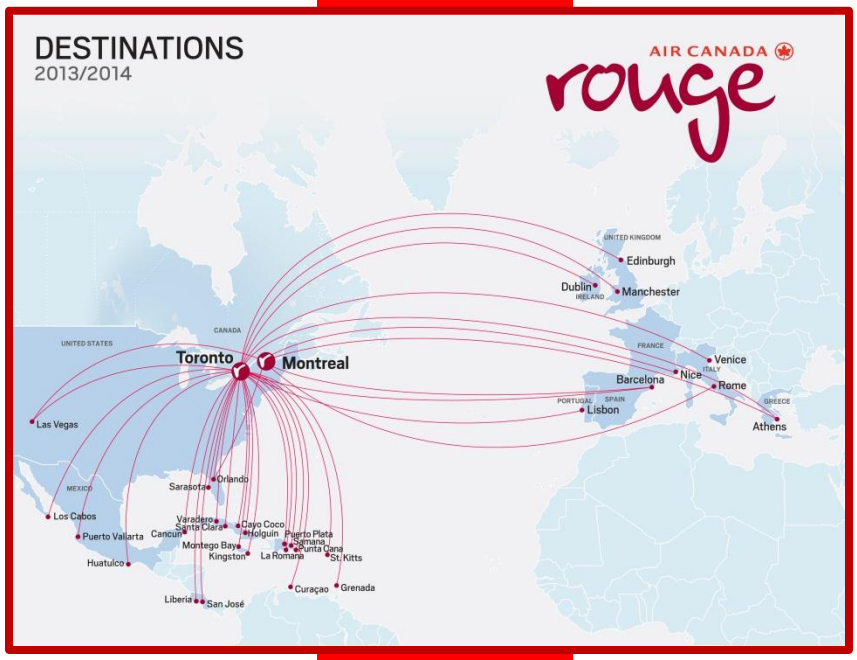
- Fleet additions / reconfigurations lower Air Canada's overall cost structure and improve the airline's competitiveness & profitability
- Air Canada rouge allows Air Canada to enhance margins on leisure routes
- New class of service (Premium Economy Class) on mainline and rouge fleets allows for higher average economy cabin fares
- Canadian hubs are optimally situated to take advantage of global 6th freedom market
- Continued focus on productivity enhancements and process reform through Business Transformation team

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

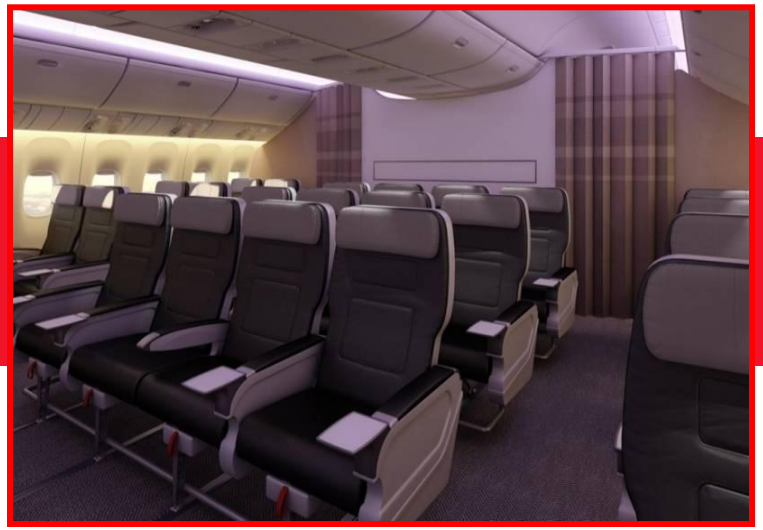
- Five higher-density Boeing 777s operate high-volume, leisure-oriented international routes at a 20% lower CASM than the 349-seat Boeing 777s in the mainline fleet – these routes have significantly improved their contribution
- Boeing 787 Dreamliner allows for an estimated fuel and maintenance CASM reduction of 29% versus the Boeing 767 aircraft – Boeing 787 aircraft operate Boeing 767 routes in a more efficient manner and enable Air Canada to enter many new international markets made viable by the aircraft's lower operating costs

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



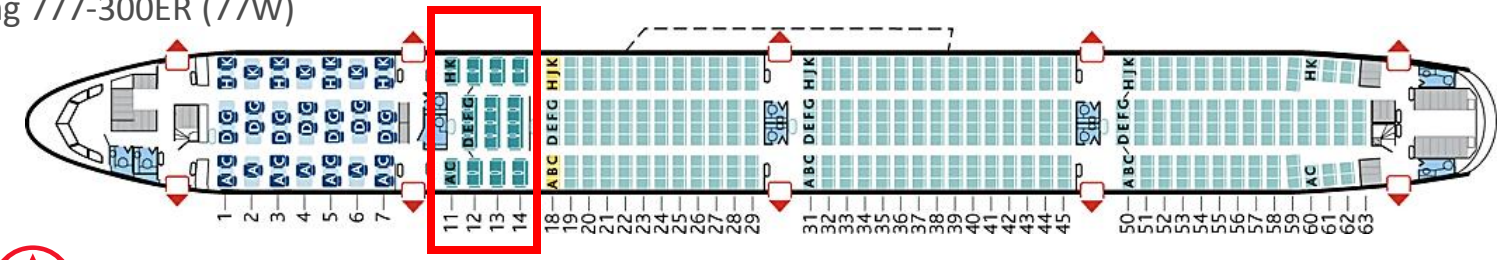
Improving Premium Revenues With New Premium Economy Class



Premium Economy Class

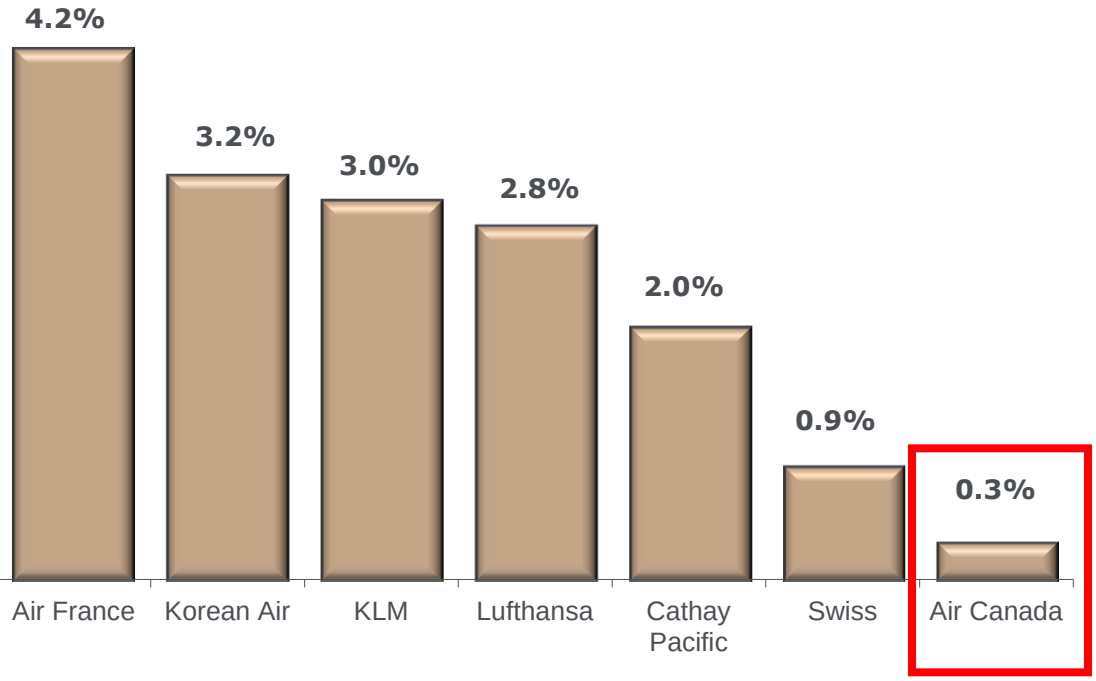
- New class of service on both mainline and Air Canada rouge fleets
- Provides more seating pitch and width than economy class
- Segmented product aimed at higher-end customers seeking to improve comfort and travel experience
- Enhanced travel experience (priority check-in, baggage allowance, on-board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

Boeing 777-300ER (77W)



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

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



- Air Canada target "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

Other Opportunities for Revenue Growth and Cost Reduction

- 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. Introduced $25 charge for first checked bag on domestic flights within Canada.
- Introducing an innovative pricing tool to merchandise ancillary products
- Replacing 20 E190s with five larger Airbus narrowbodies and five Boeing 767s – expected CASM reduction of 10%.
- Converting Boeing 777-300/200s into more competitive configuration
- Agreement with GTAA will, over time, reduce CASM for incremental traffic
- Implementing a ratio of one flight attendant for every 50 passenger seats on narrowbodies – expect annual cost savings of $28M – effective late 2014

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
- 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 – 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 World Travel Leaders Award

World Travel Market (WTM) – in recognition of contribution to the Canadian travel industry over the past 75 years

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

Culture Change is Happening

Promoting:

Ownership

Engagement

Empowerment

Earnings for performance

Cross-functional approach motivates employees

Renewed focus on constructive and transparent dialogue

Talent management and training

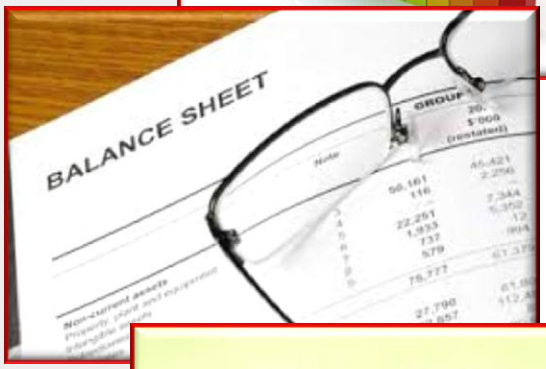
Better understanding of competitive landscape

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

Looking Ahead

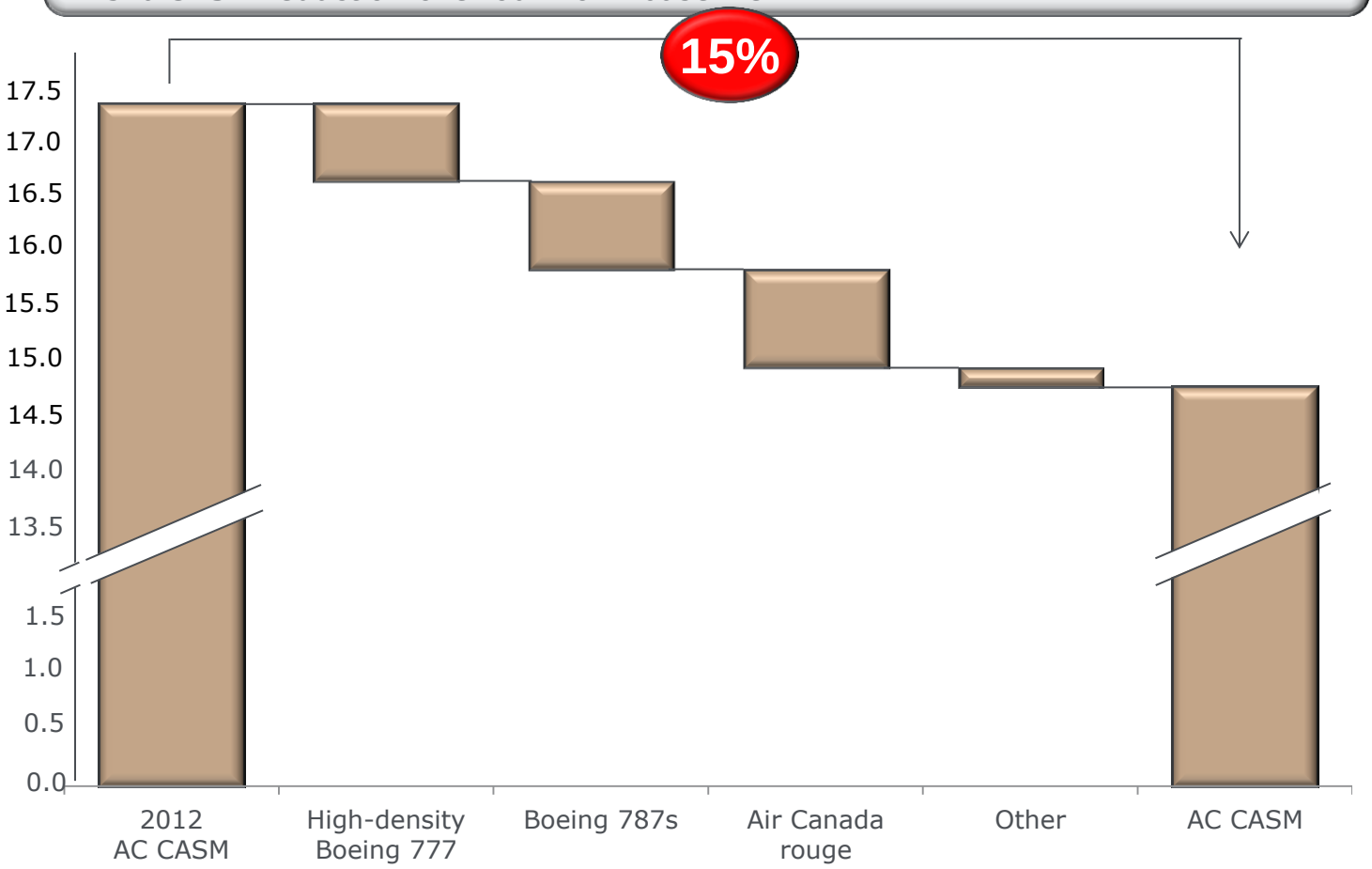
Focused on Improving EBITDAR, Adjusted net income & ROIC

- **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

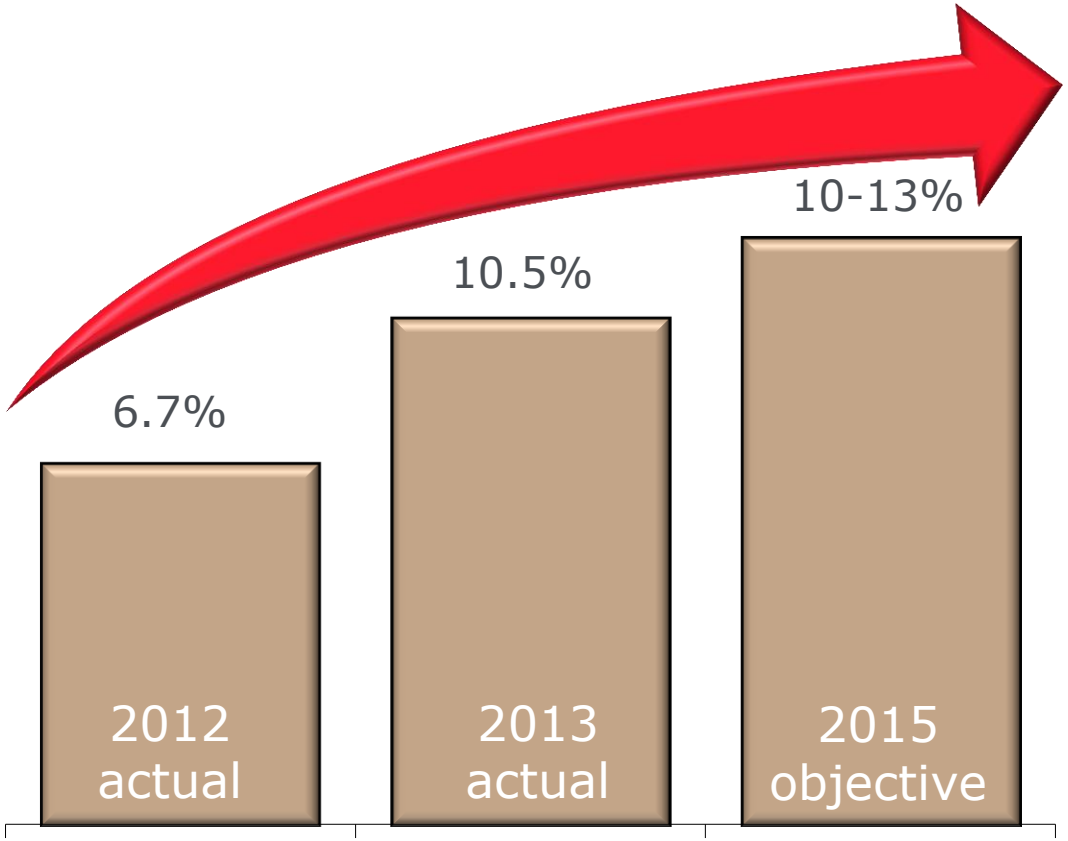


Lower Cost Structure

While FX and fuel fluctuated since 2012, we are on track to achieve the strategic initiatives and related savings announced in June 2013 which would have driven a 15% CASM reduction over our 2012 baseline



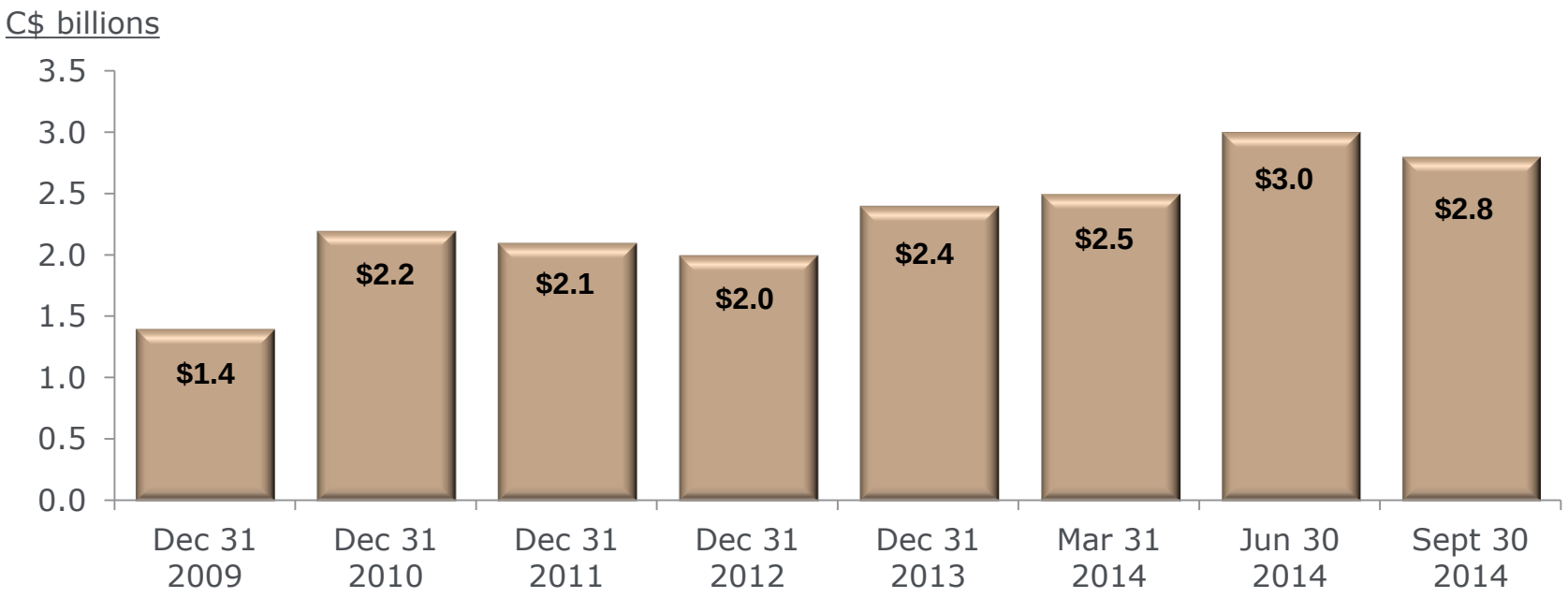
Targeting ROIC to Exceed Cost of Capital



- Increase return on invested capital ("ROIC") through strategic investments in aircraft and technology, revenue growth, lower CASM and debt reduction
- As at September 30, 2014, ROIC of 11.4%

- 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

Maintaining Strong Liquidity – Well above Target Minimum of $1.7B

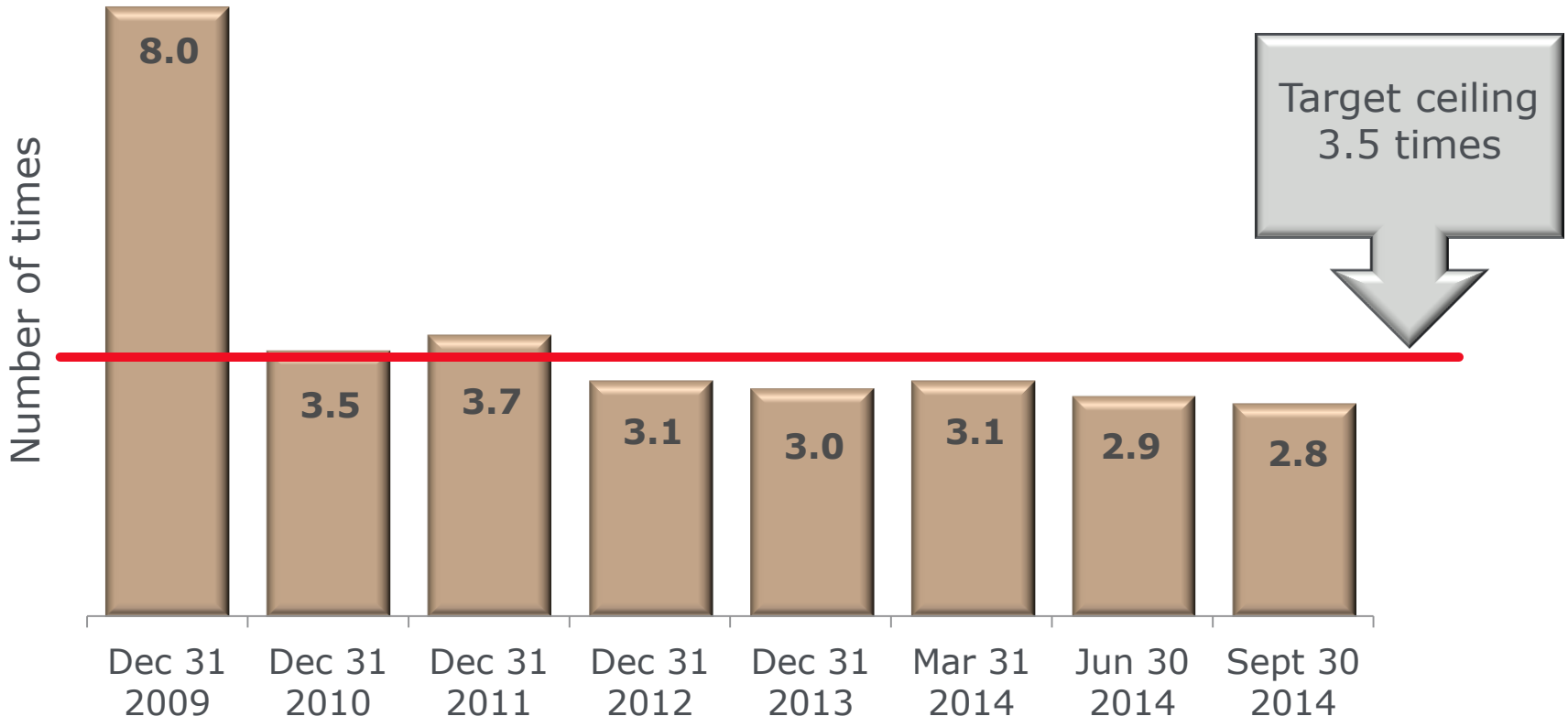


% of trailing 12-month operating revenues							
14%	20%	18%	17%	19%	20%	23%	21%

- 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

Concrete Actions Taken to Reduce and Manage Future Risk Profile

- Repaired balance sheet - Adjusted net debt decreased over $1B since 2009
- Since 2013, Air Canada received one notch upgrade 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)
- Domestic Registered pension plans now in solvency surplus – De-risking by matching pension liabilities with fixed income products
- 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 60 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

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 results-driven management team
- ✓ On track to execute strategy and well-positioned for earnings growth

Thank You