AIR CANADA

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Air Canada –
Transforming into a Global Champion

Transformative Changes 2009-2015

- ✓ Liquidity restored
- ✓ Balance sheet materially improved
- ✓ Credit ratings improved
- ✓ Long-term labour agreements secured with all major union groups
- ✓ Pension deficit eliminated
- ✓ 2013 Investor Day Targets met/exceeded and on track to achieve more ambitious 2015 Investor Day Targets
- ✓ Delivering on permanent cost reductions

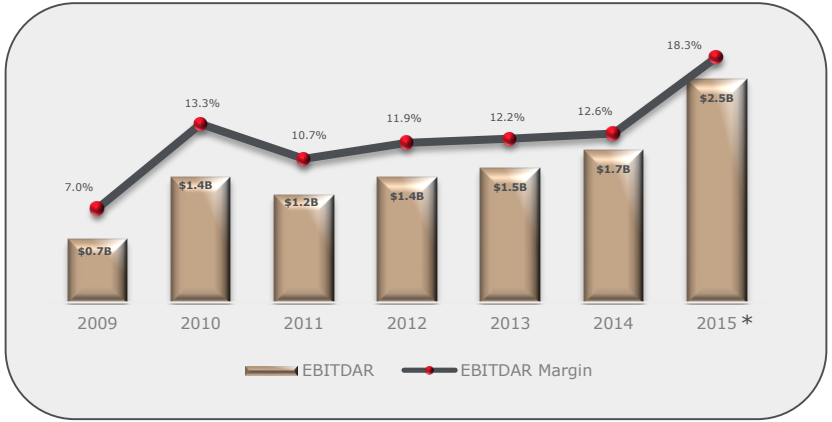
Significant Progress in Financial Results – 2015 versus 2009

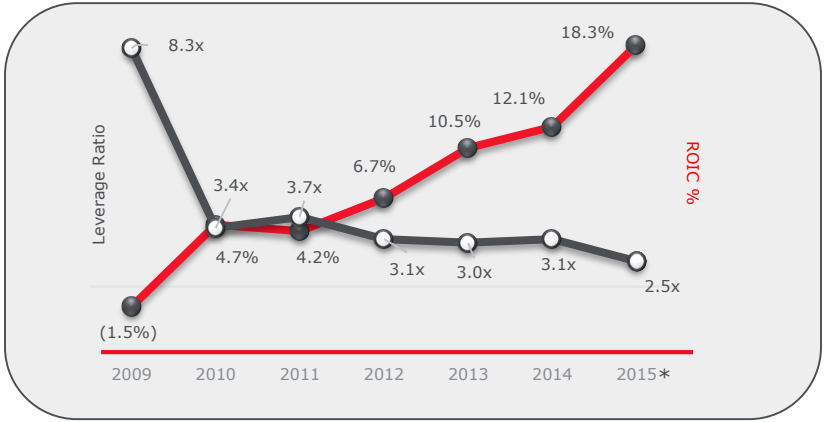
- ✓ Record operating revenues of $13.9 billion versus $9.7 billion in 2009
- ✓ Record EBITDAR(1) of $2.5 billion versus $679 million in 2009
- ✓ Record EBITDAR(1) margin of 18.3% versus 7.0% in 2009
- ✓ Record Return on Invested Capital(1) (ROIC) of 18.3% versus (1.5%) in 2009
- ✓ Leverage ratio of 2.5 times versus 8.3 times in 2009
- ✓ Unrestricted liquidity of $3 billion versus $1.4 billion at December 31, 2009
- ✓ Projected solvency surplus position in registered pension plans of $1.3 billion at January 1, 2016(2) versus pension solvency deficit of $2.7 billion at January 1, 2010

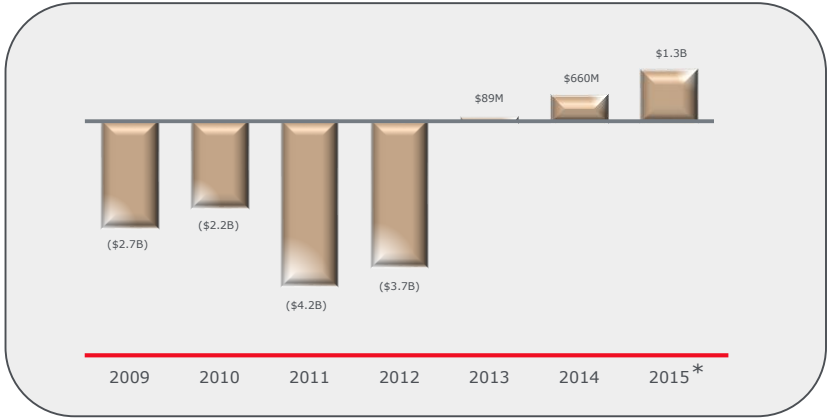
(1) These measures are non-GAAP financial measures. Reconciliations of these measures to comparable GAAP measures for the relevant periods can be found in Air Canada's MD&A reports, available at aircanada.com

(2) See Air Canada's 2015 MD&A dated February 17, 2016 for additional information

TRANSFORMATION 2009-2015







*As reported on February 17, 2016

Global Champion Strategy

1 2 3 4 5

Safe & Reliable Operation

Fleet & Network

- Star Alliance
- A++ Joint Venture
- Modern fleet / Seat density
- Extensive route rights
- Favourable slot times at busy airports
- Swing capacity

Brand

- Operational Excellence
- Award winning products/ services
- Iconic Canadian brand
- Rouge

Commercial Strategy

- Toronto - a true global hub
- 6th freedom connection traffic
- Improving premium value proposition
- Competitive leisure offering

Geography

- AC hubs are en route to Europe & Asia
- Logical connection for U.S. origins and destinations
- Easy transfer/ transit process

People & Experience

- 28,000+ dedicated employees
- Top 100 Employers in Canada – 3rd consecutive year
- One of Canada's Best Diversity Employers for 2016
- Labour stability with all major unions

LOWER RISK PROFILE

Our Four Priorities

1 International expansion

2 Cost reduction and revenue growth

3 Customer engagement

4 Culture change

1 **International expansion**

2 Cost reduction and revenue growth

3 Customer engagement

4 Culture change

Transformation Plan

Accelerated, balanced transformation of Air Canada toward sustained profitability

Network Optimization

- **Strategic international growth**
- **Increase diversification of route portfolio**
- **Leverage rouge model**
- **Sixth freedom focus**
- **Leverage strategic Toronto geography**

Aircraft Growth and Reconfiguration

- **Delivery of 787 order**
- **Densification and optimization of fleet configurations**
- **Replacement of narrow-body fleet with Boeing 737 MAX**
- **Leverage best in class products and services**

Flexibility to Adjust to Shifting Market Conditions

- **Swing capacity**
- **Leverage 10 year agreements**
  - Labour stability with major unions
  - Regional lift with Chorus (Jazz)

Team culture ▪ *Customer centricity* ▪ *Delivering brand promise*

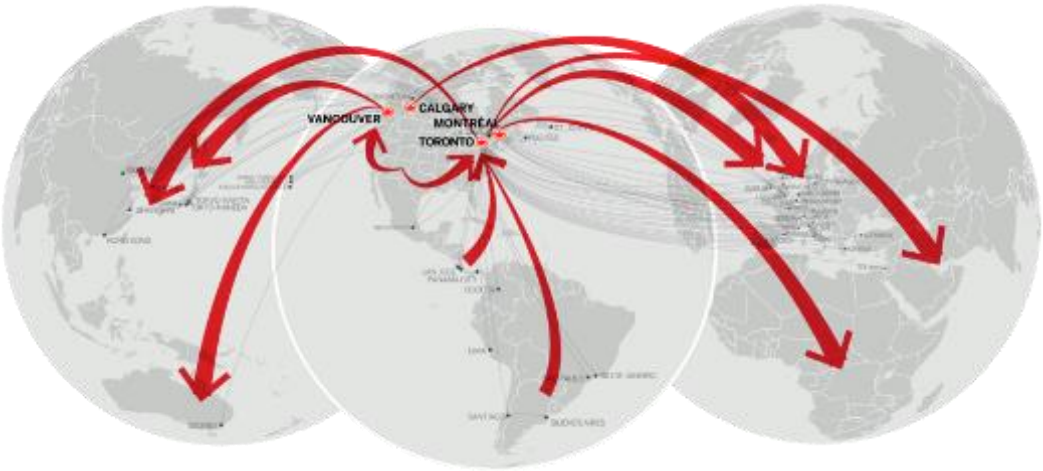
90% of Projected Capacity Growth Aimed at International Markets

- Focused on selective expansion of network and developing synergies offered by alliances with other carriers
- Historically, margins have been the highest on international routes
- Leveraging strengths internationally:
  - extensive and expanding global network
  - geographically well-positioned hubs
  - competitive products and services
- Approximately one-third of 2016 planned capacity growth aimed at serving new international routes
- Natural consequence – anticipated negative yield impact due to increased average stage lengths and a greater mix of leisure revenues vs business revenues
- However, incremental traffic is being flown at a significantly lower-cost (Boeing787s, increased seats on Boeing 777s, and Air Canada rouge) resulting in margin expansion
- Diversified network lowers risk profile

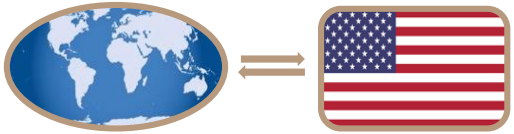
WIDEBODY FLEET PLAN (SUMMER PEAK)

Fleet	2012 Fleet	2015 Fleet	2016 Fleet	2017 Fleet
 777	18	23	25	25
 787	0	9	21	26
 A330	8	8	8	0-8*
 767	30	17	15	0-10*
 rouge 767	0	13	19	25
Total Widebody Fleet **Swing/flexible capacity*	56	70	88	76-94*

Leveraging Our Geography to Maximize 6TH Freedom Traffic Potential



- Best-in-class connections process at Toronto Pearson
- International-to-U.S. & international-to-international connections process is **simple** and allows for **seamless connections**
  - Competitive **elapsed time**
  - No need to pick up and/or re-check **bags**
  - No need to change **terminals**
  - U.S. CBP pre-clearance facilities → Passengers arrive in U.S. with other **domestic** flights
  - Agreement with GTAA reduces CASM for incremental traffic growth at Toronto Pearson



1 International expansion

2 Cost reduction and revenue growth

3 Customer engagement

4 Culture change

Benefits of Air Canada 787

- B787 operate existing B767 routes more efficiently and enable Air Canada to enter new international markets made viable by this aircraft's lower operating costs, midsize capacity and longer-range

- On average, Toronto-Tel Aviv on a B787 can accommodate **31% more passengers, 352% more cargo**, all using **3% less fuel** than the previous B767 operation

Benefits of Air Canada LOPA Superiority

- The Boeing 777 high-density aircraft operate high-volume, leisure-oriented international routes
- This aircraft has **increased margins** on international routes such as Vancouver-Hong Kong (improved contribution by over **75%**) and Montreal-Paris (improved contribution by over **200%**)

Benefits of Air Canada Rouge

- Air Canada rouge is **enhancing margins** in existing leisure markets and pursuing new opportunities in international leisure markets made viable by its lower cost structure
- Air Canada rouge fleet (comprised of Airbus A319s, A321s and Boeing 767s) is estimated to generate 25% lower CASM when compared to the same aircraft in the mainline fleet
- Air Canada rouge leverages the strengths of Air Canada including
  - Its extensive network
  - Its enhanced connection options
  - Its operational expertise
  - Its frequent flyer program

Improving Competitiveness in Regional Markets

- Diversification strategy being implemented
  - Sky Regional & Air Georgian have very competitive cost structures
  - Air Canada will continue to add scale to Sky Regional and Air Georgian
- Significant enhancements to Jazz CPA driven by fleet changes and pilot mobility agreement
  - CPA extended to 2025
  - Estimated $550 million in incremental value 2015-2020
  - Competitive cost structure post-2020
  - Incremental aircraft at competitive rates

As reported on February 17, 2016

Focus on Procurement

- Following through with procurement transformation initiatives aimed at applying best sourcing practices company-wide to leverage our global spend
  - In 2015, Strategic Procurement executed 156 agreements totaling $1,248 million in spend with savings of 9.9%
  - Achieved savings in excess of $130 million over life of new/renegotiated contracts which average three years
  - Investing in procurement technology, resources dedicated to supplier relationship management and supply chain risk management
- Significant improvement in maintenance productivity over past three years
  - Improved turnaround times
  - Average cost per visit down significantly to market average

Revenue Optimization

Best Practices

- **New dynamic pricing and inventory tool**, RMODC, is bringing Air Canada in line with **industry best practices**

6th Freedom Traffic

- Drives **network optimization,** making better economic decisions on local vs international passengers

Network Evaluation & Contribution

- Price & inventory determined by **origin** and **destination** rather than by each **segment**
- **Total passenger value** to network evaluated for each itinerary

PROS

Other Opportunities for Margin Expansion

- Boeing 737 MAX program – estimated 10% CASM reduction vs Airbus narrow-body fleet
- Replacing 20 EMBRAER E190s with five larger Airbus narrowbodies and five Boeing 767s – estimated CASM reduction of 10%
- Buy-up through additions of Premium Economy cabin on widebody aircraft
- Growing ancillary revenues through various passenger-related fees, including baggage, paid upgrades, on-board offerings, preferred seats and seat selection – ancillary revenue per passenger up 16% in 2015

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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
- Introducing airport services aimed at higher-yielding customers – dedicated check-in areas, premium agent services
- Implementing a customer relationship management system to gain valuable customer insights
- Improved on-time performance and reliability, improved boarding process and streamlined in-transit processes for connecting passengers
- Improved international connections through major hubs – streamlined in-transit process
- Improved on-board offerings and consistency of service
- Opened 22nd worldwide Maple Leaf Lounge at London Heathrow's new T2 – winner of the "First Class Lounge" design category in the aviation sector of the 2015 International Yacht and Aviation Awards

Customer Engagement
Awards

- **2015 Skytrax Awards**
  - Four-Star ranking
- **2015 Ipsos Reid Canadian Business Traveller Survey**
  - Canada's Favourite Airline for Business Travel
- **2015 Premier Traveler Magazine Awards**
  - Best North American Airline for International Travel
  - Best North American Airline for Business-Class Services
  - Best Flight Attendants in North America
  - Best Airline Website

1 International expansion

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Culture Change
Employee Engagement

- Employee surveys demonstrated significant improvements
- Significant increase to profit sharing pool for 2015
- 8% of total issued shares held on employees' accounts
- Multiple 10+ year union agreements reached
- One of "Canada's Top 100 Employers"

Update on Labour Relations

- **ACPA** – union representing 3,000 pilots
  – collective agreement terms for 10 years in effect until September 2024
- **Unifor** – union representing 4,000 customer service and sales agents
  – collective agreement terms for five years in effect until February 2020
- **CUPE** – union representing 7,200 flight attendants
  – collective agreement terms for 10 years in effect until March 2025
- **IAMAW** – union representing 7,500 machinists and aerospace workers
  – collective agreement terms for 10 years in effect until April 2026
- **CALDA** – union representing flight dispatchers
  – collective agreement terms for 12 years in effect until February 2028

Risk Management

Pension Deficit Eliminated – Significant Reallocation of Capital to Other Uses

- As at January 1, 2016, aggregate solvency surplus in domestic registered pension plans is projected to be $1.3 billion*
  - Plans are in a solvency surplus position therefore no past service cost payments expected in 2016
  - Plans funded at 105% or more therefore no contributions are required for current service as long as the solvency position is not reduced to less than 105%
  - Total pension funding contributions are forecast to be $76 million on a cash basis for 2016
- Risk significantly mitigated
  - 75% of pension liabilities matched with fixed income products
  - Overall risk profile lower by 50%
- Improved financial flexibility to fund capital expenditure programs,lower debt levels and return value to shareholders

*As reported on February 17, 2016

Committed to Strengthening Balance Sheet Using Free Cash Flow

- $9B in capital expenditures to acquire widebody aircraft to better position Air Canada for the future
  - Access to EETC market at investment grade rates
- Lowering adjusted net debt and leverage levels is top priority followed by shareholder distributions via share buybacks
- Leverage ratio and credit ratings have improved
- Building an unencumbered asset base
  - Total value at $1B (3 years ago <$100M)
  - Continue to unencumber aircraft and related assets
  - Significant over-collateralization of high yield notes
- Income tax shelter of $4.7B* - Operating loss carry-forwards of $400M and tax shields related to fixed assets and pension obligations of $4.3B

*As of December 31, 2015

Financial Targets / Results

FINANCIAL TARGETS

June 2013 Target	As of February 17, 2016
CASM reduction of 15% over medium term *(excluding the impact of foreign exchange and fuel prices)*	Trending to 21%

Financial Targets 2015-2018	Target*	F/Y 2015
EBITDAR margin *(on a 12-month trailing basis)*	15-18%	18.3%
ROIC (return on invested capital) *(on a 12-month trailing basis)*	13-16%	18.3%
Leverage ratio by 2018	2.2	2.5

*As disclosed on February 17, 2016

Air Canada assumes relatively low to modest Canadian GDP growth for the period 2016 to 2018. Air Canada also assumes a continuing relationship between the price of jet fuel and the value of the Canadian dollar whereby declines in the cost of fuel continue to be associated with decreases in the value of the Canadian dollar

Record Results in 2015

- Operating revenues of $13,868M, an increase of $596M or 4.5% from 2014
- EBITDAR[1] of $2,534M, an improvement of $863M from 2014
- EBITDAR[1] margin of 18.3%, 5.7 percentage points above 2014 and surpassing the 2015 target
- Adjusted net income[1] of $1,222M or $4.18 per diluted share, an increase of $691M, 130.1% or $2.37 per diluted share from 2014
- Return on invested capital[1] (ROIC), of 18.3%, exceeding 2014 by 6.2 percentage points and surpassing the 2015 target
- 41.1M passengers carried, an increase of 6.7% from 2014

[1] These measures are non-GAAP financial measures. Reconciliations of these measures to comparable GAAP measures for the relevant periods can be found in Air Canada's MD&A reports, available at aircanada.com

As reported on February 17, 2016

Conclusion

- ✓ Reported record results, expanded margins, increased adjusted net income, improved ROIC
- ✓ Achieved/exceeded 2013 Investor Day financial targets
- ✓ On track to meet 2016-2018 targets for EBITDAR margin, ROIC and leverage
- ✓ Eliminated pension solvency deficit
- ✓ Engaged employees and experienced and results-driven management team
- ✓ Focused on value creation
  - Expand earnings through strategic initiatives
  - Stronger balance sheet – reducing net debt/share buyback program

THANK YOU

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