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AIR CANADA – TRANSFORMING INTO A GLOBAL CHAMPION
PROGRESS ON OUR BUSINESS PLAN

- Reported record results in 2015 – expanded EBITDAR\(^{(1)}\) margin by 5.7 percentage points to 18.3%, increased adjusted net income\(^{(1)}\) by 130% to $1.222B and improved ROIC\(^{(1)}\) by 6.2 percentage points to 18.3%, all as compared to 2014

- Fleet initiatives and capital programs on target – 19 B787s in operating fleet – B787s meeting financial and operational expectations

- Delivering a permanently lower cost structure – on track to realizing CASM savings of 21% (excluding impact of FX and fuel prices) by the end of 2018 when compared to 2012 baseline

- Enterprise and financial risk significantly reduced
  - Route diversification
  - Balance sheet leverage
  - Pension
  - Labour contracts
  - Fleet flexibility

\(^{(1)}\) 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
**GLOBAL CHAMPION STRATEGY**

<table>
<thead>
<tr>
<th>Fleet &amp; Network</th>
<th>Brand</th>
<th>Commercial Strategy</th>
<th>Geography</th>
<th>People &amp; Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Star Alliance</td>
<td>• Operational Excellence</td>
<td>• Toronto - a true global hub</td>
<td>• AC hubs are en route to Europe &amp; Asia</td>
<td>• 28,000+ dedicated employees</td>
</tr>
<tr>
<td>• A++ Joint Venture</td>
<td>• Award winning products/services</td>
<td>• 6th freedom connection traffic</td>
<td>• Logical connection for U.S. origins and destinations</td>
<td>• Top 100 Employers in Canada – 3rd consecutive year</td>
</tr>
<tr>
<td>• Modern fleet / Seat density</td>
<td>• Iconic Canadian brand</td>
<td>• Improving premium value proposition</td>
<td>• Easy transfer/transit process</td>
<td>• One of Canada’s Best Diversity Employers for 2016</td>
</tr>
<tr>
<td>• Extensive route rights</td>
<td>• Rouge</td>
<td>• Competitive leisure offering</td>
<td></td>
<td>• Labour stability with all major unions</td>
</tr>
<tr>
<td>• Favourable slot times at busy airports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Swing capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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 B787 order
- Densification and optimization of fleet configurations
- Replacement of narrow-body fleet with B737 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 (B787s, increased seats on B777s, and Air Canada rouge) resulting in margin expansion
- Diversified network lowers risk profile
## Fleet

<table>
<thead>
<tr>
<th>Aircraft Type</th>
<th>Actual 2015</th>
<th>Planned 2016</th>
<th>Planned 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boeing 787</td>
<td>12</td>
<td>21</td>
<td>30</td>
</tr>
<tr>
<td>Boeing 777</td>
<td>23</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Boeing 767-300ER</td>
<td>17</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Airbus A330-300</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td><strong>Mainline Widebody</strong></td>
<td><strong>171</strong></td>
<td><strong>169</strong></td>
<td><strong>175</strong></td>
</tr>
<tr>
<td>Boeing 737 MAX-8</td>
<td></td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td>Airbus A319, A320, A321</td>
<td>74</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Embraer 190</td>
<td>37</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total Mainline</strong></td>
<td><strong>171</strong></td>
<td><strong>169</strong></td>
<td><strong>175</strong></td>
</tr>
<tr>
<td>Boeing 767-300ER</td>
<td>15</td>
<td>19</td>
<td>25</td>
</tr>
<tr>
<td>Airbus A319, A321</td>
<td>24</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total Air Canada Rouge</strong></td>
<td><strong>39</strong></td>
<td><strong>44</strong></td>
<td><strong>50</strong></td>
</tr>
<tr>
<td><strong>Total Widebody Aircraft</strong></td>
<td><strong>75</strong></td>
<td><strong>88</strong></td>
<td><strong>98</strong></td>
</tr>
<tr>
<td><strong>Total Narrowbody Aircraft</strong></td>
<td><strong>135</strong></td>
<td><strong>125</strong></td>
<td><strong>127</strong></td>
</tr>
<tr>
<td><strong>Total Mainline and Air Canada Rouge</strong></td>
<td><strong>210</strong></td>
<td><strong>213</strong></td>
<td><strong>225</strong></td>
</tr>
</tbody>
</table>
FLEET FLEXIBILITY

- In the case of an economic downturn, Air Canada has positioned itself to be flexible with fully unencumbered, older aircraft (both widebody and narrowbody), and with a sizeable amount of staggered leased aircraft expiries.
- Staggered Airbus narrow-body lease expiries give Air Canada the opportunity to manage capacity, either up or down, as we transition to B737 MAX aircraft.
- Longer-term flexibility exists in our ability to defer a portion of B737 MAX aircraft deliveries.

22 aircraft owned and unencumbered

18 aircraft with leases expiring in 2016/2017

40 aircraft can be quickly removed from the fleet

This represents nearly 20% of the Mainline / rouge fleet.
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.

- New destinations, such as Dubai and Delhi from Toronto and Vancouver, expand Air Canada’s global reach.
Benefits of Air Canada LOPA Superiority

- B777 high-density aircraft operate high-volume, leisure-oriented international routes with 29% more seats than the 349-seat B777
- 18 B777s are being converted into a more cost effective and competitive configuration (14% more seats overall), adding a premium economy cabin and refurbishing the international business class cabin to the new B787 state-of-the-art standard
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 B767s) 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
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 $550M in incremental value 2015-2020
- Competitive cost structure post-2020
- Incremental aircraft at competitive rates

As reported on February 17, 2016
OTHER OPPORTUNITIES FOR MARGIN EXPANSION

- B737 MAX program – estimated 10% CASM reduction vs Airbus narrow-body fleet
- Replacing 20 E190s with five larger Airbus narrowbodies and five B767s – estimated CASM reduction of 10%
- LOI with Bombardier for acquisition of 45 firm CS300 aircraft starting in late 2019 – 25 CS300s to replace Embraer 190 aircraft – 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
- Implemented new Revenue Management System – Pricing and inventory determined by origin and destination rather than by individual flight legs – Expect incremental annual revenues of $100M, on a run-rate basis
- Applying best sourcing practices – In 2015, Strategic Procurement team executed 156 agreements totaling $1.2B in spend with savings of 9.9% over the term of the agreements
- The renegotiation of our commercial agreement with Aeroplan which terminates in June 2020
1. International expansion
2. Cost reduction and revenue growth
3. Customer engagement
4. Culture change
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
2 Cost reduction and revenue growth
3 Customer engagement
4 **Culture change**
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”
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
As at January 1, 2016, aggregate solvency surplus in domestic registered pension plans is $1.3B

- 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 $94M, on a cash basis, for 2016 vs $312M in 2015 – cash savings of $218M

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
Fuel hedging strategy designed to lock in booking curve profitability
- Use of call options protects against short-term price spikes while allowing to participate 100% in fuel price declines

Foreign exchange risk strategy is to cover 70% of net U.S. exposure on a rolling 18-month basis using derivatives and U.S. cash reserves
- U.S. dollar revenues together with foreign currency net revenues converted to U.S. dollars essentially cover non-fuel U.S. dollar costs
- Fuel expenses are a significant U.S. dollar requirement but the impact in Canadian dollars is mitigated by a correlation between the Canadian dollar and the price of crude oil
- Impact of hedging benefits cash flow but hedging results reported in non-operating income
$9B in capital expenditures to acquire more efficient aircraft and improve the competitiveness of existing aircraft to better position Air Canada for the future
  – Access to EETC market at investment grade rates

Expect cash inflow of approximately $650M from sale of 20 E190s and sale and leaseback of two B787s

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 carryforwards 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

<table>
<thead>
<tr>
<th>Financial Targets 2016-2018</th>
<th>Target*</th>
<th>FY 2015</th>
<th>Q1 2016*</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDAR margin</td>
<td>15-18%</td>
<td>18.3%</td>
<td>18.3%</td>
</tr>
<tr>
<td>(on a 12-month trailing basis)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROIC (return on invested capital)</td>
<td>13-16%</td>
<td>18.3%</td>
<td>17.4%</td>
</tr>
<tr>
<td>(on a 12-month trailing basis)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leverage ratio by 2018</td>
<td>2.2</td>
<td>2.5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

* As disclosed on April 29, 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.
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 an 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