Presents at the

INSTITUTIONAL INVESTOR CONFERENCE

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Toronto
January 14, 2016

A STAR ALLIANCE MEMBER
MEMBRE DU RÉSEAU STAR ALLIANCE
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AIR CANADA – TRANSFORMING INTO A GLOBAL CHAMPION
LEADING CAPACITY SHARE IN ALL MARKETS

ASM Growth 2015 vs 2014

Percentage of passenger revenue

International 43%

Transborder 20%

Domestic 37%

System 9.4%

11.9%

3.5%

Air Canada 36%

WJA 21%

AAL 17%

UAL 17%

BA 4%

CATH 5%

TRZ 10%

Other 27%

Based on 2014 actuals
**Leveraging our Strengths**

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fleet &amp; Network</td>
<td>Brand</td>
<td>Commercial Strategy</td>
<td>Geography</td>
<td>People &amp; Experience</td>
</tr>
<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>▪ Best Flight Attendants in North America</td>
</tr>
<tr>
<td>▪ Seat density</td>
<td>▪ Iconic Canadian brand</td>
<td>▪ Improving premium value proposition</td>
<td>▪ Easy transfer/transit process</td>
<td>▪ Top 100 Employers in Canada</td>
</tr>
<tr>
<td>▪ Modern fleet</td>
<td>▪ Rouge</td>
<td>▪ Competitive leisure offering</td>
<td></td>
<td></td>
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<tr>
<td>▪ Extensive route rights</td>
<td></td>
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**Safe & Reliable Operation**

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

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

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

- 28,000+ dedicated employees
- Best Flight Attendants in North America
- Top 100 Employers in Canada

**Lower Risk Profile**
**June 2013 Target**

<table>
<thead>
<tr>
<th>As of June 2, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASM reduction of 15% over medium term (excluding the impact of foreign exchange and fuel prices)</td>
</tr>
</tbody>
</table>

**June 2013 Targets**

<table>
<thead>
<tr>
<th>FY 2014 Actuals</th>
<th>Q1 2015 Actuals</th>
<th>Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROIC(^{(1)}) of 11-13% by 2015</td>
<td>12.1%</td>
<td>15.2%</td>
</tr>
<tr>
<td>Leverage ratio &lt; 3.5</td>
<td>3.1</td>
<td>2.6</td>
</tr>
<tr>
<td>Unrestricted liquidity &gt; 1.7B</td>
<td>$2.7B</td>
<td>$3.1B</td>
</tr>
</tbody>
</table>

\(^{(1)}\) ROIC is a non-GAAP financial measure. Reconciliation of this measure to a comparable GAAP measure for the relevant periods can be found in Air Canada’s MD&A reports, available at aircanada.com
## New Financial Targets 2015-2018

<table>
<thead>
<tr>
<th>Target</th>
<th>Target*</th>
<th>Actual Q3 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDAR margin</td>
<td>15-18%</td>
<td>17.6%</td>
</tr>
<tr>
<td>(on a 12-month trailing basis)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROIC (return on invested capital)</td>
<td>13-16%</td>
<td>18.0%</td>
</tr>
<tr>
<td>(on a 12-month trailing basis)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leverage ratio by 2018</td>
<td>2.2</td>
<td>2.2</td>
</tr>
</tbody>
</table>

*As reported on June 2, 2015
STRATEGIC PLAN
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
In 2015, Air Canada flew over 41 million passengers to over 200 destinations.

Enhancing market presence through Star Alliance, commercial agreements and joint venture.
Historically, margin rates have been the highest on international routes

- Air Canada is leveraging its strengths internationally: extensive and expanding global network, geographically well-positioned hubs, competitive products and services

- 2015 international capacity growth of 11.9% vs 2014 (system capacity increase of 9.4%)
  - 55% through lower-cost growth of Air Canada rouge in leisure markets
  - 38% focused on higher margin international routes, supported by sixth freedom traffic – B787 aircraft replacing less efficient B767 aircraft

- Natural consequence – anticipated yield impact due to increased average stage lengths and a greater mix of leisure revenues vs business revenues

- Incremental traffic is being flown on significantly lower-cost aircraft resulting in margin expansion
# Widebody Fleet Plan (Summer Peak)

<table>
<thead>
<tr>
<th>Fleet</th>
<th>2012 Fleet</th>
<th>2015 Fleet</th>
<th>2016 Fleet</th>
<th>2017 Fleet</th>
<th>2018 Fleet</th>
</tr>
</thead>
<tbody>
<tr>
<td>777</td>
<td>18</td>
<td>23</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>787</td>
<td>0</td>
<td>9</td>
<td>21</td>
<td>26</td>
<td>34</td>
</tr>
<tr>
<td>A330</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8*</td>
<td>8*</td>
</tr>
<tr>
<td>767</td>
<td>30</td>
<td>17</td>
<td>15</td>
<td>10-12*</td>
<td>5-7*</td>
</tr>
<tr>
<td>rouge 767</td>
<td>0</td>
<td>13</td>
<td>19</td>
<td>25</td>
<td>25</td>
</tr>
</tbody>
</table>

**Total Widebody Fleet**

<table>
<thead>
<tr>
<th></th>
<th>2012 Fleet</th>
<th>2015 Fleet</th>
<th>2016 Fleet</th>
<th>2017 Fleet</th>
<th>2018 Fleet</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Swing/flexible capacity</strong></td>
<td>56</td>
<td>70</td>
<td>88</td>
<td>94-96*</td>
<td>97-99*</td>
</tr>
</tbody>
</table>

*Swing/flexible capacity*
2 Cost reduction and revenue growth
**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 (31% lower fuel and maintenance unit cost vs mainline B767), 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.
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 leisure markets and pursuing opportunities in international leisure markets made viable by its lower cost structure.
- Airbus A319 and Boeing 767 CASM reduction estimated at 23% and 30% vs. mainline, respectively.
- Air Canada rouge customers benefit from continued Air Canada service to leisure destinations, Aeroplan mileage accumulation, Priority airport services, Altitude membership privileges, and more.
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
Launched a procurement transformation initiative in 2010 aimed at applying best sourcing practices company-wide to leverage our global spend

- In 2014, Strategic Procurement executed 105 agreements totaling $558 million in spend with savings of 11.4%  
- Achieved savings in excess of $130 million over life of contracts which average three years  
- Investing in procurement technology and resources dedicated to supplier relationship management

Significant improvement in maintenance productivity over past three years
- Improved turnaround times  
- Average cost per visit down significantly to market average
**Best Practices**

- **New dynamic pricing and inventory tool**, RMODC, will bring 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
Other Opportunities for Revenue Growth and Cost Reduction

- Boeing 737 MAX program – estimated 10% CASM reduction vs Airbus narrowbody fleet
- Replacing 20 EMBRAER E190s with five larger Airbus narrowbodies and five Boeing 767s – expect CASM reduction of 10%
- Two additional Boeing 777HD aircraft in mainline fleet – Q2 2016
- Converting Boeing 777-300/200s into more competitive configurations
- 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 19% in the first nine months of 2015
- New merchandising tool to customize, differentiate and combine offerings
- Agreement with GTAA reduces CASM for incremental traffic at Toronto Pearson
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, chauffeur services, etc.
- 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 new Maple Leaf Lounge at London Heathrow’s new T2 – a total of 21 lounges worldwide
CUSTOMER ENGAGEMENT
AWARDS

- **Skytrax Award**
  - Best Airline North America - 2014 fifth consecutive year
  - Four-Star ranking – 2013, 2015

- **Ipsos Reid Canadian Business Traveller Survey**
  - Preferred carrier 86% (up by 17 percentage points over the last seven years)

- **Premier Traveler**
  - Best Flight Attendants in North America
1 International expansion
2 Cost reduction and revenue growth
3 Customer engagement

4 Culture change
- Employee surveys demonstrated significant improvements
- Nearly 50% year-over-year increase to profit-sharing pool
- 8% of total issued shares held on account of employees
ACPA – union representing 3,000 pilots – collective agreement terms for 10 years reached in October 2014

Unifor – union representing 4,000 customer service and sales agents – 5-year agreement in effect until February 2020

IBT – union representing 650 airport, cargo and call centre employees in the U.S. – 7-year agreement in effect until June 2019

UNITE – union representing 200 concierge service, cargo and clerical staff based in the U.K. – 5-year agreement in effect until December 2019

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 – 10-year collective agreement, subject to ratification
SAFETY • Approach of “safety first and last”
  • Safety Management System to manage risk and create a common support structure for all operational groups
  • 2014 Gold winner - Canada’s Safest Employers Award

ENVIRONMENT • Adopted IATA reduction targets for GHGs
  • Improved fleet fuel efficiency by 37% (between 1990-2014)
  • Saved more than 11,000 tons of fuel or 35,229 tons of CO\textsubscript{2} in 2014

EMPLOYEES • Launched new employee portal and new management programs to enhance leadership and improve experience
  • Improved employee communication (Town Halls, Yammer)
  • Canada’s Top 100 employers – third consecutive year

COMMUNITY • Total community investment portfolio of $6.5 million
  • Air Canada Foundation, corporate community outreach initiatives, and commercial and other sponsorships
RISK MANAGEMENT
$5.4 billion improvement in pension solvency position*
- $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
- Cash flow savings of $110 million in 2015
- Release of obligations to pay up to $1.1 billion in past service payments over next six years

Risk significantly mitigated
- 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

*January 1, 2012 vs May 20, 2015
Fuel hedging strategy is designed to manage our exposure to fuel price volatility

- Use of call options protects us against short-term price spikes while allowing us to participate 100% in fuel price declines
- Target hedge ratio is approximately 40% of planned fuel consumption, typically put in place three to nine months in advance of any given quarter
- Option tenors match short-term nature of booking curves and minimizes premium costs

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

- Impact of hedging benefits cash flow but hedging results reported in non-operating income
- Annual net pre-tax income of a one cent change in the Canadian dollar vs the U.S. dollar = $34M*

Air Canada benefits from natural hedges

- Historically, correlation between Canadian dollar and price of crude oil
- U.S. and foreign-denominated revenues essentially cover U.S. and foreign-denominated non-fuel operating expense exposure

*as reported on November 5, 2015
Partially fund $9B in capital expenditures to acquire widebody aircraft to better position Air Canada for the future

Lowering adjusted net debt and leverage levels is top priority followed by shareholder distributions via share buybacks

Leverage ratio and credit ratings continue to improve

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 $6.3B* - Operating loss carry-forwards of approximately $1B and tax shields related to fixed assets and pension obligations of $5.3B

*as of December 31, 2014
FINANCIAL RESULTS
Record Results

**Full Year 2014**

- EBITDAR\(^{(1)}\) of $1,671M, an improvement of $238M from 2013
- Adjusted net income\(^{(1)}\) of $531M or $1.81 per diluted share, an increase of $191M or $0.61 per diluted share from 2013
- Operating revenues of $13,272M, an increase of $890M or 7.1% from 2013
- 38.5M passengers carried, an increase of 7.7% from 2013
- As at January 1, 2015, pension solvency surplus in domestic registered pension plans of $660M

**First Nine Months 2015**

- EBITDAR\(^{(1)}\) of $2,109M, an improvement of $757M from the first nine months of 2014
- Adjusted net income\(^{(1)}\) of $1,106M or $3.77 per diluted share, an increase of $642M or $2.19 per diluted share from the first nine months of 2014
- Operating revenues of $10,686M, an increase of $518M or 5.1% from the first nine months of 2014
- 31.4M passengers carried, an increase of 7.2% from the first nine months of 2014

\(^{(1)}\) EBITDAR and adjusted net income 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
CONCLUSION

- Achieved/exceeded 2013 Investor Day financial targets
- Reported record results, expanded margins, increased adjusted net income, improved ROIC
- Eliminated pension solvency deficit
- New Investor Day 2015 targets for EBITDAR margin, ROIC and leverage
- 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