15th Annual Eastern Institutional Investor Conference

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Montreal
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AIR CANADA –
TRANSFORMING INTO A GLOBAL CHAMPION
Progress on our Business Plan

- Record EBITDAR\(^{(1)}\) of $605M in Q2 2016, and on a 12-month trailing basis to June 30, 2016, EBITDAR\(^{(1)}\) margin was 18.3% and ROIC\(^{(1)}\) was 16.2%

- Fleet initiatives and capital programs on target – 21 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 reduced
  - Route diversification
  - Balance sheet leverage
  - Pension
  - Long-term 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

As reported on July 29, 2016
### Global Champion Strategy

#### 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
- 30,000+ dedicated employees
- Top 100 Employers in Canada – 3rd consecutive year
- One of Canada’s Best Diversity Employers for 2016
- Long-term labour stability with all major unions

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**Safe & Reliable Operation**

**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
Accelerated, balanced transformation of Air Canada towards 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 narrowbody fleet with B737 MAX
- Leverage best in class products and services

**Flexibility to Adjust to Shifting Market Conditions**
- Swing capacity
- Leverage 10-year agreements
  - Long-term 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
- Launched 10 new international and 11 new transborder routes in Q2 – most intensive period of expansion in Air Canada’s history – all fully meeting expectations
- 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
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<td>Boeing 767-300ER</td>
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<td>Airbus A319, A321</td>
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<td><strong>TOTAL AIR CANADA ROUGE</strong></td>
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<td><strong>TOTAL MAINLINE AND AIR CANADA ROUGE</strong></td>
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FLEET FLEXIBILITY

- In the event 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 narrowbody lease expiries give Air Canada the opportunity to manage capacity, either up or down, as transitions to B737 MAX aircraft.
- Longer-term flexibility exists in Air Canada’s 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
Air Canada Rouge is **enhancing margins** in existing leisure markets and pursuing new opportunities in international leisure markets made viable by its competitive 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
I MPROVING C OMPETITIVENESS IN R EGIONAL M ARKETS

- 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 narrowbody fleet
- Concluded agreement with Bombardier for acquisition of 45 firm Bombardier CS300 aircraft starting in late 2019 – 25 Bombardier 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
- 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 demonstrate significant improvements

Significant increase to profit sharing pool for 2015

9% 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*

* Subject to certain renegotiations, provisions and benchmarks
FINANCIAL RISK MANAGEMENT
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
COMMITTED TO STRENGTHENING BALANCE SHEET USING FREE CASH FLOW

- $8B 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
- Cash inflow of $690M in 2016 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 2016-2018

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<tr>
<td>EBITDAR margin</td>
<td>15-18%</td>
<td>18.3%</td>
<td>18.3%</td>
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<td><em>(on a 12-month trailing basis)</em></td>
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<tr>
<td>ROIC (return on invested capital)</td>
<td>13-16%</td>
<td>18.3%</td>
<td>16.2%</td>
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<td><em>(on a 12-month trailing basis)</em></td>
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<tr>
<td>Leverage ratio by end of 2018</td>
<td>2.2</td>
<td>2.5</td>
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</table>

Air Canada remains on track to reducing CASM by 21%, excluding the impact of foreign exchange and fuel prices, by the end of 2018 when compared to 2012.

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

As reported on July 29, 2016.
Achieved/exceeded 2013 Investor Day financial targets

On track to meet or exceed 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

* As reported on July 29, 2016
THANK YOU