ACHIEVING NEW HEIGHTS

at the
14th Annual Eastern Institutional Investor Conference

by
Michael Rousseau
Executive Vice President & Chief Financial Officer

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AIR CANADA – TRANSFORMING INTO A GLOBAL CHAMPION
Leading Capacity Share in all Markets

Projected 2015 ASM Growth vs 2014

- **System**: 9.0% to 10.0%
  - 11.5% to 12.5%
  - 3.0% to 4.0%

Percentage of passenger revenue

- **International**: 43%
  - Air Canada 36%
  - WJA 21%
  - AAL 13%
  - UAL 17%
  - DAL 6%
  - TRZ 10%
  - Other 27%

- **Transborder**: 20%
  - Air Canada 37%
  - SWG 5%
  - WJA 4%
  - LH 3%
  - KLM 6%
  - BA 4%
  - CATH 5%

- **Domestic**: 37%
  - WJA 21%
  - Other 9%
  - Air Canada 55%

Based on 2014 actuals
Leveraging Our Strengths

1. Fleet & Network
   - Star Alliance
   - A++ Joint Venture
   - Seat density
   - Modern fleet
   - Extensive route rights

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

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

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

5. People & Experience
   - 28,000+ dedicated employees
   - Best Flight Attendants in North America
   - Top 100 Employers in Canada

Lower Risk Profile
### Past Financial Results vs 2013 Objectives

<table>
<thead>
<tr>
<th>June 2013 Target</th>
<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>
<td>Trending to 21%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>June 2013 Targets</th>
<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>
<td>✔️</td>
</tr>
<tr>
<td>Leverage ratio &lt; 3.5</td>
<td>3.1</td>
<td>2.6</td>
<td>✔️</td>
</tr>
<tr>
<td>Unrestricted liquidity &gt; 1.7B</td>
<td>$2.7B</td>
<td>$3.1B</td>
<td>✔️</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>Metric</th>
<th>Target*</th>
<th>Actual Q2 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDAR margin (on a 12-month trailing basis)</td>
<td>15-18%</td>
<td>15.5%</td>
</tr>
<tr>
<td>ROIC (return on invested capital) (on a 12-month trailing basis)</td>
<td>13-16%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Leverage ratio by 2018</td>
<td>2.2</td>
<td>2.3</td>
</tr>
</tbody>
</table>

*As reported on June 2, 2015
STRATEGIC PLAN
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
Today Air Canada flies over 38 million passengers annually to over 190 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

- Projected 2015 international capacity growth of 11.5-12.5% vs 2014 (system capacity increase of 9.0-10.0%*)
  - 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

* As reported on August 12, 2015
Significant Potential for Continued Growth in U.S. 6th Freedom Market

Target 1.5% market share, which equates to an additional 1.68M passengers per year, or approximately $605M in incremental revenue.

<table>
<thead>
<tr>
<th>Airline</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Airways</td>
<td>5.50%</td>
</tr>
<tr>
<td>Korean Airlines</td>
<td>2.50%</td>
</tr>
<tr>
<td>Air France</td>
<td>2.40%</td>
</tr>
<tr>
<td>Cathay Pacific</td>
<td>2.20%</td>
</tr>
<tr>
<td>KLM</td>
<td>1.90%</td>
</tr>
<tr>
<td>Turkish Airlines</td>
<td>1.40%</td>
</tr>
<tr>
<td>Swiss</td>
<td>1.20%</td>
</tr>
<tr>
<td>Air Canada</td>
<td>0.80%</td>
</tr>
<tr>
<td>Fleet</td>
<td>2012 Fleet</td>
</tr>
<tr>
<td>--------------</td>
<td>------------</td>
</tr>
<tr>
<td>777</td>
<td>18</td>
</tr>
<tr>
<td>787</td>
<td>0</td>
</tr>
<tr>
<td>A330</td>
<td>8</td>
</tr>
<tr>
<td>767</td>
<td>30</td>
</tr>
<tr>
<td>rouge 767</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Widebody Fleet</strong></td>
<td><strong>56</strong></td>
</tr>
</tbody>
</table>

*Swing/flexible capacity
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 (31% lower fuel and maintenance unit cost vs 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.
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%)
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.
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
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
**Revenue Optimization**

**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
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 17% in the first six 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
Skytrax Award
- Best Airline North America - 2014 fifth consecutive year

Ipsos Reid Canadian Business Traveller Survey
- Preferred carrier 83% (up by 14 percentage points over the last six 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 – 10-year agreement in effect until September 2024

• **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

• **IAMAW** – union representing 7,000 machinists and aerospace workers – collective agreement in effect until March 2016

• **CUPE** – union representing 6,000 flight attendants – negotiations are ongoing
SUSTAINABILITY PERFORMANCE HIGHLIGHTS

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 CO₂ in 2014

EMPLOYEES
- Launched new employee portal and new management programs to enhance leadership and improve experience
- Improved employee communication (Town Halls, Yammer, etc.)
- Canada’s Top 100 employers

COMMUNITY
- Total community investment portfolio of $6.5 million
- Air Canada Foundation, corporate community outreach initiatives, and commercial and other sponsorships
$5.4 billion improvement in pension solvency position over four years
- $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

Opt-out of 2014 Regulations in May 2015
- 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
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 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
Partially fund $8.6B 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.
FINANCIAL RESULTS
# Record Results

## Full Year 2014

- **EBITDAR**\(^{(1)}\) of $1.671B, 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 $13.3B, an increase of $890M or 7% 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 Six Months 2015

- **EBITDAR**\(^{(1)}\) of $1,033M, an improvement of $430M from the first six months of 2014
- Adjusted net income\(^{(1)}\) of $372M or $1.26 per diluted share, an increase of $365M or $1.24 per diluted share from the first six months of 2014
- Operating revenues of $6.7B, an increase of $293M or 5% from the first six months of 2014
- 19.7M passengers carried, an increase of 7.4% from the first six 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 are aggressive but achievable
- Engaged employees 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