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President & Chief Executive Officer

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Any forward-looking statements contained in this presentation represent Air Canada’s expectations as of the date of this presentation (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.
AIR CANADA – TRANSFORMING INTO A GLOBAL CHAMPION
Transformative Changes 2009-2016

- Liquidity restored
- Balance sheet materially improved
- Credit ratings improved
- Long-term labour agreements secured with major union groups
- Pension deficit eliminated
- Delivering on permanent cost reductions
Significant Progress in Financial Results – 2016 versus 2009

- Record operating revenues of $14.7 billion versus $9.7 billion in 2009
- Record EBITDAR\(^{(1)}\) of $2.8 billion versus $679 million in 2009
- Record EBITDAR\(^{(1)}\) margin of 18.9% versus 7.0% in 2009
- Return on Invested Capital\(^{(1)}\) (ROIC) of 14.7% versus (1.5%) in 2009
- Leverage ratio of 2.6X versus 8.3X in 2009
- Unrestricted liquidity of $3.4 billion versus $1.4 billion in 2009
- Based on preliminary estimates, aggregate solvency surplus in domestic registered pension plans projected to be $1.5 billion at January 1, 2017\(^{(2)}\) 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 2016 MD&A dated February 17, 2017 for additional information
**Transformation 2009-2016**

![Graph showing EBITDAR and EBITDAR Margin from 2009 to 2016*](image)

- EBITDAR:
  - 2009: $2.7B
  - 2010: $2.2B
  - 2011: $4.2B
  - 2012: $3.7B
  - 2013: $1.3B
  - 2014: $1.5B
  - 2015: $1.7B
  - 2016*: $2.8B

- EBITDAR Margin:
  - 2009: 7.0%
  - 2010: 13.3%
  - 2011: 10.7%
  - 2012: 11.9%
  - 2013: 12.2%
  - 2014: 12.6%
  - 2015: 18.3%
  - 2016*: 18.9%

**Leverage Ratio**

- 2009: 8.3x
- 2010: 3.4x
- 2011: 3.7x
- 2012: 4.2x
- 2013: 7.0%
- 2014: 10.5%
- 2015: 12.1%
- 2016*: 14.7%

**ROIC %**

- 2009: 1.5%
- 2010: 4.7%
- 2011: 4.2%
- 2012: 6.7%
- 2013: 10.5%
- 2014: 12.2%
- 2015: 12.6%
- 2016*: 18.3%

**Pension (deficit) surplus**

- 2009: ($2.7B)
- 2010: ($2.2B)
- 2011: ($4.2B)
- 2012: ($3.7B)
- 2013: $89M
- 2014: $660M
- 2015: $1.3B
- 2016*: $1.5B

*Based on preliminary estimates - As reported on February 17, 2017
BUSINESS PLAN ON TARGET

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

- Delivering a permanently lower cost structure
  - Committed and 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
  - Fleet flexibility
  - Pension
  - Long-term labour contracts
GLOBAL CHAMPION STRATEGY

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
- New Livery
- Iconic Canadian brand
- Operational Excellence
- Award winning products/services
- Only airline among Canada’s Top 50 brands
- 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 – 4th consecutive year
- One of Canada’s Best Diversity Employers for 2016
- Long-term labour stability with all major unions
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

**Transformation Plan**

**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 B787s
- Densification and optimization of fleet configurations
- Replacement of mainline narrowbody fleet with B737 MAX and Bombardier C-Series
- Leverage best in class products and services

**Flexibility to Adjust to Shifting Market Conditions**
- Swing capacity
- Leverage long-term labour agreements

**Team culture**
- Customer centricity
- Delivering brand promise
MORE THAN 90% OF PROJECTED CAPACITY GROWTH IS 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, including extensive and expanding global network, geographically well-positioned hubs and competitive products and services
- Launched 28 new routes in 2016 and on track to introduce an additional 18 in 2017 (such as Toronto-Mumbai & Berlin, Vancouver-Taipei & Nagoya, Montreal-Shanghai, Algiers & Marseille)
- Natural consequence – anticipated negative yield impact due to increased average stage lengths and a greater mix of leisure revenues vs business revenues
- Incremental traffic is being flown at a significantly lower-cost (B787s, increased seats on B777s, and Air Canada Rouge) resulting in enhanced profitability
- Diversified network lowers risk profile
### Capacity Growth is Largely Through Seat Density & Larger Gauge Aircraft

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mainline – new international destinations</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>Mainline – higher seat density &amp; larger gauge</td>
<td>33%</td>
<td>39%</td>
</tr>
<tr>
<td>Air Canada Rouge – new international leisure markets</td>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td>Air Canada Rouge – transborder &amp; sun leisure destinations</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Air Canada Express – capacity growth &amp; larger gauge</td>
<td>10%</td>
<td>9%</td>
</tr>
</tbody>
</table>
## Fleet

<table>
<thead>
<tr>
<th>Airline</th>
<th>Actual 2016</th>
<th>Actual 2017</th>
<th>Planned 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Widebody</strong></td>
<td></td>
<td></td>
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<tr>
<td>Boeing 787-8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Boeing 787-9</td>
<td>13</td>
<td>22</td>
<td>27</td>
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<tr>
<td>Boeing 777-300ER</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Boeing 777-300ER (higher-density)</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Boeing 777-200LR</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Boeing 767-300ER</td>
<td>14</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Airbus A330-300</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td><strong>Narrowbody</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boeing 737 MAX-8</td>
<td>-</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Airbus A319, A320, A321</td>
<td>75</td>
<td>75</td>
<td>67</td>
</tr>
<tr>
<td>Embraer 190</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total Mainline</strong></td>
<td><strong>168</strong></td>
<td><strong>173</strong></td>
<td><strong>183</strong></td>
</tr>
<tr>
<td><strong>Total Air Canada Rouge</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boeing 767-300ER</td>
<td>20</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>Airbus A319, A321</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total Widebody Aircraft</strong></td>
<td><strong>88</strong></td>
<td><strong>95</strong></td>
<td><strong>98</strong></td>
</tr>
<tr>
<td><strong>Total Narrowbody Aircraft</strong></td>
<td><strong>125</strong></td>
<td><strong>127</strong></td>
<td><strong>135</strong></td>
</tr>
<tr>
<td><strong>Total Mainline and Air Canada Rouge</strong></td>
<td><strong>213</strong></td>
<td><strong>222</strong></td>
<td><strong>233</strong></td>
</tr>
</tbody>
</table>
Air Canada is positioned to adjust to changes in the economic environment with fully unencumbered, older aircraft (both widebody and narrowbody), and with a sizeable amount of staggered aircraft lease expiries.

- Staggered Airbus narrowbody aircraft lease expiries give Air Canada the opportunity to manage capacity, either up or down, as it transitions to B737 MAX aircraft.
- Longer-term flexibility exists in Air Canada’s ability to defer a portion of B737 MAX aircraft deliveries.

**48 aircraft owned and unencumbered by year-end 2017**
(57 aircraft by Dec 31, 2018)

**51 aircraft with leases expiring in the next three years**
Leveraging 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 improving profitability and competitiveness 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

Awarded “Best New Long-haul Airline” at the Budapest Annual Awards.
IMPROVING COMPETITIVENESS IN REGIONAL MARKETS

Diversification strategy
- 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 extends to 2025
- Estimated $550M in incremental value 2015-2020
- Competitive cost structure post-2020
- Incremental aircraft at competitive rates
Other Opportunities for Margin Expansion

- B737 MAX program – estimated 10% CASM reduction vs Airbus narrowbody fleet
- Agreement with Bombardier for acquisition of 45 firm Bombardier C-Series CS300 aircraft starting in late 2019 – 25 of these will replace Embraer 190 aircraft – estimated CASM reduction of 10%
- Revenue Management System – Optimization of pricing and inventory – Determined by origin and destination rather than by individual flight legs
- Buy-up through additions of Premium Economy cabin on widebody aircraft
- Improving ability to generate incremental passenger and ancillary revenue
- Renegotiation of commercial agreement with Aeroplan scheduled to terminate in June 2020
1. International expansion
2. Cost reduction and revenue growth
3. **Customer engagement**
4. Culture change
ENGAGING OUR CUSTOMERS

- Newly designed website – improves customer experience across all platforms
- Products and services, such as the Dreamliner with newly designed cabins and next generation in-flight entertainment
- Wi-Fi connectivity available on mainline narrowbody aircraft and planned for mainline widebody aircraft and for Air Canada Rouge fleet
- Air Canada Altitude® which recognizes and rewards frequent flyers
- Dedicated check-in areas and premium agent services aimed at higher-yielding customers
- 22 Maple Leaf Lounges world-wide for the comfort and convenience of premium and business customers
- Air Canada Corporate Rewards program – designed to help businesses of all sizes book business travel, reserve cars, manage and share itineraries and keep track of business expenses and program rewards
CUSTOMER ENGAGEMENT AWARDS

The only Four-Star international network carrier in North America

- **2015 Skytrax Awards**
  - Four-Star ranking

- **2016 Business Traveler Magazine Awards**
  - Best Airline in North America for International Travel

- **2016 Global Traveler Magazine Awards**
  - Best Airline in North America

- Fastest growing brand amongst the Top 50 Most Valuable Canadian Brands
1. International expansion
2. Cost reduction and revenue growth
3. Customer engagement
4. **Culture change**
Marked improvement in employee engagement

Employees understand vision and strategy

9% of total issued shares held on employees’ accounts

Employee surveys and multiple awards demonstrate significant improvements in employee culture and engagement

- 2016 - Canada’s 3rd Most Attractive Employer
- 2016 - One of Canada’s 15 Top Employers for Canadians Over 40
- 2016 – One of Canada’s 10 Most Admired Corporate Cultures of 2016
- 2016 - One of 50 Most Engaged Workplaces in North America
10-YEAR LABOUR AGREEMENTS WITH MOST MAJOR UNIONS

- **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 March 2026*

- **CALDA** – union representing flight dispatchers
  - collective agreement terms for 12 years in effect until February 2028*

* Subject to certain renegotiation, provisions and/or benchmarks over this period
CONCLUSION

- Met key financial targets in 2016 – EBITDAR margin and ROIC
- Record EBITDAR results for fourth consecutive year
- Expect positive free cash flow in 2017
- Pension solvency surplus
- Engaged employees, as well as 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 February 17, 2017
THANK YOU