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

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

- Fleet initiatives and capital programs on target – 12 B787s in operating fleet – B787s meeting financial and operational expectations.

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

- Stronger balance sheet – leverage ratio of 2.5 at end of 2015 versus 3.1 at end of 2014, with a target of 2.2 or less by 2018.

- Eliminated pension deficit – deficit of $2.2B at year-end 2010 versus a surplus of $1.3B at year-end 2015.

\(^{(1)}\) 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

1. Fleet & Network
   - Star Alliance
   - A++ Joint Venture
   - Modern fleet / Seat density
   - Extensive route rights
   - Favourable slot times at busy airports
   - Swing capacity

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
   - Top 100 Employers in Canada
   - Labour stability with all major unions

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
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 787 order
- Densification and optimization of fleet configurations
- Replacement of narrowbody fleet with Boeing 737 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)

Accelerated, balanced transformation of Air Canada toward sustained profitability

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 (Boeing 787s, increased seats on Boeing 777s, and Air Canada rouge) resulting in margin expansion
- Diversified network lowers risk profile
## 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>
</tr>
</thead>
<tbody>
<tr>
<td>777</td>
<td>18</td>
<td>23</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>787</td>
<td>0</td>
<td>9</td>
<td>21</td>
<td>26</td>
</tr>
<tr>
<td>A330</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>0-8*</td>
</tr>
<tr>
<td>767</td>
<td>30</td>
<td>17</td>
<td>15</td>
<td>0-10*</td>
</tr>
<tr>
<td>rouge 767</td>
<td>0</td>
<td>13</td>
<td>19</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total Widebody Fleet</strong></td>
<td><strong>56</strong></td>
<td><strong>70</strong></td>
<td><strong>88</strong></td>
<td><strong>76-94</strong>*</td>
</tr>
</tbody>
</table>

*Swing/flexible capacity*
Best in class connections process at Toronto Pearson

International-to-U.S. & international-to-international connections process is objectively the simplest in North America

- 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.

- 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%)
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 Boeing 767s) 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; and
- Its frequent flyer program.
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
Following through with procurement transformation initiatives aimed at applying best sourcing practices company-wide to leverage our global spend

- In 2015, Strategic Procurement executed 156 agreements totaling $1,248 million in spend with savings of 9.9%
- Achieved savings in excess of $130 million over life of new/renegotiated contracts which average three years
- Investing in procurement technology, resources dedicated to supplier relationship management and supply chain risk 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, is bringing 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 Margin Expansion

- 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 – 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
- Longer term opportunity will come from the replacement of the remaining E190s with the Bombardier C-Series aircraft and the renegotiation of the commercial agreement with Aeroplan (Aimia)
International expansion
Cost reduction and revenue growth
3 Customer engagement
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

- **2015 Baxter Travel Media Agents’ Choice Awards**
  - Favourite Scheduled Airline – 6th consecutive year
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
RISK MANAGEMENT
As at January 1, 2016, aggregate solvency surplus in domestic registered pension plans is projected to be $1.3 billion*

- 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 $76 million on a cash basis for 2016 – $140 million less than they would otherwise have been

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

*As reported on February 17, 2016
Fuel hedging strategy designed to manage exposure to fuel price volatility
- Use of call options protects against short-term price spikes while allowing to participate 100% in fuel price declines
- Hedging horizon in line with forward booking curve

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 widebody aircraft to better position Air Canada for the future
  – Access to EETC market at investment grade rates

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 $4.7B* - Operating loss carry-forwards 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

<table>
<thead>
<tr>
<th>June 2013 Target</th>
<th>As of February 17, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASM reduction of 15% over medium term</td>
<td>Trending to 21%</td>
</tr>
<tr>
<td><em>(excluding the impact of foreign exchange and fuel prices)</em></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Targets 2015-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDAR margin</strong> <em>(on a 12-month trailing basis)</em></td>
</tr>
<tr>
<td><strong>Target</strong></td>
</tr>
<tr>
<td><strong>F/Y 2015</strong></td>
</tr>
<tr>
<td>15-18%</td>
</tr>
</tbody>
</table>

| **ROIC (return on invested capital)** *(on a 12-month trailing basis)*                 |
| **Target**                                                                               |
| **F/Y 2015**                                                                            |
| 13-16%                                                                                  | 18.3%                    |

| Leverage ratio by 2018                                                                  |
| **Target**                                                                               |
| **F/Y 2015**                                                                            |
| 2.2                                                                                     | 2.5                      |

*As disclosed on February 17, 2016*
Record Results in 2015

- Operating revenues of $13,868M, an increase of $596M or 4.5% from 2014
- EBITDAR\(^{(1)}\) of $2,534M, an improvement of $863M from 2014
- EBITDAR margin\(^{(1)}\) of 18.3%, 5.7 percentage points above 2014 and surpassing the 2015 target
- Adjusted net income\(^{(1)}\) of $1,222M or $4.18 per diluted share, an increase of $691M, 130.1% or $2.37 per diluted share from 2014
- Return on invested capital\(^{(1)}\) (ROIC), of 18.3%, exceeding 2014 by 6.2 percentage points and surpassing the 2015 target
- 41.1M passengers carried, an increase of 6.7% from 2014

\(^{(1)}\) 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
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 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