Automotive, Transportation & Industrials Conference

Michael Rousseau  
Executive Vice President and Chief Financial Officer

Chris Isford  
Vice President and Controller

Toronto  
May 18, 2017
Caution Regarding Forward-Looking Information

Air Canada’s public communications may include written or oral forward-looking statements within the meaning of applicable securities laws. Such statements are included in this presentation and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements may be based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, “would”, and similar terms and phrases, including references to assumptions. Pension funding obligations under normal funding rules are generally dependent on a number of factors, including the assumptions used in the most recently filed actuarial valuation reports for current service (including the applicable discount rate used or assumed in the actuarial valuation), the plan demographics at the valuation date, the existing plan provisions, existing pension legislation and changes in economic conditions (mainly the return on fund assets and changes in interest rates). Actual contributions that are determined on the basis of future valuation reports filed annually may vary significantly from projections. In addition to changes in plan demographics and experience, actuarial assumptions and methods may be changed from one valuation to the next, including due to changes in plan experience, financial markets, economic conditions, future expectations, changes in legislation, regulatory requirements and other factors.

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, our ability to successfully achieve or sustain positive net profitability or to realize our initiatives and objectives, currency exchange, industry, market, credit, economic and geopolitical conditions, energy prices, competition, our ability to successfully implement appropriate strategic initiatives, our dependence on technology, cybersecurity risks, our ability to pay our indebtedness, reduce operating costs or and secure financing, war, terrorist acts, epidemic diseases, our dependence on key suppliers including regional carriers and Aimia Canada Inc., casualty losses, employee and labour relations and costs, our ability to preserve and grow our brand, pension issues, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), limitations due to restrictive covenants, insurance issues and costs, our dependence on the Star Alliance, interruptions of service, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties and our ability to attract and retain required personnel, as well as the factors identified throughout Air Canada’s public disclosure file available at www.sedar.com, including those identified in section 17 “Risk Factors” of Air Canada’s 2016 Management’s Discussion and Analysis of Results of Operations and Financial Condition (“MD&A”) dated February 17, 2017 and section 12 of Air Canada’s First Quarter 2017 MD&A dated May 5, 2017.

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
Business Plan Progress

- Record EBITDAR\(^{(1)}\) of $2,768M and EBITDAR\(^{(1)}\) margin of 18.9% in 2016
- Operating income of $1,345M in 2016
- ROIC\(^{(1)}\) of 14.7% at December 31, 2016
- Fleet initiatives and capital programs on target
  - 26 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

As reported on February 17, 2017

\(^{(1)}\) These measures are non-GAAP financial measures used by Air Canada in an effort to provide additional information on Air Canada’s financial and operating performance. Such measures however are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. 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

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 2017 – 2nd consecutive year
- 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
Transformation Plan

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 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 launched or announced more than 20 new routes for 2017 (such as **Toronto**-Mumbai, Berlin & Belize; **Vancouver**-Taipei, Nagoya & Melbourne; **Montreal**-Shanghai, Algiers, Marseille & Lima)
- 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 Plan

<table>
<thead>
<tr>
<th></th>
<th>Actual 2016</th>
<th>Planned 2017</th>
<th>Planned 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Widebody</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<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>
</tr>
<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>168</td>
<td>173</td>
<td>183</td>
</tr>
<tr>
<td><strong>Total Air Canada rouge</strong></td>
<td>45</td>
<td>49</td>
<td>50</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>88</td>
<td>95</td>
<td>98</td>
</tr>
<tr>
<td><strong>Total narrowbody aircraft</strong></td>
<td>125</td>
<td>127</td>
<td>135</td>
</tr>
<tr>
<td><strong>Total mainline and Air Canada rouge</strong></td>
<td>213</td>
<td>222</td>
<td>233</td>
</tr>
</tbody>
</table>
Fleet Flexibility

- 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 – Provides Opportunities for Profitable Growth in Leisure Markets

- 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.

- High-speed satellite internet available aboard A319s.

- 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
- Announced decision to launch loyalty program in 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 Air Canada Rouge A319 aircraft; planned for mainline widebody aircraft and for Air Canada Rouge A321 and Boeing 767 aircraft
- 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

The only Four-Star international network carrier in North America
Customer Engagement Awards

- **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
Culture Change – Employee Engagement

- 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
  - 2017 - One of Canada’s 15 Top Employers for Canadians Over 40
  - 2016 - Canada’s 3rd Most Attractive Employer
  - 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
FINANCIAL RISK MANAGEMENT
Pension Deficit Eliminated – Significant Reallocation of Capital to Other Uses

- As at January 1, 2017, aggregate solvency surplus in domestic registered pension plans is $1.9B*:
  - Plans are in a solvency surplus position, therefore no past service cost payments expected in 2017
  - 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 $90M, on a cash basis, for 2017

- 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 March 24, 2017
Risk Mitigation – Fuel and Currency

- 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

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

- Leverage ratio and credit ratings have improved

- Completed a highly successful $1.25B refinancing transaction resulting in a reduction in weighted average cost of debt, interest expense savings and the release of collateral
## 2017 Guidance

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual EBITDAR margin</td>
<td>15% - 18%</td>
</tr>
<tr>
<td>Annual ROIC (return on invested capital)</td>
<td>9% - 12%</td>
</tr>
<tr>
<td>Positive free cash flow</td>
<td>$200M - $500M</td>
</tr>
</tbody>
</table>

Air Canada remains on track to reduce CASM by 21 per cent (excluding the impact of foreign exchange and fuel prices) by the end of 2018 when compared to 2012, and to achieve a leverage ratio not exceeding 2.2 by 2018.

- *Air Canada assumes relatively modest Canadian GDP growth for 2017 and 2018*

As reported on May 5, 2017
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