



2017 Investor Day

**Universal Eventspace,
Toronto**

September 19, 2017

AIRBUS A321-200



Caution Regarding Forward-Looking Information / Non-GAAP Measures

Outlook provided in today's presentations constitutes forward-looking information within the meaning of applicable securities laws, is based on a number of assumptions, including those discussed during today's presentations, and is subject to a number of risks and uncertainties.

Today's presentations also includes references to non-GAAP measures, such as EBITDAR margins, Returns on Invested Capital, Free Cash Flow and Leverage Ratio.

Please refer to this morning's press release for additional information on non-GAAP measures and cautionary statements relating to forward-looking information, as well as major assumptions relating to our financial targets.



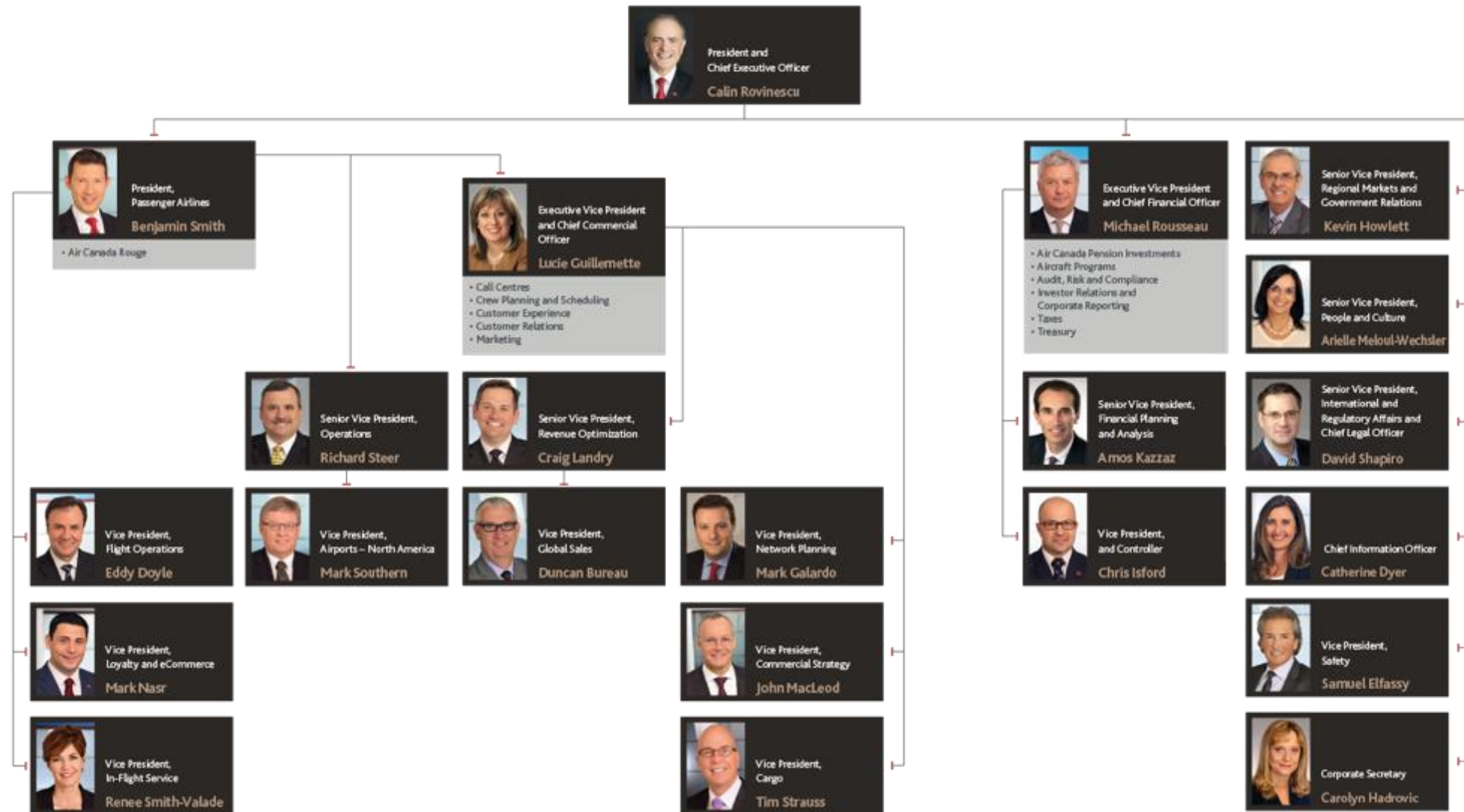


2017 Investor Day

CALIN ROVINESCU
PRESIDENT & CHIEF EXECUTIVE OFFICER

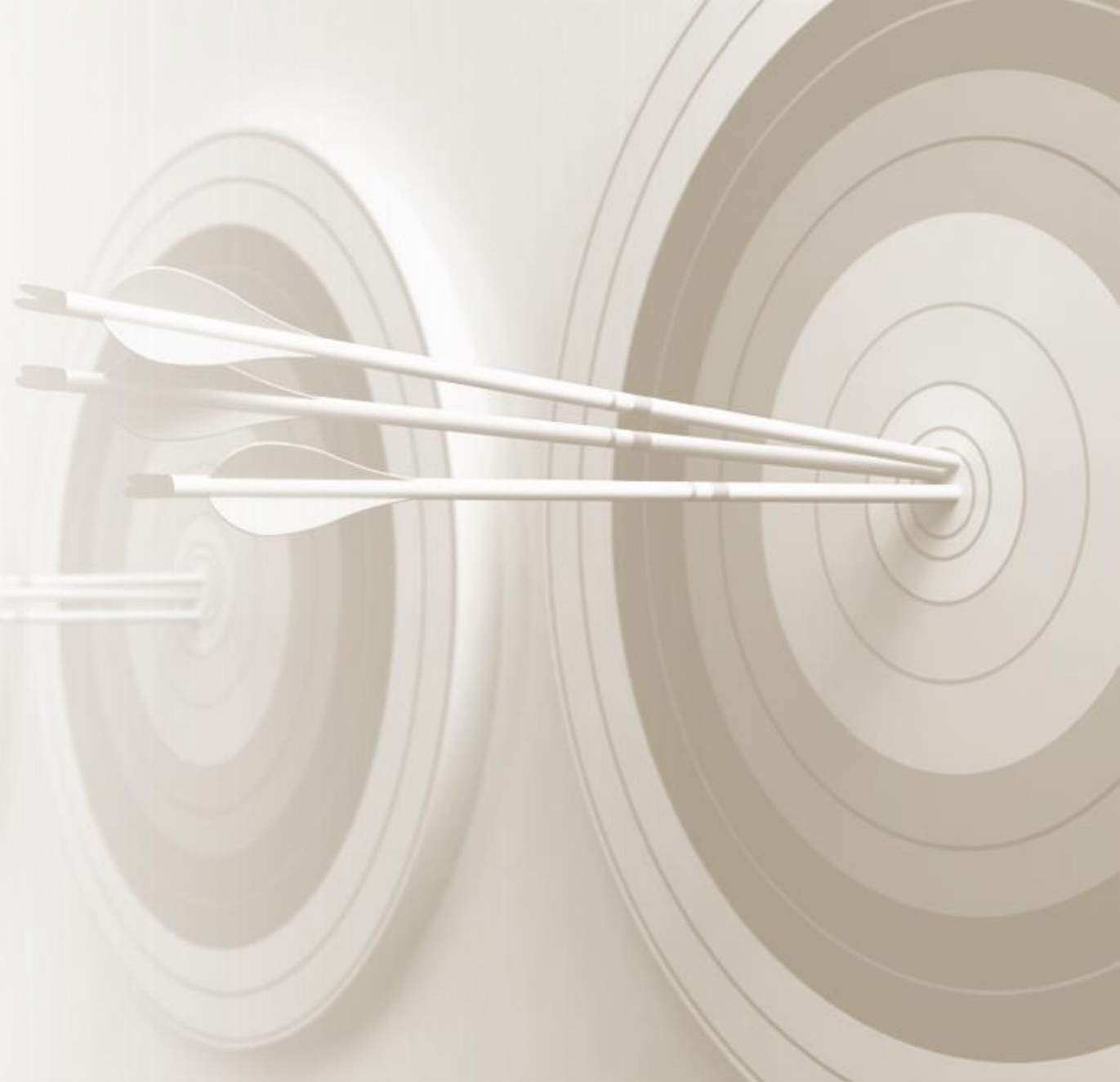
September 19, 2017

We Have An Experienced and Results-Driven Executive Team

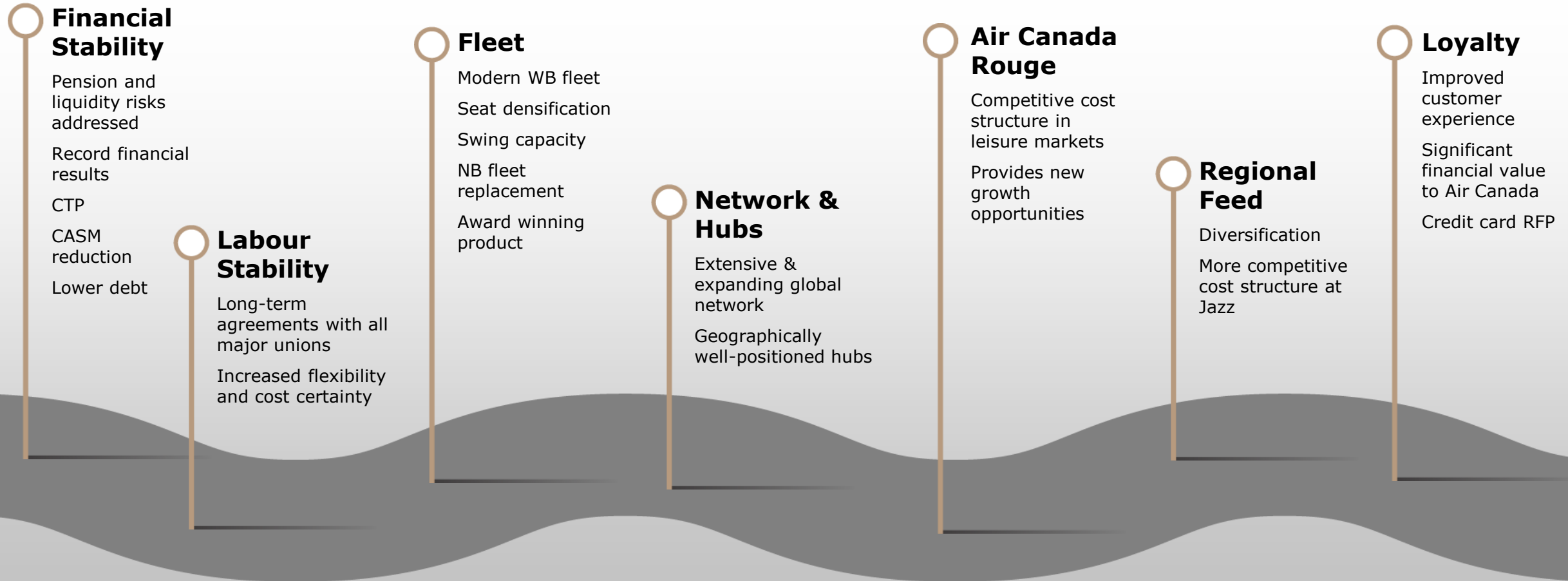


Global Champion Strategy

- Significant progress made towards goal of becoming a sustainably profitable global industry leader
- A number of transformational changes made including: restoring liquidity levels, strengthening the balance sheet, securing long-term labour agreements
- Reported record financial results
- Restructured pension plans



Our Path to Global Champion



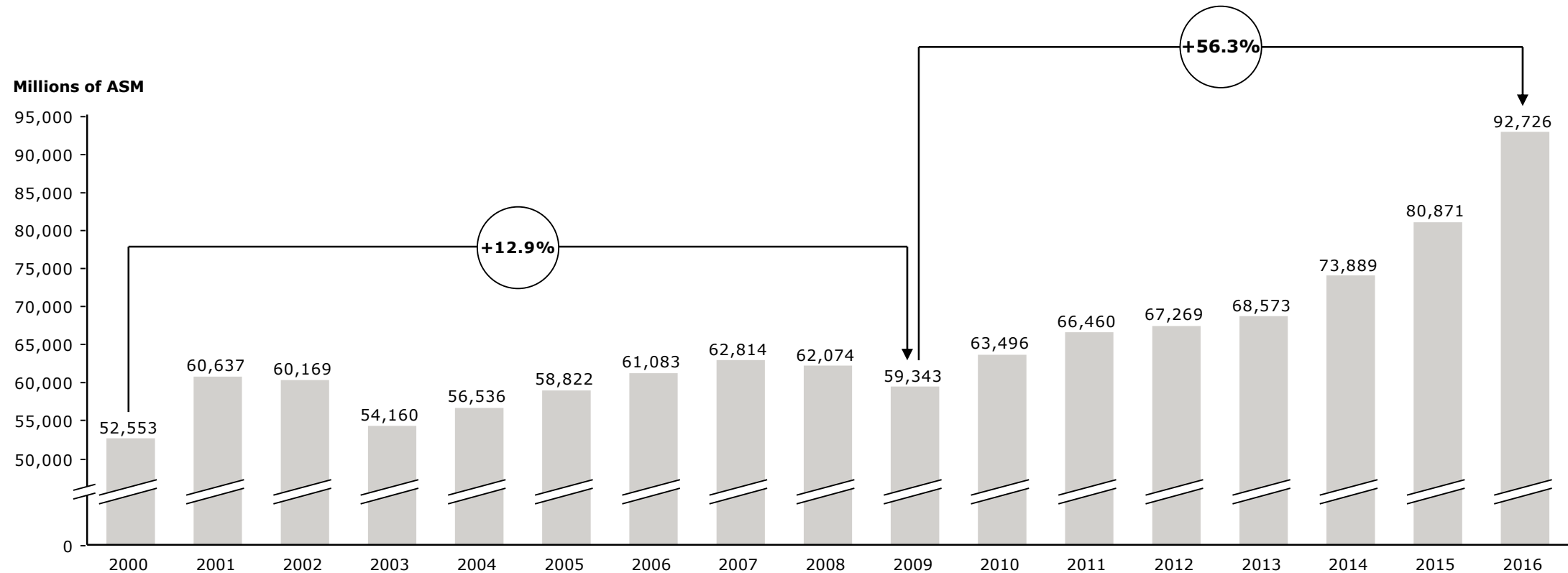
Solid foundation allows Air Canada to leverage its unique competitive advantages



Air Canada's Growth Strategy

We've Taken the Airline to New Heights

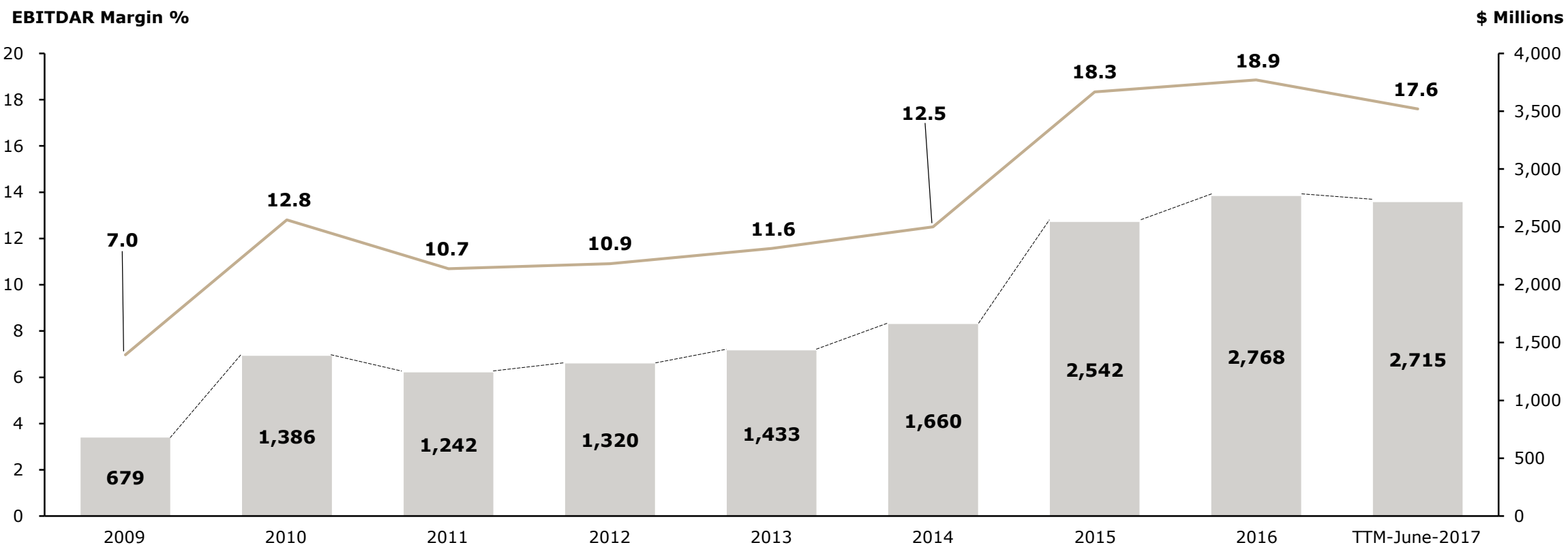
■ Available Seat Miles



Record Profitability

Record Levels of EBITDAR and EBITDAR Margin

■ EBITDAR (excluding special items)
— EBITDAR Margin (excluding special items)



Growth Directed to International Markets

Over 90% of growth in last several years has been directed at U.S. and international markets

Launched close to 50 U.S. and international routes since 2016

International and U.S. routes now represent 67% of total passenger revenue

Network diversification strategy lowers overall risk

Increased international connecting traffic by over 20% in 2016 versus 2015



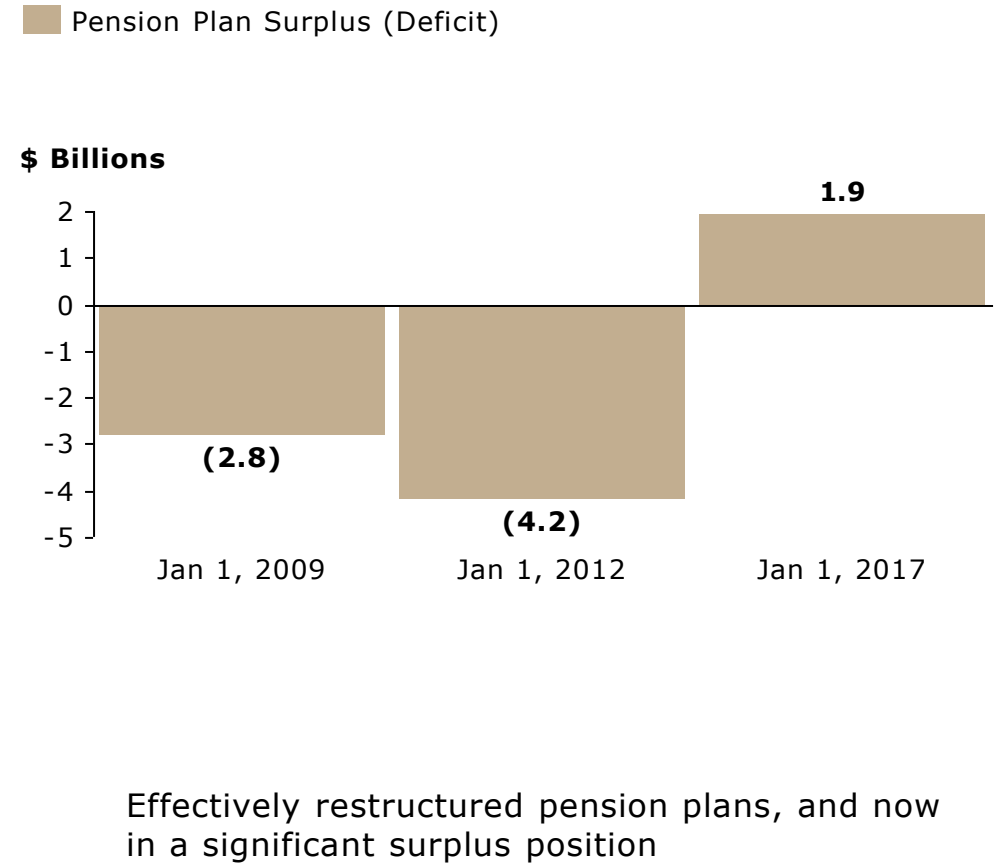
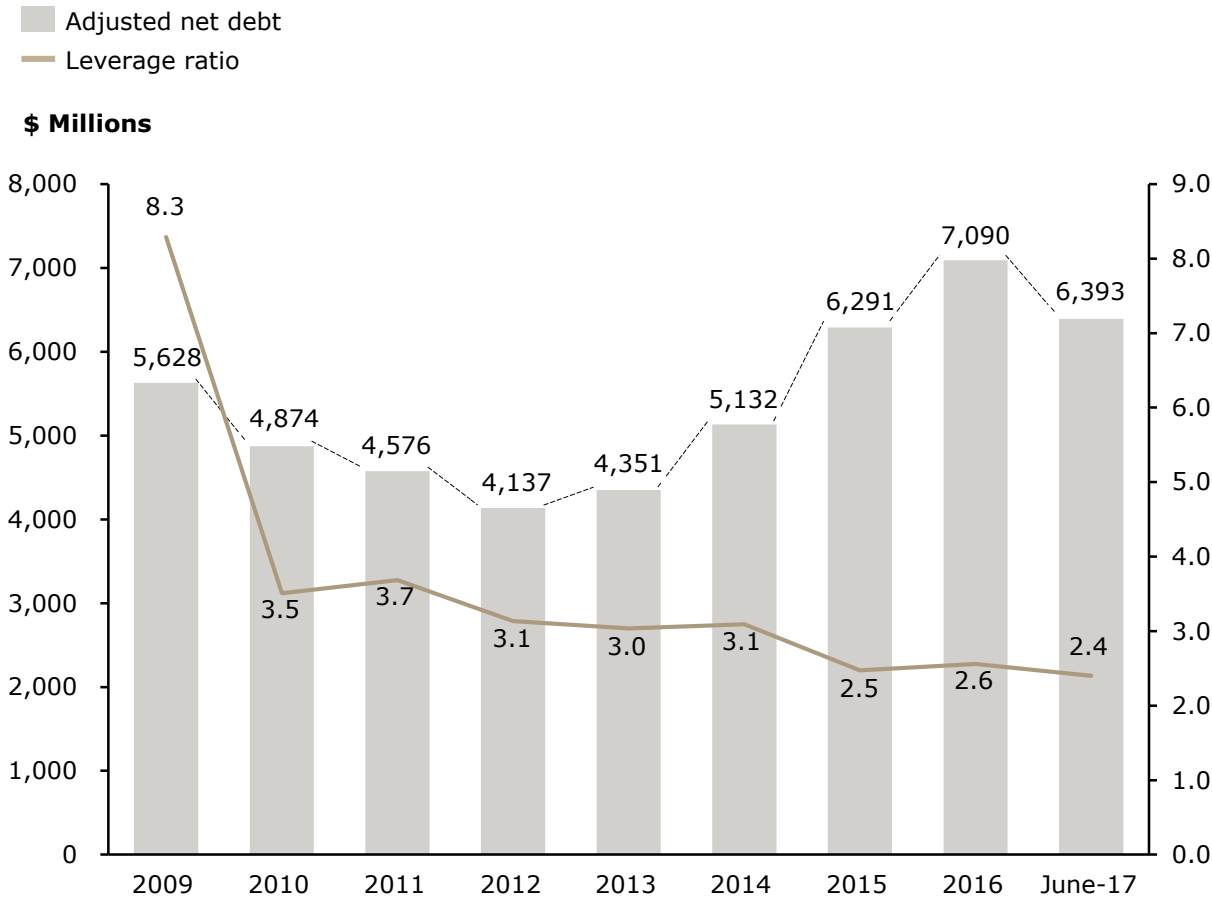
Broadening International Footprint

Developed additional commercial alliances with major international carriers, including Air China, Cathay Pacific and Virgin Australia

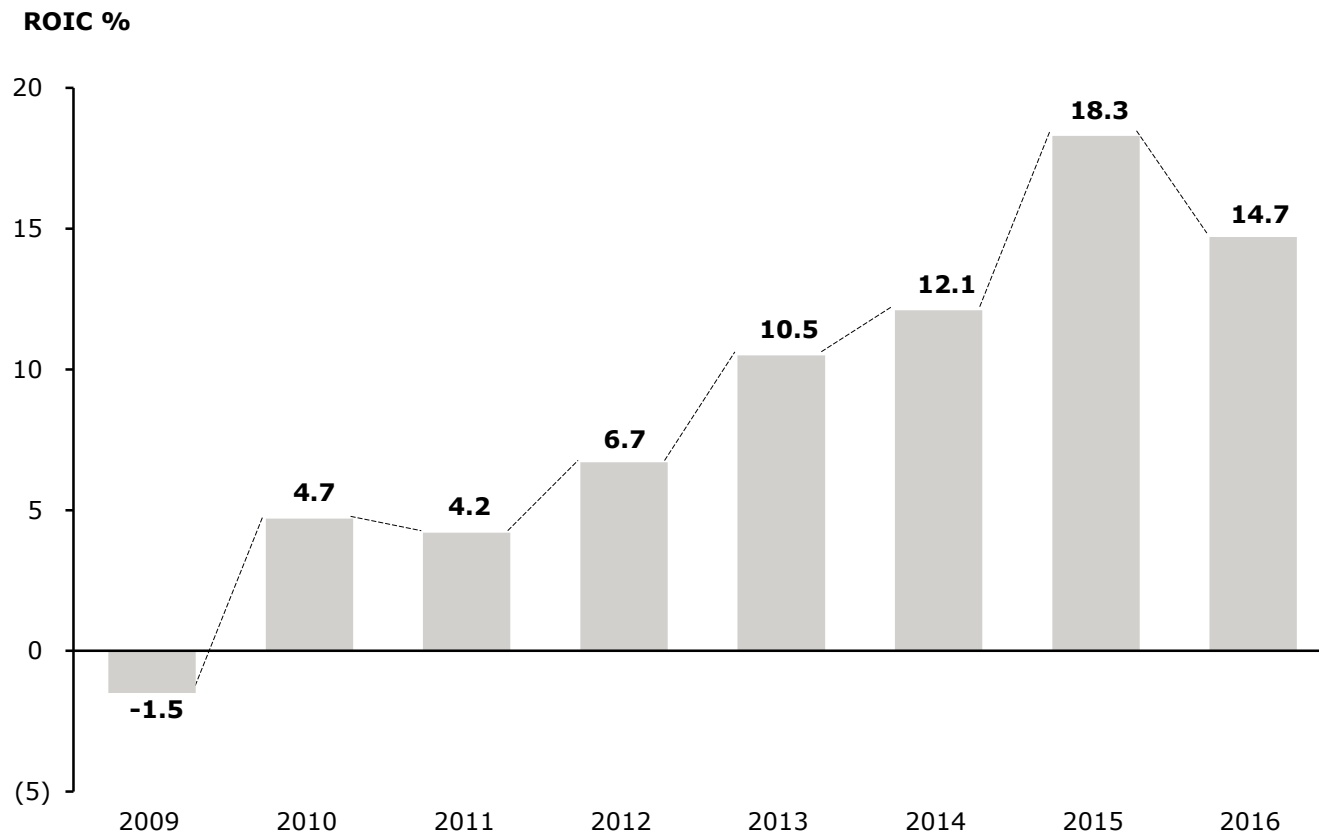
Continued to leverage expansion through revenue sharing joint venture with United Airlines and Lufthansa



Strengthened Balance Sheet and Lowered Risk Profile



Investments Driving Higher Return



- Boeing 777/787 aircraft
- Aircraft reconfigurations
- Creation of Air Canada Rouge
- New Revenue Management system
- Introduction of on-board WiFi
- New website
- New Maple Leaf Lounges



Share Price Up 3,000% – Over \$6.5 Billion of Value Created



Share Price:

April 1, 2009 \$ **0.78**

June 7, 2013 \$ **2.27**

June 1, 2015 \$ **14.19**



Many Opportunities Ahead

Continue to leverage unique competitive advantages
(geography, hubs, brand, competitive fleet and products
and services)

Lower-cost Rouge growth made possible with ACPA deal



Moderate Capacity Growth Going Forward

Expect rate of capacity growth to steadily decline as focus shifts from wide-body growth to mainline narrow-body fleet replacement programs



Launch of Own Loyalty Program

Expect to unlock significant value through the launch of loyalty program

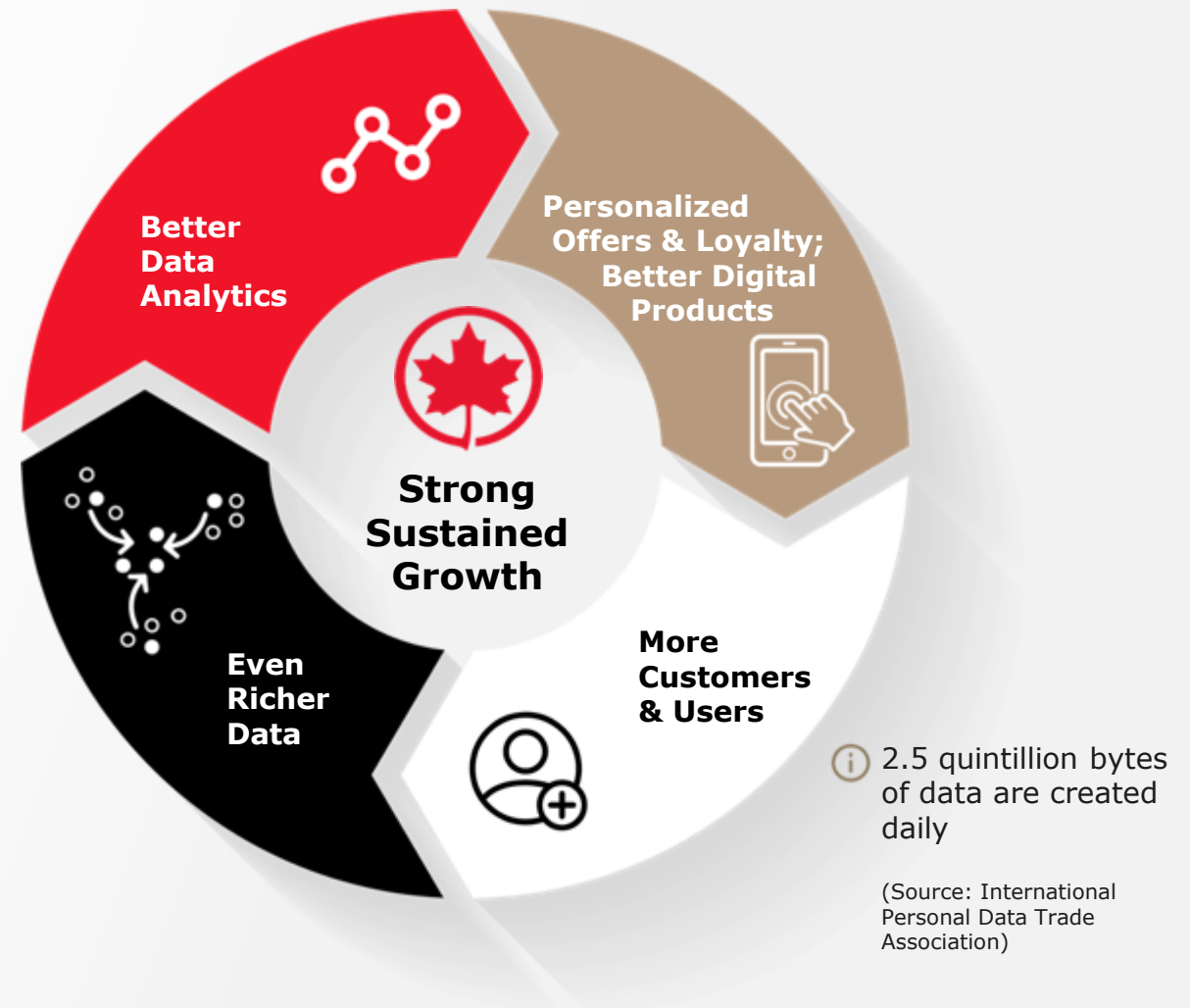
- Net present value of \$2.0 billion to \$2.5 billion* (on a pre-tax basis) over a 15-year period
- Initiating RFP for credit card partnership

* Assumes the current regulatory environment and a discount rate in line with Air Canada's WACC



Data and Digital are Fuel for Air Canada's Future Growth

- Data can drive a virtuous cycle of growth
- Airlines already have access to significant amounts of data
- Users now engage across loyalty programs, partners, devices, and digital platforms, leading to explosive growth of data collection
- Data is transforming Air Canada by enabling the transition from a channel- and product-based approach to a customer-based approach



Leveraging Strengths of Our People

Continue to promote improved collaboration amongst all employees in a supportive and enriching environment



Key Three-Year Financial Targets – 2018-2020

	2015-2018 Targets ⁽²⁾	2018-2020 Targets ⁽³⁾
Annual EBITDAR Margin ⁽¹⁾	15% - 18%	17% – 20%
Annual ROIC ⁽¹⁾	13% - 16%	13% – 16%
Free Cash Flow ⁽¹⁾ (Cumulative over the period)	-	\$2.0 – \$3.0 billion
Leverage Ratio ⁽¹⁾ ⁽⁴⁾	2.2 by end of 2018	1.2 by end of 2020

(1) For additional information on non-GAAP financial measures, refer to the Appendix of this presentation

(2) As reported at Air Canada's 2015 Investor Day on June 2, 2015

(3) The impact of accounting standard changes discussed under "Accounting Standard Changes" of this presentation are not factored into Air Canada's 2017 Investor Day projections

(4) The 2020 leverage ratio target is based on a foreign exchange rate of US\$1 = C\$1.32





Thank you

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2017 Investor Day

BEN SMITH
PRESIDENT, PASSENGER AIRLINES

September 19, 2017

Agenda

- ① Commitment to Customers
- ② Network and Fleet
- ③ Competitive Strengths
- ④ Revenue, Sales, and Ancillaries
- ⑤ ACV & Cargo
- ⑥ Digital / eCommerce
- ⑦ Loyalty





Commitment to Customers

Exceptional Customer Experience

- **Our greatest asset, an engaged Air Canada Team**
- **Safety First, Always**
- **Be a Top 10 Airline in Everything We Do**
- **Share the Best of Canada Around the World**



Investing in Our People

Improve customer service through increased engagement



Recognize the strong relationship between employee engagement & customer experience



Labour Relations: Long-Term Collective Agreements with Unions

Vital competitive tools to success



Long-term collective bargaining agreements provide:

1. Cost certainty
2. Significantly enhanced efficiency
3. Team engagement
4. Additional flexibility to respond to competitive threats and internal business challenges
5. Solid platform from which to invest in increased team engagement initiatives



Operational Safety and Reliability Focus

Builds the foundation to attract different customer segments



Safety and reliability attracts customers. Regular customers drive long term profitability





Network and Fleet

Air Canada has Unique Competitive Advantages

These advantages set Air Canada apart from the competition

Dual Brand



Geographic Advantage



Three Powerful Hubs (YYZ/YVR/YUL)



Competitive Fleet & Product



Star Alliance



A++ Joint Venture







Air Canada's advantages are unique – supporting a long-term market position

Air Canada Mainline Wide-body (Long-Haul): Fleet and Network

Fleet renewal focused on 777 and 787 is maximizing efficiency

Long Haul Fleet Snapshot (September 2017)

	Current	
	On Order	Phasing Out
	25	
	29 + (8)	
	8	
	10	-5

New Network Destination Snapshot

2014

Toronto → Haneda, Milan

2015

Toronto → Amsterdam, Delhi, Dubai
Montréal → Paris #2

2016

Toronto → Seoul
Montréal → Lyon
Vancouver → Brisbane, Delhi

2017

Toronto → Mumbai
Montréal → Shanghai, Tel Aviv
Vancouver → Melbourne (Seasonal), Taipei

2018

Vancouver → Paris, Zurich
Montréal → Tokyo Narita

Boeing 777 and 787 will form the backbone of the Air Canada fleet for the next 20 years



Air Canada Mainline Wide-body (Long-Haul): Summary

Leverage our geography to serve North America



Founded: 1937

Fleet: 72

Hubs: Toronto, Montreal and
Vancouver

Destinations: 46

Advantages: Utilization, Fleet,
LOPA, Pilot deal



Air Canada has created a global network to rival and exceed that of the three U.S. majors



Air Canada Mainline Narrow-body: Fleet and Network

Fleet focus will switch from A320 family to 737-8MAX and CS300

Short Haul Fleet Snapshot (September 2017)

	Current
	On Order
Airbus A319/A320/A321	75
Embraer E190	25
Boeing 737MAX	(61)
Bombardier CS300	(45)

New Network Destination Snapshot

2013

Toronto → Vail, CO
Montréal → San Francisco
Halifax → Fort Lauderdale

2014

Ottawa → Tampa

2016

Toronto → Portland
Vancouver → Chicago

2017

Vancouver → Boston

2018

Toronto → Shannon
Montréal → Dublin

Boeing 737-8MAX and Bombardier CS300 will form the future fleet with lower CASM



Air Canada Mainline Narrow-body: Summary

Targets point to point traffic and connections to the global network



Founded: 1937

Fleet: 100 Aircraft

Hubs: Toronto, Montreal and
Vancouver

Destinations: 24
(Mainline)

Advantages: Low CASM
Aircraft, LOPA, Pilot Deal,
Utilisation



Primarily focused on Toronto, Montreal and Vancouver North American trunk routes



Significant CASM reduction with 737-8MAX & CS-300 aircraft



Air Canada Rouge: Fleet and Network

Fleet focus will stay on 767-300ER and A320 family aircraft

Short Haul Fleet Snapshot (September 2017)

	Current
	To be Introduced
 Boeing 767	24 + (1)
 Airbus A319/A321	25

Network Destination Snapshot

2013

Toronto → Edinburgh, Venice

2014

Toronto → Lisbon, Manchester, Panama City
Montréal → Barcelona, Nice

New Network Destination Snapshot

2015

Toronto → Abbotsford, Sarasota
Montréal → Mexico City, Venice
Vancouver → Osaka
Calgary → Halifax

2016

Toronto → Budapest, Glasgow, London (Gatwick), Palm Springs, Port of Spain, Prague, Warsaw
Montréal → Casablanca, Puerto Vallarta, San Jose
Vancouver → Dublin

2017

Toronto → Belize City, Berlin, Cartagena, Reykjavik, St. Vincent
Montréal → Algiers, Lima, Marseille, Reykjavik
Vancouver → London (Gatwick), Nagoya, Orlando

A significant growth story associated with Air Canada earning its fair market share



Air Canada Rouge: Summary

Air Canada leisure oriented product has proven its success



Founded: July 2013

Fleet: 49 Aircraft

Hubs: Toronto, Montreal and Vancouver

Destinations: 49
(Asia, Caribbean, Europe, USA)

Summer '17



Winter '18



Advantages: Very Low CASM
Aircraft - LOPA, Low Ownership
and Labour Costs





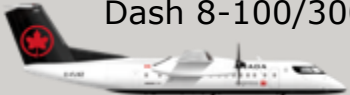
Alternating between Atlantic (summer) and Sun (winter) is a major competitive advantage



Regionals: Fleet and Network Growth

Fleet focus on CRJ-900, E175 and Q400

Regional Fleet Snapshot (September 2017)

	Current
	On Order
 CRJ900	21
 Embraer E175	25
 CRJ-100/200	24
 Dash 8-Q400	44
 Dash 8-100/300	42

New Network Destination Snapshot

2013

Toronto → Sydney, NS
Calgary → Red Deer

2014

Toronto → Mont Tremblant

2015

Vancouver → Comox
Calgary → Nanaimo, Terrace

2016

Toronto → Jacksonville, Washington (Dulles)
Montréal → Denver, Hamilton, Houston, Philadelphia,
Vancouver → San Diego, San Jose
Calgary → San Francisco

2017

Toronto → Memphis, San Antonio, Savannah
Montréal → Dallas, Washington (Dulles)
Vancouver → Dallas, Denver

Dash 8-100 and CRJ-100/200 to be retired, with the Dash 8-300 fleet to be refurbished



Regional Airlines: Summary

Regional airlines provide both local services and feed traffic



Founded: Carriers: Jazz,
Sky Regional, Air Georgian,
EVAS

Fleet: 171 Aircraft*

Hubs: Toronto, Montreal,
Vancouver and Calgary

Total Routes: 182

Advantages: Sky Regional,
Air Georgian cost base



**Cost structures of Sky Regional and Air Georgian are competitive
We are working with Jazz to continue to lower its cost structure**

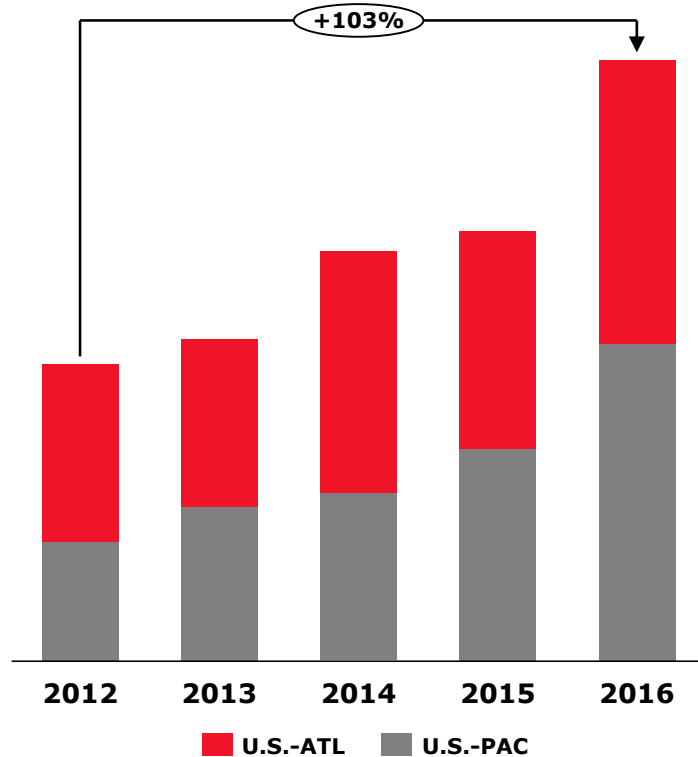
**Including all
regional aircraft*



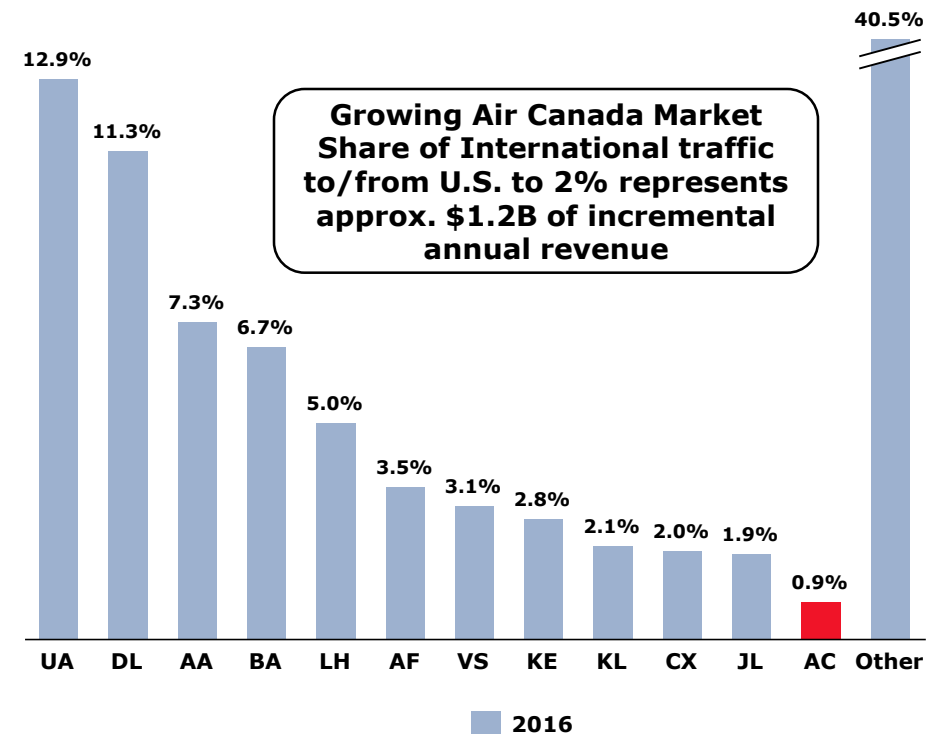
Growth of Traffic Transiting Canada to/from the U.S. (6th Freedom)



AC 6th Freedom Passengers Carried to/from U.S.



Market Share of International Traffic to/from U.S.



Growing Air Canada Market Share of International traffic to/from U.S. to 2% represents approx. \$1.2B of incremental annual revenue

Increasing U.S. revenues provides more U.S. net coverage and reduces net U.S. FX exposure





Competitive Strengths

Geography

Enables our hub strategy



Vancouver International
Closest NA Hub to Asia



Toronto Pearson International
Premier Global Hub



**Montréal – Pierre Elliott
Trudeau International**
Key francophone markets

All three of our hubs play a significant role in our growth strategy



Fleet Renewal and Reconfiguration

Fleet renewal will drive a step-change in hard product



Boeing 777
(Up to 25 Aircraft)



Boeing 787
(Up to 37 Aircraft)



Boeing 737MAX
(Up to 61 Aircraft)



Bombardier CS300
(Up to 45 Aircraft)

Rockwell Collins Super Diamond Business

Premium Economy Cabin

AVOD IFE in every seat

WiFi (by 2019)

New Look Interiors

STANDARDIZED PRODUCT
777 / 787

Longer range provides expanded
deployment opportunities

New Business seat

Larger Preferred Seat section

AVOD IFE in every seat

WiFi (at EIS)

New Look Interiors

STANDARDIZED PRODUCT
737MAX / CS300

Over 80% of Air Canada's mainline fleet will have industry-leading products by 2020



Flex-Capacity Strategy

Older, less capital intensive aircraft are ideal for flex capacity



10 leased 777s expire 2019 to 2021 (8x 77W, 2x 77L)

8 Owned

8 Owned, 2 Leased

5x A321 owned, 41x A320 lease expiries 2018 to 2020, 15x A319 lease expiries 2018 to 2020

14 of 25 are owned. Average age of over 20 years

Significant flex capacity provides buffer in case of an economic downturn



Focus on Premium

Increasing margins through our premium products

- International growth strategy is fueled by premium traffic
- Premium products (Maple Leaf Lounges, Priority check-in areas, concierge, priority boarding, quality in-flight cuisine) enhance the experience
- Extremely competitive International Business Class product



Premium products enable revenue growth to keep pace with capacity growth



Product: Check-In

Competitors are investing in premium facilities for corporate fliers

British Airways
"First Wing"
London – LHR T5



Delta Air Lines
"Delta One at LAX"
Los Angeles



Lufthansa
"First Class Terminal"
Frankfurt



American Airlines
"Flagship" Check-in
New York - JFK



Air Canada
"Premium Check-in"
Toronto - YYZ



Toronto Pearson "Premium Check-in" + SE100k counter is a solid foundation



Product: Maple Leaf Lounges

Raising the bar across our network

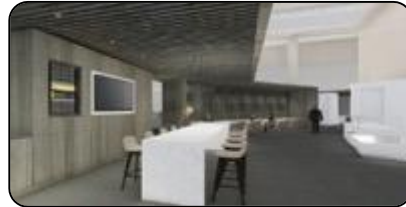
**Exploring
Premium Lounge
Opportunities**



**Expansion of
International
Maple Leaf Lounge
at YVR
(Vancouver)**



**New Maple Leaf
Lounge at LGA
(New York)**



**International
Maple Leaf
Lounges in FRA
and LHR**



Other Initiatives



Expansion of BMW Service

Enhanced Food & Beverages

Upgraded WiFi

Digital Newspapers &
Magazines

We are exploring a Transcontinental Premium Product where wide-body aircraft fly



Product: In-flight and Catering Product

Lift ambitions to become a top 10 global airline for in-flight service



International Business and Premium Transcontinental products to be consistent, competitive



737-8MAX Interiors

737-8MAX will introduce the Boeing "Sky Interior"



Raising the bar on
in-seat entertainment

15 language support
Launched on 737MAX
Live Weather / News
Seatback Ordering

Air Canada aims to have a consistent look and feel across all mainline aircraft



Amended Pilot Contract



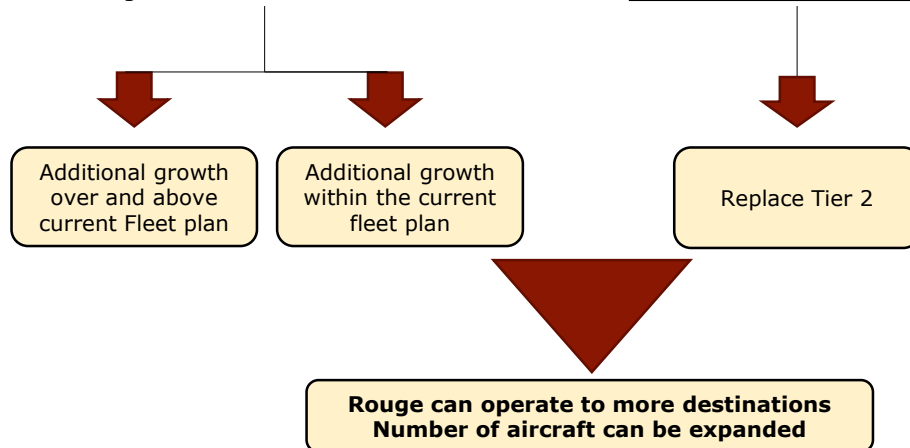
Boeing 767



Airbus A319 / A321

**Incremental Rouge NB Growth
subject to Mainline Growth**

Increased Flexibility



Significant flexibility to respond to changing market conditions and ULCCs



(To be named ULCC)



New Passenger Service System (PSS) Replacing Legacy Systems



- Consistent and improved customer experience
- Improved integration with Codeshare and Alliance Partners
- Delivery of new products and enhancements quickly
- Reduced compliance costs
- Modern, flexible and reliable platform

New PSS will enhance the customer booking experience

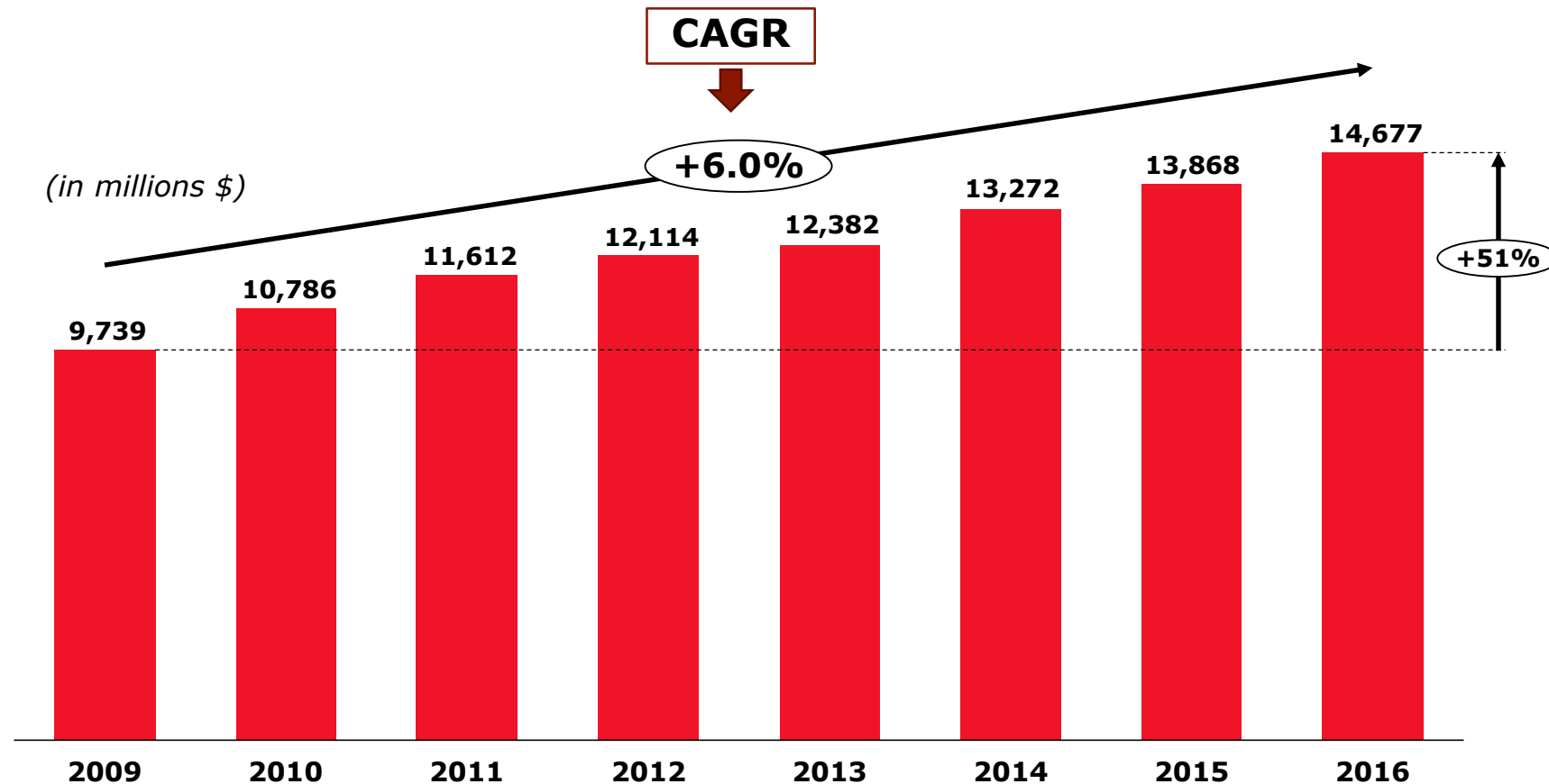




Revenue, Sales, and Ancillaries

Strong Revenue Growth Continues

Revenue growth keeping pace with capacity expansion



Unprecedented growth has increased revenue at 6% CAGR and 51% over seven years



Revenue Management: Enhancement Initiatives

A program of revenue optimization is on-going at Air Canada

Optimizing revenue is
crucial to ensure our
growth is sustainable
and profitable

✓ Ensuring “quality” revenue

✓ Optimizing Trips Based on O&D

✓ Innovating tools and processes

✓ “Artificial Intelligence” opportunities

A number of key initiatives have been completed, with many more in the pipeline

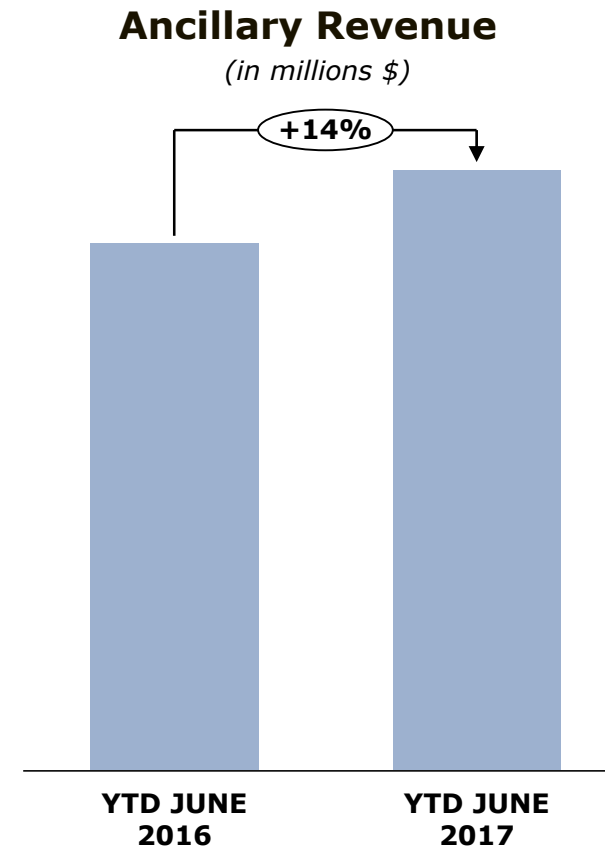
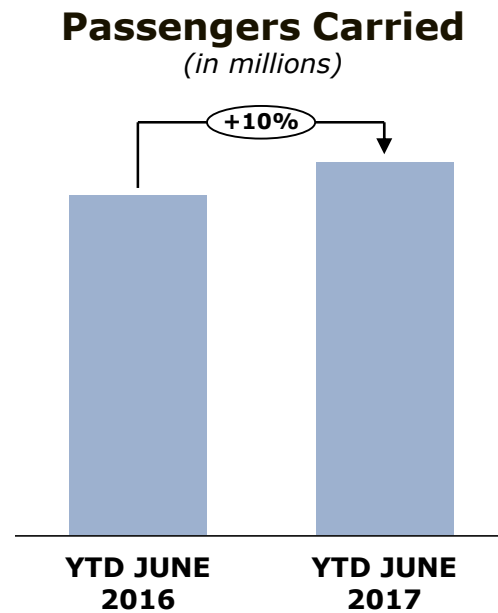


Ancillary Revenue – Year-to-Date June 2017

Ancillaries relating to seating comfort are the key growth driver

Key Drivers of Ancillary Revenue Growth (YTD 2017):

- Upgrades  39%
- Seat Fees  28%



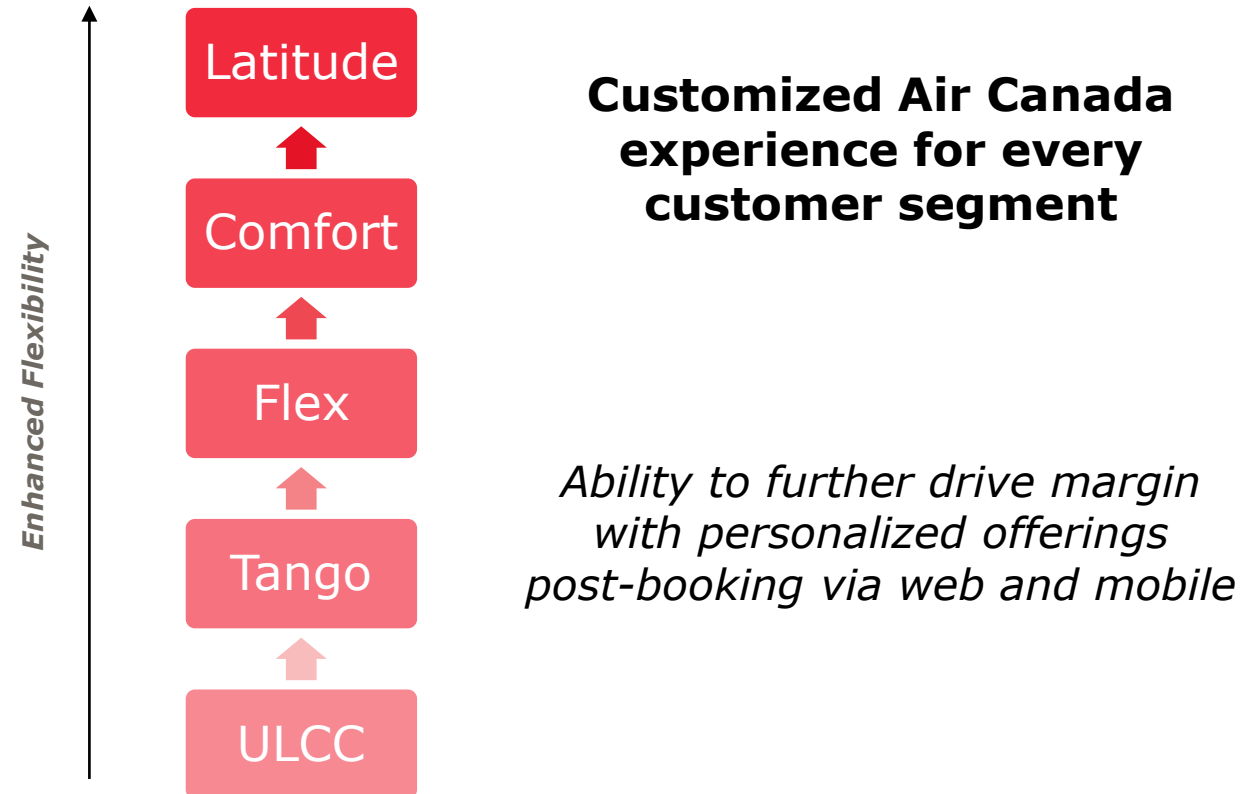
Revenue growth to passenger growth ratio of 1.5x in 2016 is stable in 2017 at 1.55x



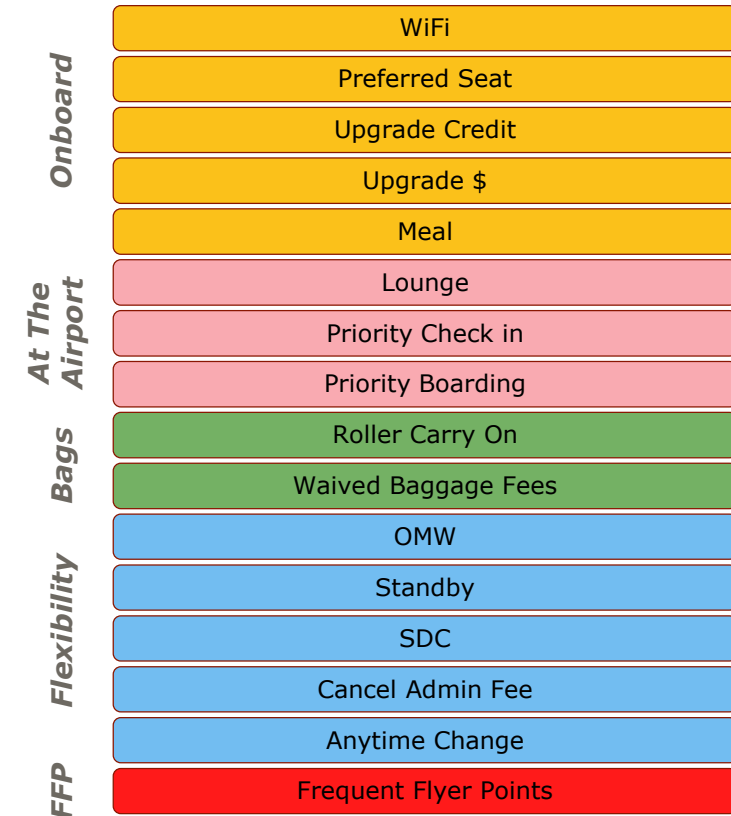
Modernizing Branded Fares

Allows Air Canada to compete in more market segments

Flexible Suite of Brands



Enhanced Experience



Enhanced branded fares allow Air Canada to cater to both corporate and budget customers





ACV & Cargo

Air Canada Vacations (ACV): Growth Plan

Strategic initiatives will help make ACV more competitive

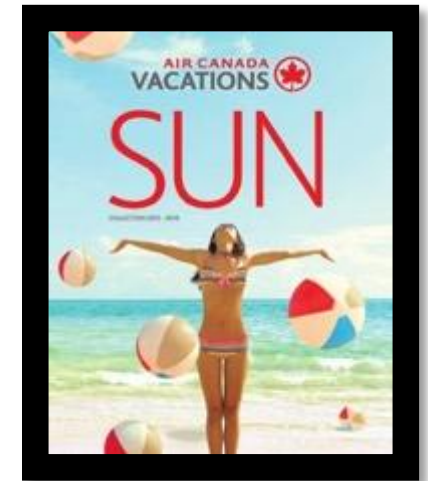
Today

- Primarily Sun Destinations
- Rely on 3rd Parties to Sell our Product
- Brand has low recognition in B2C market

Focused Strategic Initiatives

Key Focus Areas

- Leverage Air Canada brand globally
- Capture a share of inbound tourism market
- New web and mobile platform to enhance digital experience
- Reduce reliance on third party resellers
- Online dynamic pricing



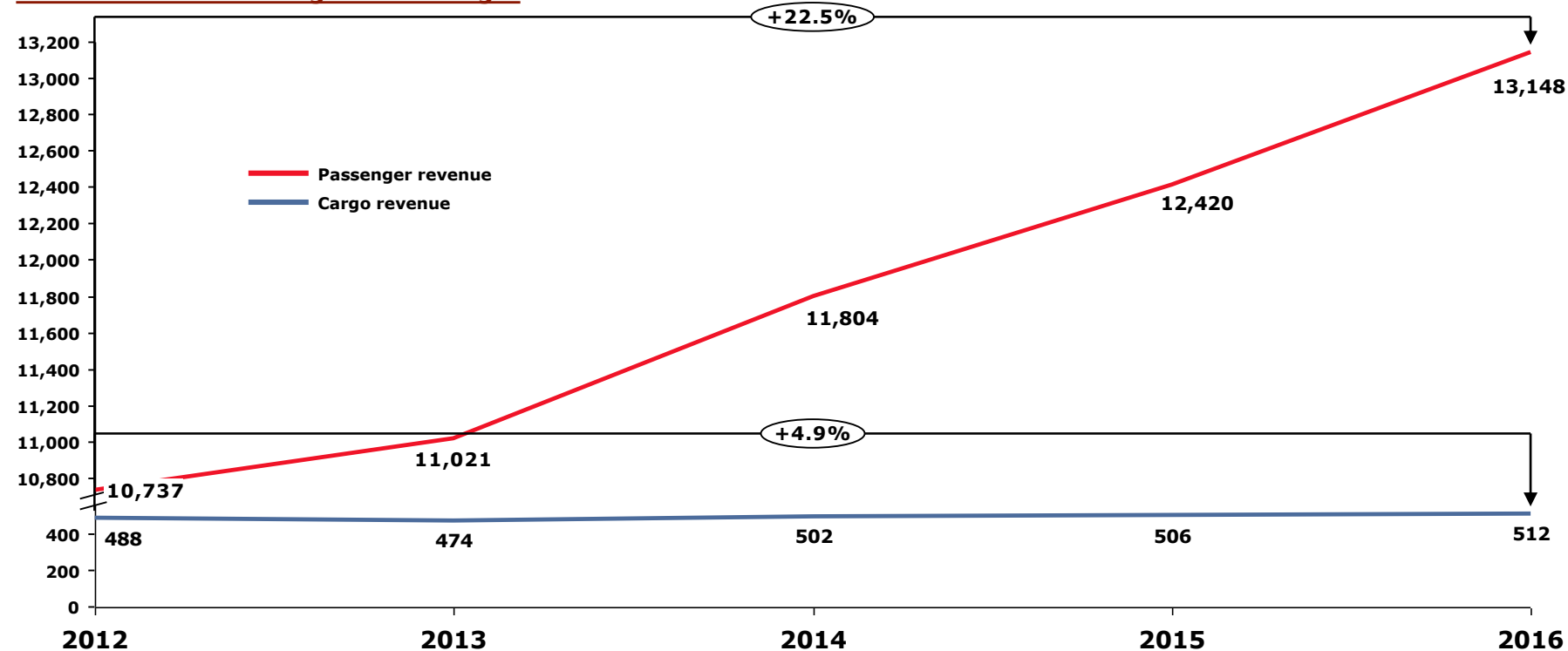
These initiatives are part of the plan to modernise ACV and make it more competitive



Cargo: Revenue Analysis

Cargo has great revenue growth opportunity with long-haul capacity

Revenue Growth – Cargo vs Passenger



- Available cargo tonnage grew 29.6% (2012 – 2016)
- Cargo revenue grew 4.9% (2012 – 2016)

Grow revenue by pursuing all available strategic opportunities



Cargo: Go Forward Plan

Action Plan in Place to Grow Cargo Revenues



Optimization of the Toronto "Cargo Hub"

- Improve efficiencies at primary hub in Toronto
- Leverage new Air Canada destinations globally
- Seize increased capacity opportunity with 777 & 787
- Dedicated freighter service through Cargojet partnership

Objective: build a competitive and efficient Cargo operation





Digital / eCommerce

Strengthening Customer Loyalty Through Digital Experience

1

Create a single view of all customers (current & prospect)

2

Redesign and optimize our digital channels

3

Personalize customer content, offers, and services



Grow revenue & customer service through enhanced engagement



Create a Single View of All Customers – Our Strategic Data Vision

Create a holistic view of the customer and their journey covering the online, offline & on-board worlds

Enables advanced analytics to support decision-making

Future Loyalty program and PSS system data will complete the CRM



CRM

Loyalty

Reservations

Operations

Redesign and Optimize Our Digital Channels...

Mobile investments achieving revenue growth & behavior shift

- 2** Redesign & optimize our digital channels...
Mobile investments achieving revenue growth & behaviour shift

80% ↑

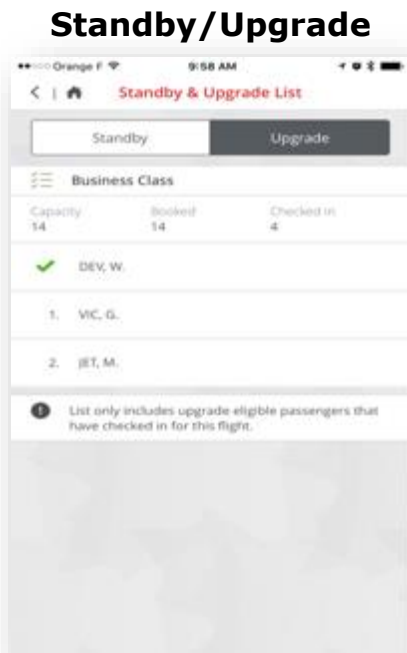
in mobile revenue
YOY Jan-July 2017 vs. Jan-July 2016

~50% ↑

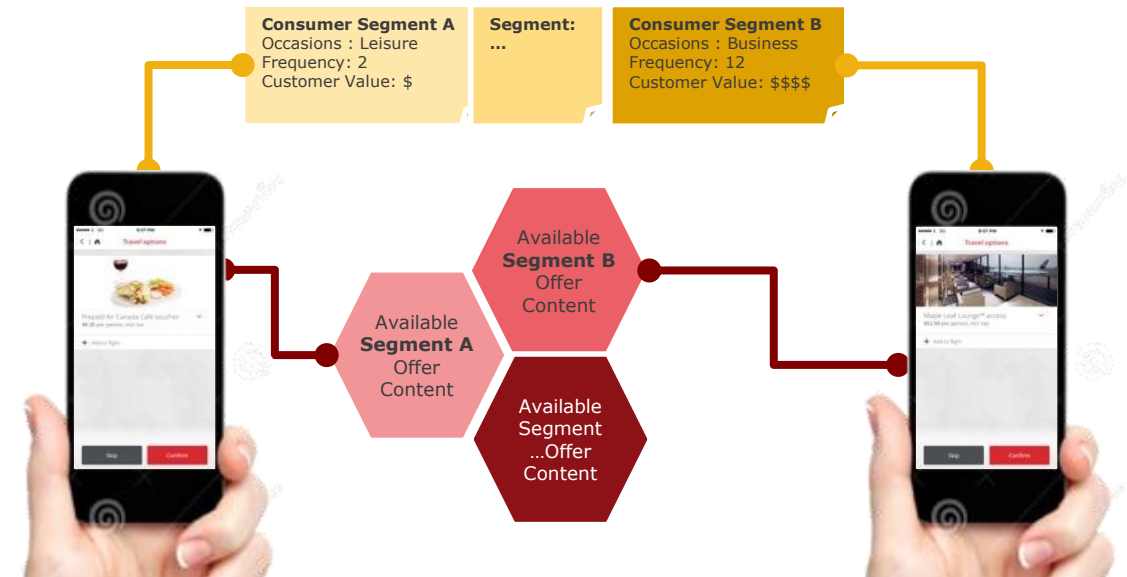
Off-Airport check-in; mobile
now largest channel
(+~40% YoY)

15 weeks to build

Time from start to beta
build - Concept, design,
dev & QA with agile on our
newest app



- 3** Personalize customer content, offers & services
Connecting data analytics to our channels increases relevance



Monetize customer data by enabling “personalized” offers and services based upon context, customer behavior and commercial value





Loyalty

Loyalty: Comprehensive Premium Product Range

A wide range of products and services, aligned with leading brands



Our Altitude program is competitive and designed to attract the most profitable customers



Loyalty Overview

"Owning" the customer experience

Improves engagement with customers, employees and partners

Customers to earn and redeem miles with greater flexibility

Creates a more cohesive experience by introducing new digital technologies

New Loyalty Program will enable Air Canada to:

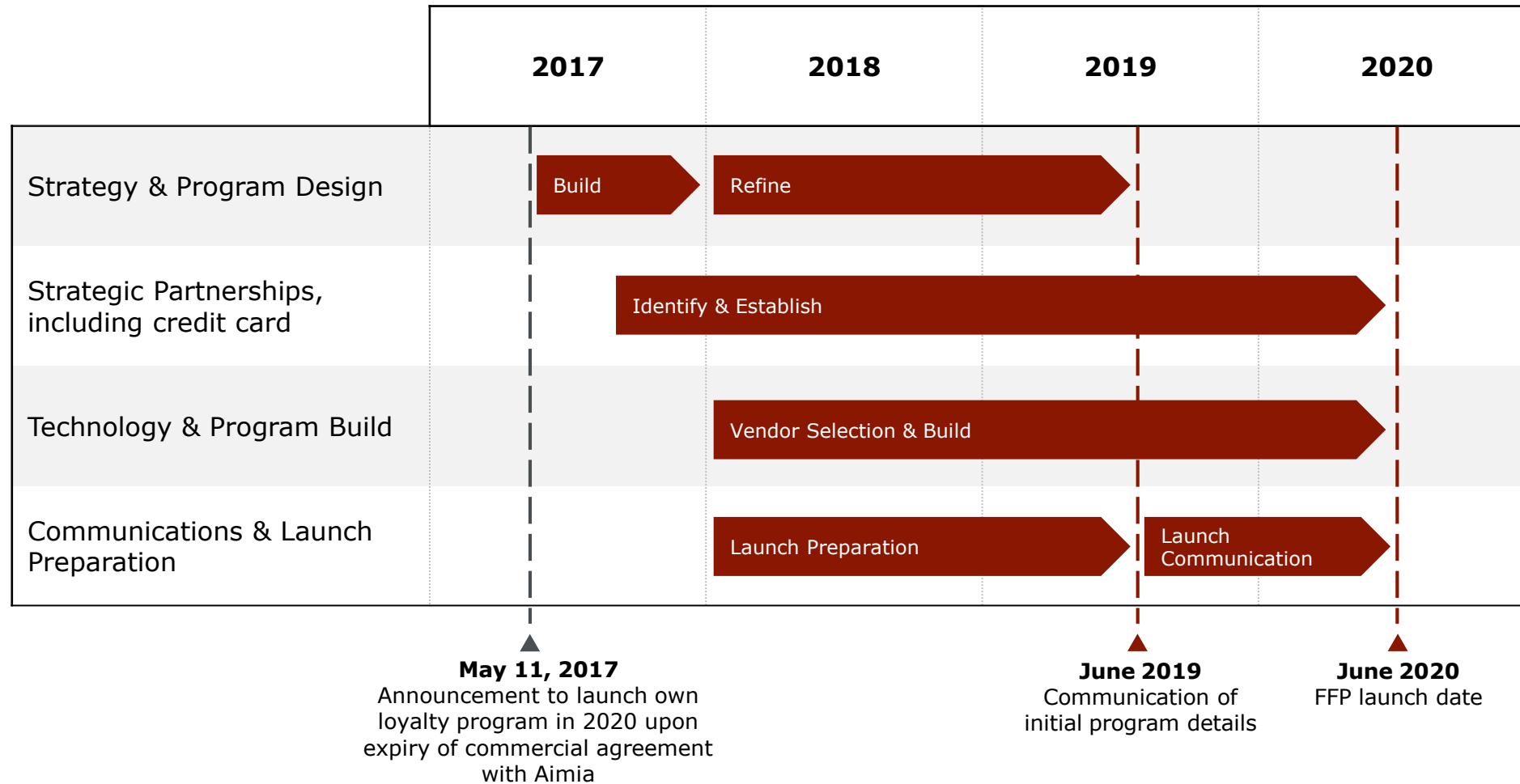
Improve responsiveness through agile decision-making

Remove operational inefficiencies

Extract significant financial value

A new in-house frequent flyer program will generate significant value for customers and Air Canada

Our Path to the New Loyalty Program in 2020





Thank You

aircanada.com



2017 Investor Day

MIKE ROUSSEAU
EXECUTIVE VICE PRESIDENT & CHIEF FINANCIAL OFFICER

September 19, 2017

Agenda

1. Sustainable Business Model
2. New Financial Targets
3. Financial Metrics
4. Taxes
5. Loyalty Program
6. Risk Management
7. Appendix
 - Accounting Standard Changes
 - Annual Assumptions 2018 – 2020
 - Financial Information
 - Non-GAAP Financial Measures





Sustainable Business Model



We Have a Sustainable Business Model

- Sustainable business model and investments are delivering as planned
- Record financial results from Global Champion strategy
- Improved financial targets
- ASM growth rate steadily declines as wide-body fleet expansion comes to an end
- Unit cost benefits from narrow-body fleet replacement programs
- Incremental benefits from extended capacity purchase agreement with Jazz post-2020
- Significant value from launch of the loyalty program in June 2020





New Financial Targets



We've Set New Targets for the Next Level of Performance Improvement

	Previous 2015-2018 Targets ⁽²⁾	2017 Outlook ⁽³⁾	2018-2020 Targets ⁽⁴⁾
Annual EBITDAR Margin ⁽¹⁾	15% - 18%	17% - 19% in 2017 and 2018	17% - 20%
Annual ROIC ⁽¹⁾	13% - 16%	11% - 14% in 2017 and 2018	13% - 16%
Free Cash Flow ⁽¹⁾ (Cumulative over the period)	-	\$600M - \$900M in 2017	\$2.0-\$3.0 billion
Leverage Ratio ^{(1) (5)}	2.2 by end of 2018	2.2 by end of 2018	1.2 by end of 2020

(1) For additional information on non-GAAP financial measures, refer to the Appendix of this presentation

(2) As reported at Air Canada's 2015 Investor Day on June 2, 2015

(3) As reported on August 1, 2017

(4) The impact of accounting standard changes discussed under "Accounting Standard Changes" of this presentation are not factored into Air Canada's 2017 Investor Day projections

(5) The 2020 leverage ratio target is based on a foreign exchange rate of US\$1 = C\$1.32





Financial Metrics



We Expect Continued Strong EBITDAR Margins

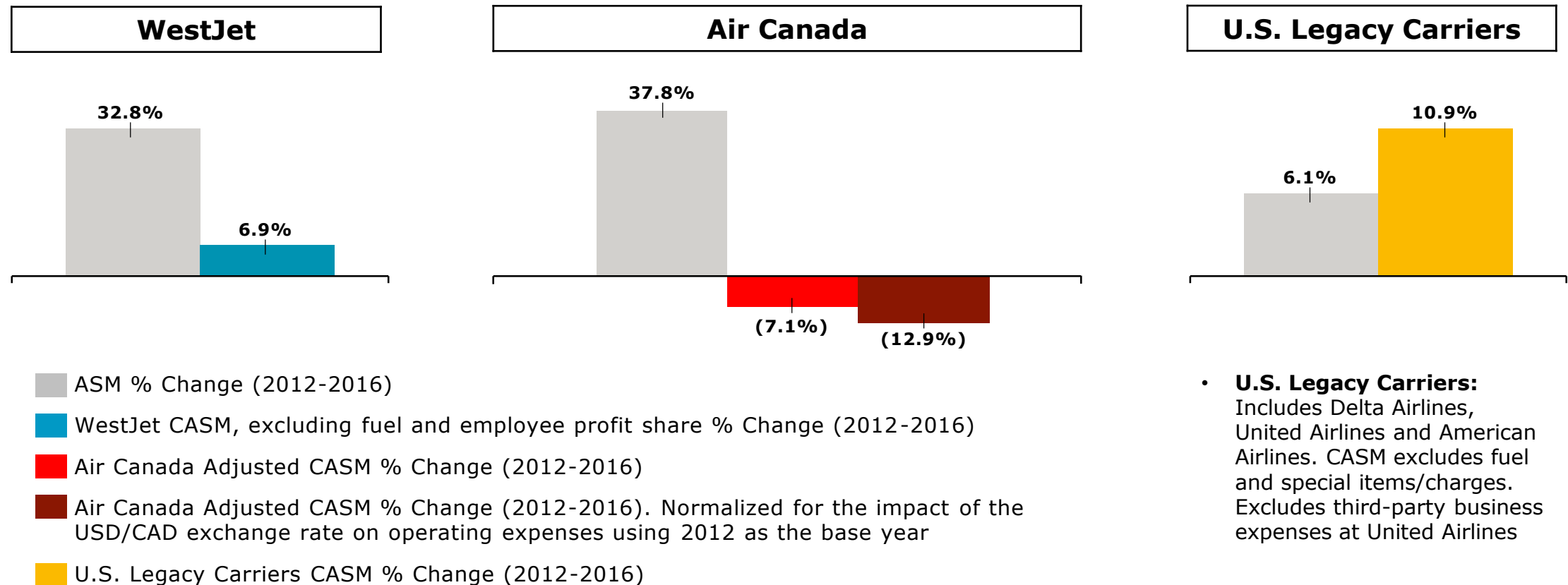
- Expect revenue growth to continue
 - Leveraging Air Canada's unique competitive advantages and fleet investments
 - Air Canada Rouge
 - Revenue enhancement initiatives
 - Revenue diversification – International points of sale revenue
 - Ancillary sales
 - Technology
- Continuous focus on cost transformation
 - New more-efficient narrow-body aircraft
 - Lowering cost structures of regional partners
 - Cost reduction initiatives
 - Process/productivity improvements
 - Technology
- Outstanding customer service

**Project annual
EBITDAR margin
of 17% to 20% over
2018 to 2020 period**



Building on Cost Productivity Focus

On a cumulative four-year basis, Air Canada's CASM performance was materially better than both WestJet's and the U.S. legacy carriers



Select Cost Reduction Initiatives

Fuel



Wages and Salaries



Aircraft Maintenance



Sales and Distribution



Other



Select Cost Reduction Initiatives

Fuel

- Decrease aircraft weight
- Reduce fuel transportation costs
- Replace legacy fuel inventory and cost management system



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Wages and Salaries

- New crew payroll system
- New employee health and wellness program
- Automation of passenger ticket changes (Amadeus)
- New flight attendant crew pairing system (Jeppesen)



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- Optimization of workscope related to fleet retirements
- Vendor consolidation - Expendable parts purchasing ownership transferred to one vendor
- New software to reduce deicing costs



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Sales and Distribution

- Reduction in payment acceptance costs with the implementation of alternate forms of payment and the introduction of payment wallets on aircanada.com
- Expect benefits from an enhanced distribution agreement (increased flexibility and better economic terms)



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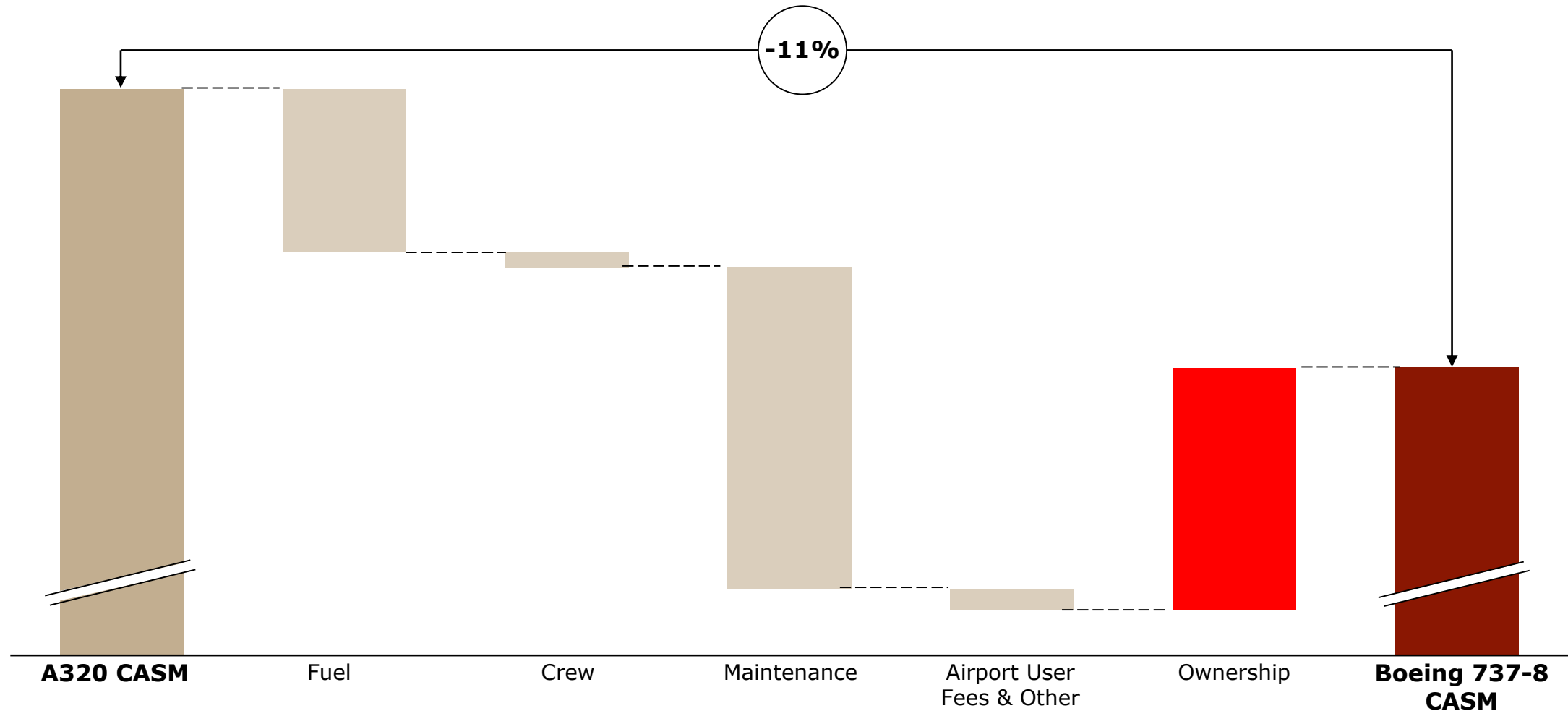
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Other

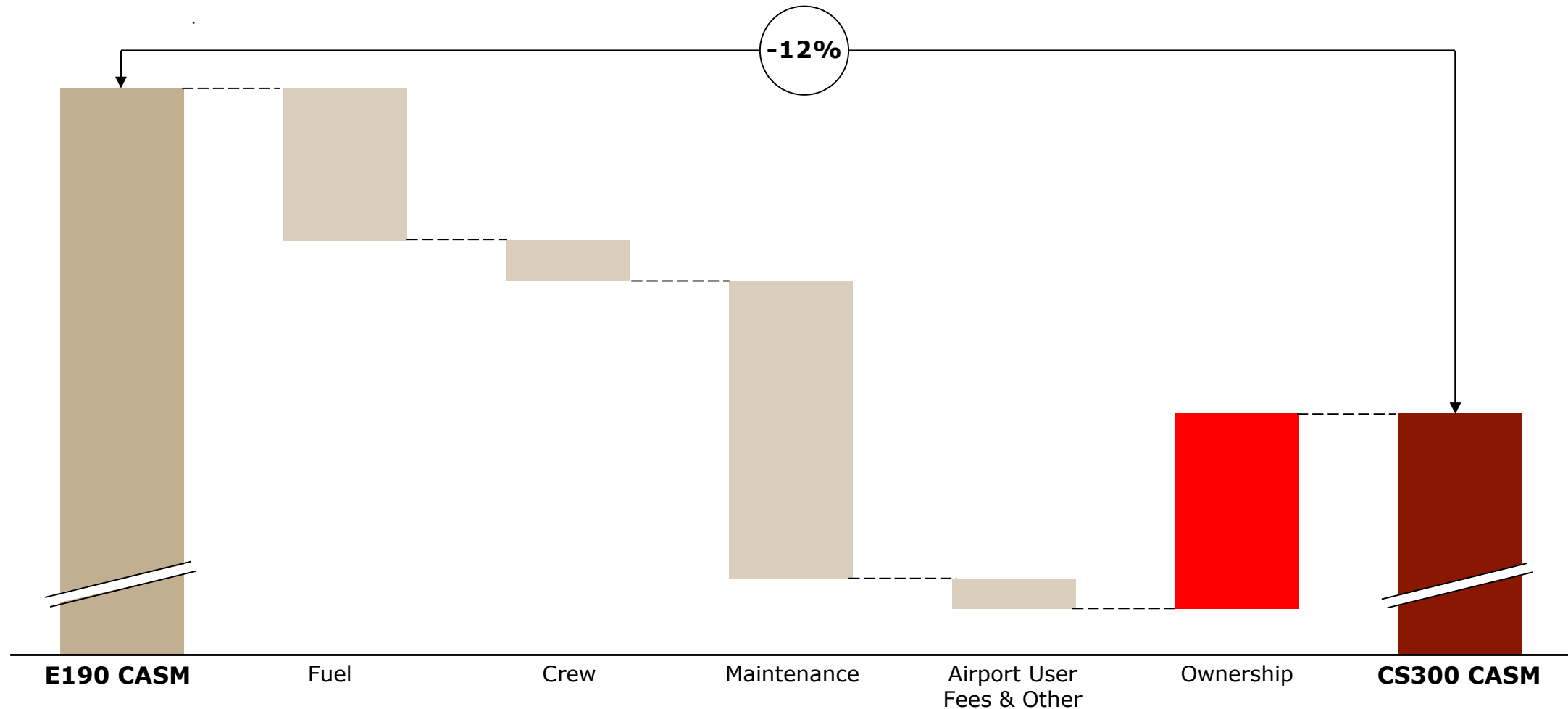
- Fraud reduction initiatives (3D identification, Hawkeye tools, etc.)
- Toronto cargo hub optimization
- Repatriation of Jazz STOC activity under Air Canada
- Improved oversight of Jazz station management



New Boeing 737-8 MAX Aircraft to Provide 11% CASM Reduction versus A320 Aircraft



New C-Series CS300 Aircraft To Provide 12% CASM Reduction versus Embraer 190 Aircraft



Additional Benefits from Amended and Extended Capacity Purchase Agreement with Jazz

Amended and extended capacity purchase agreement expected to provide \$550 million in financial value from 2015 to 2020 compared to previous agreement

- Greater network flexibility
- Fleet economics
- Pilot mobility agreement

The Jazz fleet is transitioning to more efficient and larger aircraft with significant fleet simplification

- Mix of larger, newer technology regional jets (CRJ705s) and turboprops (Q400s)
- Fleet decreases in size over time to accommodate the addition of the Q400s, replacing, older, inefficient Dash 8-100s

From 2021-2025, CPA compensation paid to Jazz reduces by approximately \$55 million per year, resulting in a more competitive cost structure in the regional sector



We Expect Continued Improvement in ROIC

- Significant increase in invested capital and book value of equity
- Decision to use a book value-based method of calculating ROIC beginning in Q3 2017
- Going forward, invested capital will be calculated based on outstanding average long-term debt plus average shareholder's equity plus capitalized operating leases
- Expect ROIC to continue to exceed weighted average cost of capital by a wide margin

**Forecast annual ROIC
of 13% to 16% over
2018 to 2020 period**



We Expect Significant Growth in Free Cash Flow

- Plan on using excess cash to purchase new aircraft to effectively reduce gross debt
- Will continue to leverage Normal Course Issuer Bid (NCIB) opportunities
- Will consider other uses of cash as plan matures

**Expect cumulative
free cash flow of
\$2.0 to \$3.0 billion
over 2018 to 2020
period**



Normalization of Capital Expenditures By 2020

\$ millions	2015	2016	2017	2018	2019	2020
Aircraft and Aircraft-related	\$1,415	\$2,516	\$2,198	\$1,895	\$1,751	\$1,224
Information Technology	38	36	68	125	115	58
Facilities and Ground Equipment	84	77	83	107	84	82
Capitalized Maintenance	208	234	107	95	132	132
Capitalized Interest	70	58	49	48	48	48
Total Capital Expenditures	\$1,815	\$2,921	\$2,505	\$2,270	\$2,130	\$1,544



Investments in Technology Driving Future Benefits

Passenger Service System

Principal IT system supporting reservations and departure control operations

Branded Fares

Re-introducing branded fares and fixed buy-across

Fuel Management System

Petroleum administration, inventory control and expenditures system



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\$100M in Annual Incremental Benefits

- Better partner integration
- Improved efficiency
- Improved shopping



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\$20M in Annual Incremental Benefits

- Increased fare differentiation
- Improved product recognition
- Increased customer buy up

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\$3M in Annual Incremental Benefits

- To provide visibility to fuel movements from refinery to wing



Investments in Technology Driving Future Benefits

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\$20M in Annual Incremental Benefits

- Increased fare differentiation
- Improved product recognition
- Increased customer buy up

\$3M in Annual Incremental Benefits

- To provide visibility to fuel movements from refinery to wing

OTHER TECHNOLOGY INVESTMENTS

Mobile 3.0

- AC mobile application upgrade

Plusgrade

- To allow customers to bid on premium seats

SmartSuite

- To replace operating system on critical digital devices

Customer Relations System

- To replace customer relations and baggage claims system

Workday

- New HR system

Data Roadmap

- Improved enterprise data capabilities

CYBERSECURITY: Increased security and reduced vulnerability



We Expect Continued Strengthening of the Balance Sheet

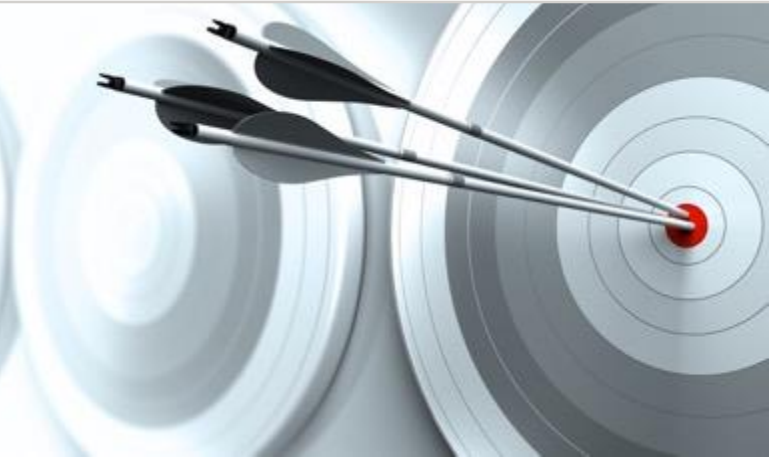
- Significantly lowered weighted average cost of capital (WACC) - 7.6% at June 30, 2017
- WACC well below ROIC
- Accessed lower-cost capital
 - Enhanced Equipment Trust Certificates (EETC)
 - Japanese Operating Lease with Call Option (JOLCO)
- Completed a highly successful \$1.25 billion dollar refinancing transaction in 2016
- Increased pool of unencumbered assets – total current value of US\$1.7 billion



Lower Leverage Supports Investment Grade Credit Ratings

- Creating shareholder value by lowering gross debt and leverage remains top priority followed by shareholder distributions via share buybacks
- Forecast continued improvement in financial leverage as debt is paid off and gross debt is reduced
- Reduced overall risk profile by aggressively managing our financial leverage, leading to credit rating upgrades
 - **Standard & Poor's**
BB- with stable outlook (from CCC+ in 2010)
 - **Moody's**
Ba3 with stable outlook (from B3 in 2010)

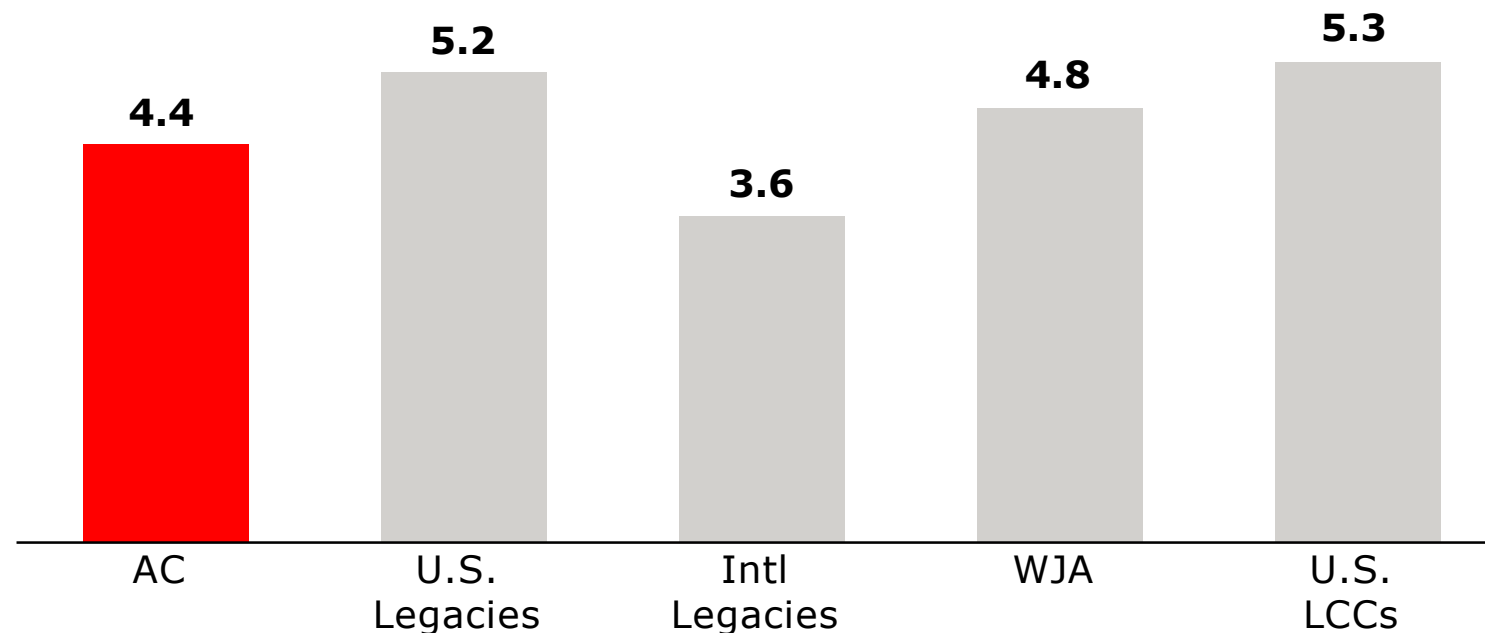
Expect projected decline in leverage ratio to 1.2 by the end of 2020 to support drive for investment grade credit ratings



Improved Fundamentals and Launch of Loyalty Program Should Support Drive for Multiple Expansion

Despite record financial results and long-term upside potential, Air Canada trades at a discount to U.S. legacy airlines and at a significant discount to industrial companies

EV/EBITDAR



Source: 2017E TD Securities (Aug 28, 2017)





Taxes

Net Tax Loss Carry Forwards Coming to an End – Tax Implications

- At December 31, 2016, Air Canada had total unrecognized temporary differences of \$3.4 billion, including unrecognized non-capital loss carryforwards of \$1.1 billion
- We expect to be required to pay Ontario Minimum Tax which is estimated to be less than \$20 million per year over 2017 to 2020 period
- Based on current profitability trends and projections for future financial performance, there may be recognition of deferred income tax assets in 2017, following which Air Canada will record current and deferred income tax expense on the consolidated statement of operations in future periods, as applicable
- We do not expect to pay any significant federal cash taxes until 2021 (essentially for 2020 fiscal year)





Loyalty Program

High-level Financial Breakdown

- Over a 15-year period, net present value of the new loyalty program expected to be in the range of **\$2.0 billion to \$2.5 billion***, on a pre-tax basis
- NPV includes approximately \$85 million of up-front investments and uses a discount rate that approximates Air Canada's weighted average cost of capital

* Assumes the current regulatory environment and a discount rate in line with Air Canada's WACC



High-level Financial Breakdown

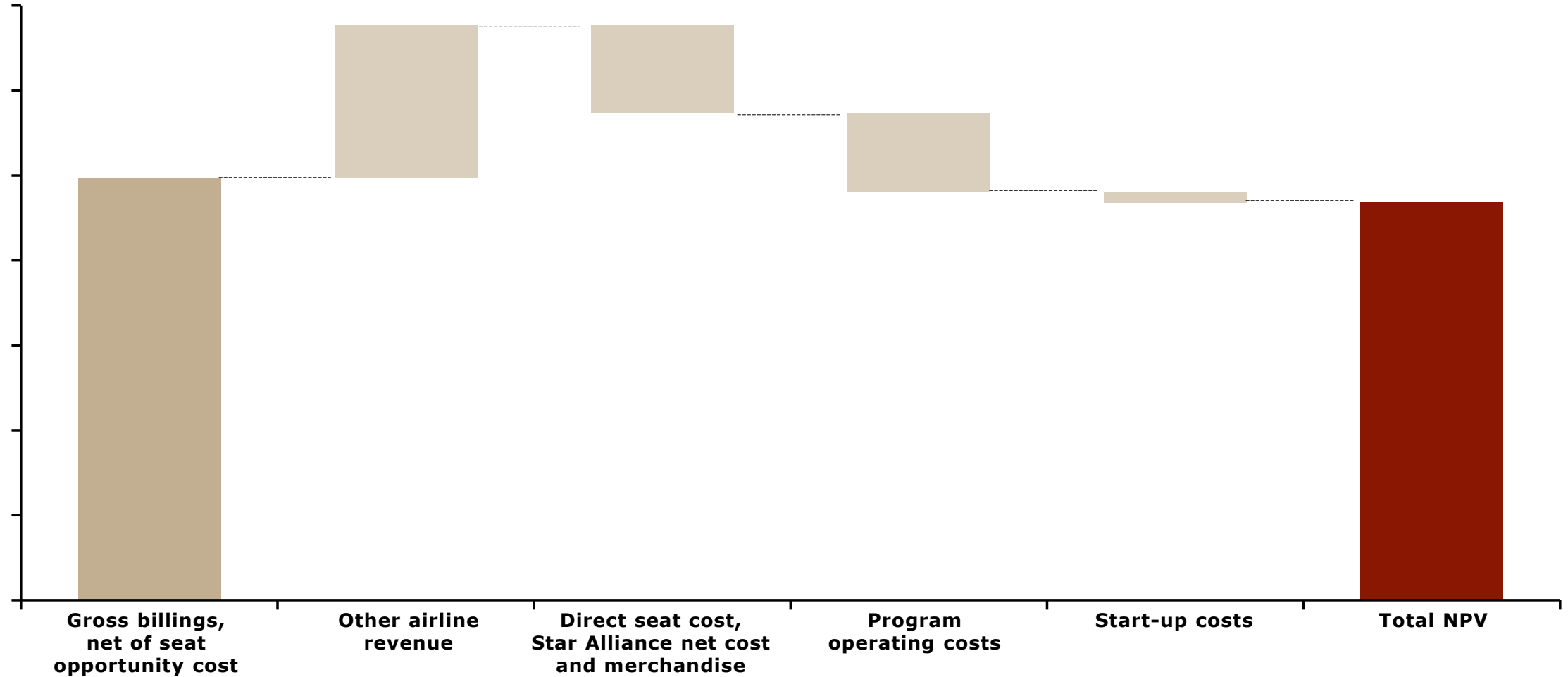
Four main value drivers:

- **Passenger Revenue:** Increased wallet share, yield premium, and the flexibility to allocate redemption capacity differently (versus restrictive 8% across-the-board)
- **Mileage Margin:** Uplift from new credit card partnership and margin on mileage sales
- **Data:** Ownership of data and associated activation opportunities
- **Distribution:** Influence on channel participation and behaviours



Launch of Loyalty Program

NPV is between \$2.0 billion and \$2.5 billion* (on a pre-tax basis)



* Assumes the current regulatory environment and a discount rate in line with Air Canada's WACC





Risk Management



Overall Risk Profile is Significantly Reduced

Stronger Balance Sheet

- Record level of unrestricted liquidity
- Lower leverage ratio and improved credit ratings

Pension Risk Addressed*

- \$1.9 billion pension solvency surplus as at January 1, 2017
- 75% of pension liabilities are currently matched with fixed income products
 - may increase matched fixed income allocation by 10%
- Projected to remain in a pension solvency surplus position with no past and current service payments for at least 2018, 2019 and 2020

* For more information, refer to section 6.6 of Air Canada's Second Quarter 2017 MD&A and section 9.7 of Air Canada's 2016 MD&A



Overall Risk Profile is Significantly Reduced

Fleet Flexibility

- Positioned to adjust to different economic environments
- By the end of 2017, 50 aircraft or 23% of mainline/Rouge fleet will be fully-owned and unencumbered
- Staggered Airbus narrow-body aircraft lease expiries give Air Canada the opportunity to manage capacity, either up or down, as it transitions to Boeing 737 MAX aircraft
- Longer-term flexibility exists in Air Canada's ability to defer a portion of Boeing 737 MAX aircraft deliveries
- Both Boeing 737 MAX and C-Series orders have a significant number of options to provide flexibility



Fuel Risk is Well Managed

Fuel hedging strategy is designed to manage our exposure to fuel price volatility

- Use of call options to protect us against short-term price spikes while allowing us to participate 100% in fuel price declines
- Target hedge ratio of 40% of planned fuel consumption, typically put in place three to nine months in advance of any given quarter



Foreign Exchange Risk is Well Managed

Foreign exchange risk strategy is to cover 70% of net U.S. exposure on a rolling 18-month basis

- Air Canada's financial results are reported in Canadian dollars while a large portion of its expenses, debt obligations and capital commitments are in foreign currencies, primarily U.S. dollars
- Air Canada's U.S. dollar exposure is partially hedged by U.S. and foreign-denominated revenues which essentially cover U.S. and foreign-denominated non-fuel operating expense exposure
- In order to manage our exposure to the U.S. dollar, we hold U.S. dollar cash reserves and enter into currency derivative contracts.
- Annual U.S. dollar net exposure shortfall will decrease as a result of decline in U.S. denominated capital expenditures and increased U.S. dollar revenue





Thank you

aircanada.com



2017 Investor Day

Conclusion

CALIN ROVINESCU
PRESIDENT & CHIEF EXECUTIVE OFFICER

September 19, 2017

Air Canada – A Global Champion

- Proven strategy
- Delivered on financial targets
- De-risked the airline
- Many opportunities ahead, including:
 - Launch of loyalty program
 - RFP for new credit card partner
 - New Passenger Service System
 - Digital initiatives
- Lower-cost Rouge growth



Fostering Positive Culture Change with Engaged Workforce

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

- Canada's 15 Top Employers for Canadians Over 40
- 50 Most Engaged Workplaces in North America
- Canada's Top 100 Employers
- Montreal's Top Employers
- Canada's Top Two Most Attractive Employees
- Canada's Best Diversity Employers
- Canada's 10 Most Admired Corporate Cultures



Delivering Best Airline in North America

Numerous industry awards:

- Best Airline in North America (Skytrax)
- Four-Star ranking from Skytrax
- The Wall Street Journal: *"Why Savvy U.S. Fliers Take Air Canada"* – August 16, 2017



**Voted Best Airline
in North America**



We are Confident that our Improved Financial Targets will be Attained

**Annual
EBITDAR
Margin of
17%-20%**

(over 2018-2020)

**Annual
ROIC of
13%-16%**

(over 2018-2020)

**Cumulative
Free Cash Flow
of \$2.0B-\$3.0B**

(over 2018-2020)

**Leverage
Ratio of
1.2***


(by end of 2020)

* The 2020 leverage ratio target is based on a foreign exchange rate of US\$1 = C\$1.32.



We Will Continue to Focus on Delivering Sustained Profitability and Value for Shareholders

- The launch of our own loyalty program, with our own co-branded credit card with a leading financial institution, will further contribute to our margins and free cash flow results



**NPV of
\$2.0B-\$2.5B*
from Loyalty
Program**

* Assumes the current regulatory environment a discount rate in line with Air Canada's WACC and is on a pre-tax basis





Thank you

aircanada.com



Q&A



APPENDIX

Accounting Standard Changes

- **IFRS-15 Revenues From Contracts With Customers**

- Effective January 1, 2018 and will be applied retrospectively with adjustment to the opening consolidated statement of financial position as at January 1, 2017
- Incremental costs of obtaining passenger revenues (such as credit card fees and global distribution system charges) will be capitalized at the time the flight is sold and expensed at the time of passenger revenue recognition
- This change is not expected to have a material impact on the consolidated statement of operations

The impact of this change is not factored into Air Canada's 2017 Investor Day projections



Accounting Standard Changes

- **IFRS-16 Leases**

- Effective for annual periods beginning on January 1, 2019
- Changes will significantly impact Air Canada's consolidated statement of operations and its consolidated statement of financial position
- It is expected that most leases will be on balance sheet as P&E assets and lease liabilities
- In particular, depreciation, aircraft rent, interest expense, regional airlines expense and maintenance expense will be impacted

The impact of this change is not factored into Air Canada's 2017 Investor Day projections



Annual Assumptions 2018 - 2020

	2018	2019	2020
GDP Canada	Moderate Growth		
CPI – Canada	Approximately 2%		
Average Jet Fuel Price (Canadian cents per litre)	62	65	67
Average Currency (US\$ = C\$)	1.32	1.32	1.32
Average Annual Wage Rate Increase	2%	2%	2%



Financial Information

- Financial information contained in this presentation has been derived from the historical consolidated financial statements of the Corporation for the applicable periods noted. Air Canada's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")
- The forward looking financial information in this presentation is based upon the accounting policies and assumptions in effect as of June 30, 2017 and does not reflect the impact of any accounting standard changes that may be applicable to the Corporation's financial statements in the future



Non-GAAP Financial Measures

Air Canada uses certain non-GAAP financial measures that are derived from its consolidated financial statements, but that are not recognized financial measures for financial statement presentation under GAAP. Reconciliations of those measures to comparable GAAP measures for the relevant periods can be found in Air Canada's Management's Discussion and Analysis reports, which are available on Air Canada's website at aircanada.com

Adjusted Net Income (Loss)

- Air Canada uses adjusted net income (loss) to assess the performance of its business without the effects of foreign exchange, net financing income (expense) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value, gain on sale and leaseback of assets, loss on debt settlements and special items



Non-GAAP Financial Measures

Adjusted CASM (or Adjusted Cost per Available Seat Mile)

- Air Canada uses adjusted CASM to assess the operating performance of its ongoing airline business without the effects of aircraft fuel expense, the cost of ground packages at Air Canada Vacations, and special items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful
 - Aircraft fuel expense is excluded from operating expense results as it fluctuates widely depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and Canada/U.S. currency exchange rates
 - Air Canada also incurs expenses related to ground packages at Air Canada Vacations which some airlines, without comparable tour operator businesses, may not incur
- Excluding aircraft fuel expense, the cost of ground packages at Air Canada Vacations, and special items from operating expenses generally allows for more meaningful analysis of Air Canada's operating expense performance and a more meaningful comparison to those of other airlines



Non-GAAP Financial Measures

EBITDAR

- EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent) is commonly used in the airline industry to view operating results before depreciation, amortization and impairment, and aircraft rent as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets
- EBITDAR excludes special items as such items would distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful

ROIC (Adjusted Net Income (Loss) before interest divided by Invested Capital)

- Air Canada uses return on invested capital ("ROIC") as a means to assess the efficiency with which it allocates its capital to generate returns
- ROIC is based on adjusted pre-tax income (loss), excluding interest expense and implied interest on operating leases
- Invested capital includes average year-over-year long-term debt, average year-over-year finance lease obligations, average year-over-year shareholders' equity and the value of capitalized operating leases (calculated by multiplying annualized aircraft rent by 7)



Non-GAAP Financial Measures

Leverage Ratio

- Leverage ratio is commonly used in the airline industry and is used by Air Canada as a means to measure financial leverage. Leverage ratio is calculated by dividing adjusted net debt by trailing 12-month EBITDAR (excluding special items)

Free Cash Flow

- Free cash flow is commonly used in the airline industry and is used by Air Canada as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada is able to generate from operations and after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment and intangible assets, and is net of proceeds from sale-leaseback transactions





2017 Investor Day

**Universal Eventspace,
Toronto**

September 19, 2017

AIRBUS A321-200

