News Release

AIR CANADA REPORTS 2009 THIRD QUARTER RESULTS

THIRD QUARTER OVERVIEW

- Operating income of $68 million compared to operating income of $112 million in the third quarter of 2008.
- EBITDAR of $320 million in the third quarter of 2009 compared to EBITDAR of $355 million in the same quarter of 2008.
- Net income of $277 million in the third quarter of 2009, including gains on foreign exchange of $295 million, compared to a net loss of $132 million in the third quarter of 2008.
- Passenger revenue decrease of $366 million or 13 per cent from the third quarter of 2008, due to a decline in yield of 11.2 per cent and a drop in traffic of 2.1 per cent.
- Cost Transformation Program on track to achieve expected annual revenue and cost reduction initiatives of $50 million in 2009, $250 million by 2010 (of which $145 million has been achieved), and the full $500 million by 2011 (of which $175 million has been achieved), on a run rate basis.
- RASM decrease of 10.2 per cent from the third quarter of 2008 due to the decline in yield as passenger load factor improved by 1.0 percentage point.
- Unit cost (excluding fuel expense) increase of 4.5 per cent from the third quarter of 2008, largely due to timing of aircraft maintenance and related expenses.
- At October 31, 2009, Air Canada's cash, cash equivalents and short-term investments amounted to $1,460 million which included net proceeds of $248 million from its recent equity offering. Cash, cash equivalents and short-term investments amounted to $1,209 million at September 30, 2009.

MONTRÉAL, November 6, 2009 – Air Canada today reported operating income of $68 million in the third quarter of 2009. This compared to $112 million recorded in the third quarter of 2008. Operating results continued to be adversely impacted by ongoing weak economic conditions resulting in declines in passenger and cargo revenues, partially offset by the impact of lower fuel prices year over year. EBITDAR amounted to $320 million, a decrease of $35 million from the third quarter of 2008.

The carrier reported net income of $277 million for the third quarter 2009 which included gains on foreign exchange of $295 million. This compared to a net loss of $132 million in the third quarter of 2008 which included losses on foreign exchange of $87 million.

Passenger revenues decreased $366 million or 13 per cent to $2.4 billion from the third quarter of 2008, due to a decrease in yield of 11.2 per cent as a result of reduced traffic and competitive pricing initiatives to stimulate demand. Premium cabin revenues declined 16 per cent from the third quarter of 2008, an improvement from the year-over-year decline in premium revenues of 30 per cent in the second quarter results of 2009.

In the third quarter of 2009, traffic dropped 2.1 per cent on a 3.3 per cent cut in capacity, resulting in a passenger load factor improvement of 1.0 percentage point compared to the same quarter in 2008. This passenger load factor improvement reflected Air Canada's disciplined approach to capacity management and the various new initiatives undertaken to stimulate traffic and generate revenues, such as the new 7 per cent commission paid to Canadian travel agents since June 2009 on Tango fares.

System revenue per available seat mile (RASM) decreased 10.2 per cent from the third quarter of 2008, entirely due to the yield decline.

In the quarter, operating expenses declined $361 million or 12 per cent from the third quarter of 2008, with lower fuel prices being the main factor in the year-over-year decrease. In the third quarter of 2009, a weaker Canadian dollar versus the U.S. dollar compared to the third quarter of 2008 resulted in additional expenses of $60 million in the quarter.

Unit cost, as measured by operating expense per available seat mile (CASM), decreased 9.2 per cent compared to the third quarter of 2008. Excluding fuel expense, CASM increased 4.5 per cent year-over-year mainly due to higher aircraft maintenance expenses. The spike in aircraft maintenance costs was primarily driven by timing of airframe and engine events in 2009 compared to 2008. The weaker Canadian dollar versus the U.S. dollar was also a factor in the CASM growth (excluding fuel expense) year-over-year. These increases were partly offset by a reduction in employee benefits expense as a result of revised actuarial assumptions.

The 4.5 per cent increase in CASM (excluding fuel expense) for the third quarter of 2009 was less than the projected CASM increase (excluding fuel expense) provided in Air Canada's news release dated August 7, 2009 in which CASM (excluding fuel expense) was projected to increase between 5.5 per cent and 6.5 per cent compared to the same period in 2008. The difference is primarily attributable to the fact that certain expenses recorded in the third quarter of 2009 were lower than anticipated (relative to the guidance provided on August 7th). These expenses included aircraft maintenance, capacity purchase fees paid to Jazz and information technology costs.

Air Canada reported earnings per diluted share of $2.44 in the third quarter of 2009 on an unadjusted basis. On an adjusted basis, the airline reported a loss per share (diluted) in the third quarter of 2009 of $0.19. Earnings per share is adjusted to remove Air Canada's gains on foreign exchange of $295 million and a gain on assets of $1 million in the third quarter of 2009.

In late July, Air Canada announced that it had entered into a memorandum of understanding with GECAS for the sale and leaseback of three Boeing 777 aircraft. The sale and leaseback transactions were substantially completed in early November 2009 and provided initial net cash proceeds of $95 million (net of deposits), with additional net proceeds of $20 million to be received upon completion of a remaining part of the transaction which is expected to occur in the fourth quarter of 2009.

"The third quarter of 2009 was of pivotal significance for Air Canada," said Calin Rovinescu, President and Chief Executive Officer. "During the quarter, we finalized a series of transactions that stabilized the company and strengthened our position to manage through the challenges brought on by ongoing weak economic conditions.

"Building on these achievements, early in the fourth quarter we capitalized on improved market conditions to strengthen our liquidity position by almost $250 million with the completion of an equity offering. This brought our cash balances to close to $1.5 billion, meeting our objective of 15 per cent of the preceding four quarters' operating revenues.

"Our improved balance sheet will give us more financial flexibility to meet challenges as they arise. Although we are seeing indications that the bottom of the recession is now behind us, the industry is still facing an extremely challenging revenue environment and we do not expect to see a full recovery for another 12 to 18 months.

"Against this backdrop, I am encouraged to report a third quarter operating income of $68 million. Although passenger revenue performance reflects the challenges that all airlines are facing, we were successful in mitigating some of the revenue decline with initiatives to stimulate traffic, generate revenues and re-engage customers. These initiatives, along with the right-sizing of our operation through capacity reductions and on-going disciplined capacity management, helped us achieve a one percentage point improvement in system passenger load factor in the quarter.

"While fuel prices were significantly lower this quarter than what we experienced last year, energy costs are rising and will likely remain highly volatile. Looking forward, our management team is focused on a number of priorities in order to mitigate the effects of a weak economy and drive meaningful annual profits on a sustainable basis. I would like to expand on the following three key priorities:

"Our first priority is reducing our unit costs to more competitive levels. Our Cost Transformation Program is on track to achieve expected annual revenue and cost reduction initiatives on a run rate basis of $50 million in 2009, $250 million by 2010 (of which $145 million has been achieved), and the full $500 million by 2011 (of which $175 million has been achieved), and the remaining initiatives are well underway. Over 125 projects have been identified company wide. These initiatives are primarily related to supply chain savings and process-driven efficiencies.

"Our second priority is international growth. We remain focused on building a strong international network as well as key partnerships, while maintaining our commitment to the domestic Canadian market. We have announced plans to introduce a number of non-stop services to Brussels, Barcelona and Athens in 2010, following our new Montreal-Geneva service that has performed well since it was launched in June. In parallel, we are moving on many fronts to solidify our relationships with our Star Alliance partners and ensure that our membership in the world's first, largest and most comprehensive airline alliance is fully leveraged.

"Most recently, Continental Airlines became our newest Star Alliance partner. We have already begun the process of implementing an extensive codeshare agreement with Continental that provides Air Canada and our customers with expanded access to dozens of new destinations along the U.S. eastern seaboard, Mexico and throughout Central America, as well as more opportunities to reward our customers' loyalty through Aeroplan. In addition, the development of our joint venture agreement on the transatlantic with Continental, Lufthansa and United Airlines, referred to as “A++”, for travel effective January 2010, is progressing smoothly. Working with our partners, Air Canada’s presence in this important market will be enhanced and our competitive position will be strengthened.

“We will continue to leverage Canada’s unique geographical position, our broad global access provided through bilateral air agreements, and Air Canada’s extensive North American and international networks. Playing to these strengths, combined with a fully refurbished modern fleet and industry leading product, we are beginning to see encouraging results in our ability to capture increased flow traffic through our Toronto, Vancouver and Montreal hubs that have recently been refurbished to provide simplified transit facilities for connecting customers.

“Our third priority, and one I am personally leading, is a culture change within Air Canada. This is one of the greatest hurdles for a large and diverse organization to overcome. However, we also have many strengths to be proud of, and our employees already recognize the need for change. We have already started to take action to simplify processes and encourage a just-do-it mentality focusing on the principles of ownership, entrepreneurship, leadership and flexibility. This will be a gradual process. However, the tough economic environment is helping by motivating us to be more entrepreneurial, respond more nimbly to opportunities and react more quickly to challenges.

“This management team managed to stabilize the company against great odds during the past four months. By bringing the same energy and focused determination to our next priorities, I am confident we can manage through this economic cycle, achieve sustained profitability and create value for our shareholders,” concluded Mr. Rovinescu.

Current Outlook

Air Canada expects its full year 2009 system capacity, as measured in available seat miles (ASM), to decline by 4.25 to 4.75 per cent compared to the full year 2008 (as opposed to the full year 2009 system capacity reduction of 4.5 per cent to 5.5 per cent previously projected in Air Canada's press release dated August 7, 2009). Full year 2009 domestic ASM capacity is expected to decline by 3.5 to 4.0 per cent compared to the full year 2008 (as opposed to the 2009 domestic ASM capacity reduction of 4.5 per cent to 5.5 per cent previously projected in Air Canada’s press release dated August 7, 2009). The airline adjusted its projected system and domestic ASM capacity from what it had previously projected in order to better match its capacity with passenger demand. For the fourth quarter of 2009, Air Canada expects its system ASM capacity to increase by 1.0 to 2.0 per cent compared to the fourth quarter of 2008.

In the second quarter of 2009, Air Canada launched a company wide Cost Transformation Program in which it has identified $500 million in annual revenue enhancements and cost reduction initiatives which it expects to realize over the next three years through more efficient operational processes, better vendor contract management and more effective manpower planning. Air Canada expects to achieve annual revenue and cost reduction initiatives of $50 million in 2009, $250 million by 2010 (of which $145 million has been achieved), and the full $500 million by 2011 (of which $175 million has been achieved), on a run rate basis.

Air Canada expects its full year 2009 CASM, excluding fuel expense, to exceed the full year 2008 level by 3.0 to 3.5 per cent (as opposed to the full year 2009 CASM (excluding fuel expense) increase of 4.0 to 5.0 per cent previously projected in Air Canada's press release dated August 7, 2009). The difference is largely attributable to the fact that certain expenses are expected to be lower than previously projected. These expenses include lower capacity purchase fees paid to Jazz pursuant to the amended capacity purchase agreement which provides for lower mark-ups, and lower aircraft maintenance expense. For the fourth quarter of 2009, Air Canada expects CASM, excluding fuel expense, to decrease from the fourth quarter of 2008 level by 3.0 to 4.0 per cent.

The above guidance reflects Air Canada's assumption that the North American economy will remain weak for the fourth quarter of 2009. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.07 per U.S. dollar in the fourth quarter of 2009 and C$1.15 per U.S. dollar for the full year 2009 and that the price of fuel will average 71 cents per litre in the fourth quarter of 2009 and will average 69 cents per litre for the full year 2009 (both net of fuel hedging positions).

The outlook provided constitutes forward-looking statements within the meaning of applicable securities laws and is based on a number of assumptions and subject to a number of risks. Please see section below entitled "Caution Regarding Forward-Looking Information."

<u>Third Quarter and Other Recent Accomplishments</u>

- In October, welcomed Continental Airlines as a new Star Alliance partner providing Air Canada customers with new travel options throughout Continental's network in the eastern United States and Central America, expanded Aeroplan benefits, and new revenue stream opportunities for the airline.

- Received approval in July from the U.S. Department of Transportation (DOT) for the formation of a transatlantic alliance between Air Canada, Continental Airlines, Lufthansa and United Airlines. The DOT granted antitrust immunity to the four carriers that allows them to develop an integrated joint venture, referred to as "A++", and strengthen their transatlantic network creating new options and benefits for customers.

- In October, completed a public share offering for aggregate gross proceeds to Air Canada of $260 million (net proceeds of $248 million after expenses and underwriter fees).

- In the third quarter, contributed $109 million to funding its employees' defined benefit pension plans, for a total of $330 million in contributions made in the first nine months of 2009.

- Achieved on-time arrivals performance of 82 per cent in the quarter based on Air Canada's domestic Canada arrivals as measured according to the U.S. Department of Transportation's standards.

- Paid out $4 million in the third quarter of 2009 to Air Canada employees under the Corporation's 'Sharing Our Success' monthly incentive program.

- In July, received federal government regulatory approval for amendments to the airline's pension funding following ratification of pension funding agreements by the membership of all five unions and successful conclusion of a consultation process with retirees and all non-unionized employees for these same pension funding arrangements.

- In July, finalized arrangements to raise $1.02 billion in new liquidity, including proceeds of transactions from the sale and leaseback of three Boeing 777 aircraft substantially completed in November 2009, with the remaining portion of the proceeds expected to be received in the fourth quarter 2009.

- Finalized an agreement, effective August 1, 2009, amending the terms of its capacity purchase agreement with Jazz which provides Air Canada with significantly reduced purchase costs for the Jazz network feed over the terms of the contract.

- In July, amended credit card processing agreements with one of Air Canada's principal credit card processors on favourable terms.

- In July, reached an agreement with Boeing to amend the Boeing 787 Dreamliner purchase agreement to reduce the number of options for additional Boeing 787 aircraft by ten, from 23 to 13, and to provide for purchase rights for ten Boeing 787 aircraft. Air Canada continues to have 37 firm orders for Boeing 787 aircraft. Air Canada and Boeing also agreed to amend certain commercial terms, including revisions to delivery dates. Air Canada's first Boeing 787 aircraft is now scheduled for delivery in the second half of 2013.

- In July, took delivery of its final Boeing 777 aircraft in special themed livery in recognition of the carrier's role as Official Airline of the Vancouver 2010 Winter Olympic and Paralympic Games.

- Web penetration for domestic Canada sales in the third quarter of 2009 was 67 per cent – an increase of one percentage point over the third quarter of 2008. Web penetration for combined Canada and U.S. transborder sales was 56 per cent – an increase of 2 percentage points from the same quarter in 2008.

- 77 per cent of domestic Canada sales, or 66 per cent when combined with U.S. sales, were made directly with Air Canada, either online or through call centres in the third quarter of 2009, compared to 75 per cent of domestic Canada sales, or 63 per cent when combined with U.S. sales, in the third quarter of 2008.

- 58 per cent of Air Canada's customers used self-service check-in products world wide in the third quarter – an increase of 2 percentage points over the previous year's quarter.

- Since launching a carbon offset program in May 2007, Air Canada customers have funded the planting of more than 2,800 trees to offset 14,200 tonnes of carbon emissions, the equivalent of taking over 3,500 cars off the road for a year.

(1) Non-GAAP Measures

Air Canada uses adjusted earnings (loss) per share to assess share performance without the effects of foreign exchange gains (losses). This measure is not a recognized measure for financial statement presentation under Canadian GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies.

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation, amortization and aircraft rent. EBITDAR is used to view operating results before aircraft rent, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. EBITDAR is not a recognized measure for financial statement presentation under GAAP and does not have a standardized meaning and is therefore not comparable to similar measures presented by other public companies.

Readers should refer to Air Canada's Third Quarter 2009 Management's Discussion and Analysis (MD&A), which will be filed on SEDAR, and made available on Air Canada's website at www.aircanada.com, for a reconciliation of EBITDAR to operating income (loss).

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 28, 2009, consult SEDAR at www.sedar.com or Air Canada's website at www.aircanada.com.

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 press release and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements relate to analyses and other information that are 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.

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, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this press release and, in particular, those identified in section 15 "Risk Factors" of Air Canada's Third Quarter 2009 MD&A dated November 6, 2009. The forward-looking statements contained in this press release represent Air Canada's expectations as of the date of this press release 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.*

Assumptions were made by Air Canada in preparing and making forward-looking statements. Air Canada assumes that the North American economy will remain weak for the fourth quarter. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.07 per U.S. dollar in the fourth quarter of 2009 and C$1.15 per U.S. dollar for the full year 2009 and that the price of fuel will average 71 cents per litre in the fourth quarter of 2009 and will average 69 cents per litre for the full year 2009 (both net of fuel hedging positions).

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Highlights

The financial and operating highlights for the Corporation for the periods indicated are as follows.

(Canadian dollars in millions except per share figures)	Third Quarter			First Nine Months		
	2009	2008	Change $	2009	2008 [1]	Change $
Financial						
Operating revenues	2,670	3,075	(405)	7,391	8,584	(1,193)
Operating income (loss) before a special provision [1]	68	112	(44)	(233)	107	(340)
Operating income (loss)	68	112	(44)	(233)	(18)	(215)
Non-operating expense	(83)	(147)	64	(272)	(126)	(146)
Loss before non-controlling interest, foreign exchange and income taxes	(15)	(35)	20	(505)	(144)	(361)
Income (loss) for the period	277	(132)	409	32	(298)	330
Operating margin before a special provision % [1]	2.5%	3.6%	(1.1) pp	-3.2%	1.2%	(4.4) pp
Operating margin %	2.5%	3.6%	(1.1) pp	-3.2%	-0.2%	(3.0) pp
EBITDAR before a special provision [1][2]	320	355	(35)	512	826	(314)
EBITDAR [2]	320	355	(35)	512	701	(189)
EBITDAR margin before a special provision % [1][2]	12.0%	11.5%	0.5 pp	6.9%	9.6%	(2.7) pp
EBITDAR margin % [2]	12.0%	11.5%	0.5 pp	6.9%	8.2%	(1.3) pp
Cash, cash equivalents and short-term investments	1,209	1,114	95	1,209	1,114	95
Free cash flow	(268)	(373)	105	(347)	(557)	210
Adjusted debt/equity ratio %	84.7%	72.0%	12.7 pp	84.7%	72.0%	12.7 pp
Earnings (loss) per share - basic	$2.77	($1.32)	$4.09	$0.32	($2.98)	$3.30
Earnings (loss) per share - diluted	$2.44	($1.32)	$3.76	$0.30	($2.98)	$3.28
Operating Statistics			**Change %**			**Change %**
Revenue passenger miles (millions) (RPM)	14,153	14,458	(2.1)	36,999	39,674	(6.7)
Available seat miles (millions) (ASM)	16,946	17,515	(3.3)	45,502	48,503	(6.2)
Passenger load factor %	83.5%	82.5%	1.0 pp	81.3%	81.8%	(0.5) pp
Passenger revenue per RPM (cents)	16.9	19.0	(11.2)	17.4	18.9	(7.8)
Passenger revenue per ASM (cents)	14.1	15.7	(10.2)	14.2	15.5	(8.4)
Operating revenue per ASM (cents)	15.8	17.6	(10.3)	16.2	17.7	(8.2)
Operating expense per ASM ("CASM") (cents)	15.4	16.9	(9.2)	16.8	17.5	(4.1)
CASM, excluding fuel expense (cents)	11.3	10.8	4.5	12.7	12.1	5.3
Average number of full-time equivalent (FTE) employees (thousands) [3]	23.2	24.5	(5.3)	23.1	24.4	(5.5)
Aircraft in operating fleet at period end [4]	335	341	(1.8)	335	341	(1.8)
Average fleet utilization (hours per day) [5]	9.9	10.2	(3.0)	9.4	9.9	(5.1)
Average aircraft flight length (miles) [5]	883	894	(1.2)	854	873	(2.2)
Fuel price per litre (cents) [6]	68.6	101.0	(32.1)	68.4	88.9	(23.1)
Fuel litres (millions)	988	1,048	(5.7)	2,685	2,941	(8.7)

(1) A provision related to investigations and proceedings related to alleged anti-competitive cargo pricing activities of $125 million was recorded in the first quarter of 2008.
(2) See section 17 "Non-GAAP Financial Measures" in Air Canada's Third Quarter 2009 MD&A for a reconciliation of EBITDAR before the provision for cargo investigations and proceedings to operating income (loss) and EBITDAR to operating income (loss).
(3) Reflects FTE employees at Air Canada. Excludes FTE employees at Jazz.
(4) Includes Jazz aircraft covered under the Jazz CPA.
(5) Excludes charter operations. Also excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the Jazz CPA.
(6) Includes fuel handling and is net of fuel hedging results.