News Release

AIR CANADA REPORTS THIRD QUARTER RESULTS

THIRD QUARTER OVERVIEW

- Operating income of $112 million compared to operating income of $351 million in the third quarter of 2007.
- Fuel expense increased 49 per cent to $1.1 billion, up $348 million from the third quarter of 2007.
- Passenger revenue increased 4 per cent to $2.8 billion from the third quarter of 2007, due to yield growth.
- Excluding fuel expense, unit cost increased 4.3 per cent from the third quarter of 2007.
- Net loss of $132 million compared to net income of $273 million in the third quarter of 2007.
- EBITDAR of $355 million, a decrease of $206 million from the same quarter in 2007.
- Cash, cash equivalents and short-term investments of $1.1 billion at September 30, 2008.

MONTRÉAL, November 7, 2008 – Air Canada today reported operating income of $112 million for the third quarter of 2008 compared to a record operating income of $351 million in the third quarter of 2007. Fuel expense increased $348 million in the third quarter to $1.1 billion due to record high fuel prices, a 49 per cent increase from the third quarter of 2007. Partly offsetting this increase was solid operating revenue growth of $121 million or 4 per cent versus the third quarter of 2007. The company recorded a net loss of $132 million in the third quarter of 2008 compared to net income of $273 million in the third quarter of 2007.

Passenger revenues increased $106 million or 4 per cent from the third quarter of 2007. Air Canada reduced overall capacity by 3.5 per cent in the third quarter of 2008 compared to the third quarter of 2007. Traffic decreased 2.2 per cent on this capacity reduction resulting in a 1.0 percentage point improvement in system passenger load factor. Yield grew by 6.2 per cent, mainly reflecting higher fares and fuel surcharges to partially offset the impact of higher fuel prices in the third quarter. Due to the growth in yield and, to a lesser extent the passenger load factor improvement, system revenue per available seat mile (RASM) rose 7.5 per cent when compared to the third quarter of 2007.

Unit cost, as measured by operating expense per available seat mile (CASM), increased 17.9 per cent largely due to the significant increase in fuel expense from the third quarter of 2007. Excluding fuel expense, unit cost increased 4.3 per cent from the third quarter of 2007, of which more than half was attributable to ownership costs reflecting Air Canada's investment in new aircraft and the aircraft interior refurbishment program. Unit cost savings associated with new Boeing 777 aircraft, other cost reduction programs and, to a lesser extent, a stronger Canadian dollar versus the U.S. dollar partially offset Air Canada's overall unit cost increase from the third quarter of 2007.

The net loss for the third quarter of $132 million included non-cash mark-to-market net losses of $93 million on financial instruments, consisting primarily of fuel hedge contracts, and net losses on foreign currency monetary items of $87 million. This compared to net income of $273 million in the third quarter of 2007, which included net gains on foreign currency monetary items of $104 million.

Air Canada reported a loss per share (basic and diluted) of $1.32 on an unadjusted basis. On an adjusted basis, the airline reported a loss per share (basic and diluted) of $0.45. Loss per share is adjusted to remove losses on foreign currency monetary items of $87 million (after tax) in the third quarter of 2008.

EBITDAR amounted to $355 million, a decrease of $206 million from the third quarter of 2007.

"Against a backdrop of unprecedented fuel costs, Air Canada is one of the few North American carriers to report a third quarter operating profit," said Montie Brewer, President and Chief Executive Officer. "I want to thank our employees who, for the second consecutive quarter, surpassed on-time performance targets, achieving our best operational performance in over ten years.

"I am pleased with the results we have achieved through our ongoing focus on disciplined capacity management. While we produced strong unit revenue growth and yields in the quarter, we were unable to fully offset record high fuel prices that represented an additional cost burden of $348 million compared to the same period last year. We continue to aggressively cut costs through company-wide initiatives and expect to achieve the previously announced improvement target of $100 million by year end.

"Looking ahead, forward bookings are tracking in line with announced capacity reductions. With our investments to offer customers an industry-leading product and the youngest, most fuel efficient fleet of any North American network carrier, we are well positioned to manage through the challenging environment."

Third Quarter 2008 Accomplishments

- Achieved on-time arrivals performance of 85.4 per cent in the quarter, a 5.3 percentage point increase from the previous year, based on Air Canada's domestic Canada arrivals as measured by the U.S. Department of Transportation's standards.

- Completed over 90 per cent of the planned fleet refurbishment comprising a total of 121 narrow and widebody aircraft. The remaining eight Airbus A330 aircraft are expected to be completed by mid-2009.

- Announced an agreement in principle with Continental Airlines for a strategic commercial relationship that would provide expanded network and frequent flyer benefits for customers of both airlines, in addition to a multilateral framework agreement with Continental, United Airlines and Lufthansa to create a transatlantic joint venture, pending regulatory approvals.

- Concluded an agreement with Brazilian airline TAM, a future Star Alliance partner, to expand Air Canada's network throughout Brazil on a codeshare basis via Sao Paulo effective October 30, 2008.

- In the quarter, 44 per cent of domestic customers chose a higher branded fare than the lowest Tango fare available, a four percentage point increase from the previous year's quarter.

- Revenues from Flight Pass products increased 57 per cent over the previous year's quarter, and represented approximately 6.1 per cent of North American revenues.

- Web penetration for domestic Canada sales in the third quarter was 66 per cent – an increase of two percentage points over the previous year's quarter. Web penetration for combined Canada and U.S. transborder sales was 54 per cent – an increase of four percentage points over the previous year's quarter.

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

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

- Paid out $10.4 million for the quarter to Air Canada employees under the company's 'Sharing Our Success' monthly incentive program, for a total of $27.1 million in the first three quarters of 2008.

- Air Canada contributed $180 million in the quarter to funding its employees' defined benefit pension plans, of which $88 million represented funding of past service costs in accordance with the Office of the Superintendent of Financial Institutions (OSFI) agreement.

- Improved fleet and operational efficiencies contributed to savings of approximately 29 million litres in fuel on passenger traffic reduction of 2.24 per cent in the third quarter of 2008 compared to the previous year's quarter. This represented an avoidance in CO2 emissions of 74,352 tonnes, the equivalent to taking 18,588 cars off the road for a year.

- Since launching a carbon offset program in May 2007, Air Canada customers have financed the planting of more than 2,100 trees to offset 10,500 tonnes of carbon emissions, the equivalent of taking over 2,600 cars off the road for a year.

2008 Current Outlook

Air Canada expects its full year 2008 capacity, as measured in available seat miles (ASM), to change between negative 1.0 and negative 1.5 per cent, compared to the previous year (previously projected, as disclosed in Air Canada's August 8, 2008 press release, to change between negative 1.0 and positive 1.0 per cent compared to 2007). Full year domestic capacity is expected to change between 0.0 and negative 0.5 per cent, compared to the previous year (previously projected, as disclosed in Air Canada's August 8, 2008 press release, to increase by approximately 1.0 per cent compared to 2007). This reduction in projected domestic capacity growth is a result of Air Canada's further review of its capacity plan for the fall-winter schedule. For the fourth quarter of 2008, Air Canada expects to reduce its system ASM capacity between negative 7.0 to 8.0 per cent compared to the previous year's fourth quarter. For the first quarter of 2009, Air Canada expects to reduce its system ASM capacity between 7.0 and 9.0 per cent versus the first quarter of 2008.

As projected in its press release of August 8, 2008, Air Canada continues to expect full year 2008 operating expense per available seat mile (CASM), excluding fuel expense, to exceed the 2007 level by 1.0 to 2.0 per cent. Air Canada expects CASM, excluding fuel, in the fourth quarter of 2008 to increase between 9.0 to 10.0 per cent as compared to the same period in the previous year. Air Canada's assumption that the Canadian dollar will trade on average at Cdn $1.18 per U.S. dollar in the fourth quarter of 2008 and the higher unit cost of ownership are significant factors for the projected increase in CASM, excluding fuel, in the fourth quarter of 2008 accounting for almost three quarters of the overall unit cost increase when compared to the fourth quarter of 2007.

Operating income in 2008 will be negatively impacted by an expected increase in depreciation of between $140 million and $160 million compared to 2007, reflecting investments in new aircraft and the refurbishment of existing ones. This will be partially offset by an expected decrease in 2008 aircraft rent of up to 2 per cent versus 2007 (lower than the up to 5 per cent decrease previously projected in Air Canada's press release dated August 8, 2008). The change in expected aircraft rent is largely attributable to the change in Air Canada's foreign exchange assumption noted below.

The above guidance reflects Air Canada's assumption that the Canadian dollar will trade, on average, at Cdn $1.18 per U.S. dollar for the fourth quarter in 2008 and at Cdn $1.05 per U.S. dollar for the full year 2008. The current instability in the world's financial system and the possibility that the U.S. and global economies are currently in recession make the economic landscape in Canada uncertain and forecasting difficult. However, in addition to other assumptions contained in this press release, Air Canada assumes that Canada's economy will contract in the fourth quarter of 2008 and will show no meaningful growth in the first quarter of 2009. Air Canada's outlook assumes that the price of fuel will average 89 cents per litre for the full year 2008 (net of current hedging positions) as opposed to the 90 cents per litre assumed in guidance it provided in its press release dated August 8, 2008. For the fourth quarter of 2008, Air Canada assumes the price of fuel (net of current fuel hedging positions) will be 91 cents per litre.

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."

(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 2008 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, 2008, consult SEDAR at www.sedar.com or 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 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. These 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 below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results due to a number of factors, including without limitation, energy prices, general industry, market, credit and economic conditions, currency exchange and interest rates , competition, war, terrorist acts, epidemic diseases, insurance issues and costs, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs, employee and labour relations, pension issues, 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 the MD&A and, in particular, those identified in the "Risk Factors" section of Air Canada's 2007 MD&A dated February 6, 2008 and section 13 of Air Canada's Third Quarter 2008 MD&A dated November 7, 2008. The forward-looking statements contained in this press release represent the Corporation's expectations as of the date of this press release and are subject to change after such date. However, the Corporation 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. The current instability in the world's financial system and the possibility that the U.S. and global economies are currently in recession make the economic landscape in Canada uncertain and forecasting difficult. However, in addition to other assumptions contained in this press release, Air Canada assumes that Canada's economy will contract in the fourth quarter of 2008 and will show no meaningful growth in the first quarter of 2009. Air Canada also assumes that the Canadian dollar will trade, on average, at Cdn $1.18 per U.S. dollar in the fourth quarter of 2008 and Cdn $1.05 per U.S. dollar for the full year 2008 and that the price of fuel will average 91 cents per litre in the fourth quarter of 2008 and 89 cents per litre for the full year 2008 (both net of fuel hedging positions).

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INFORMATION

Investor Relations	**:**	(514) 422-7837
Shareholder Relations	**:**	(514) 422-6644
Internet :		www.aircanada.com

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Highlights

The following table provides the reader with financial and operating highlights for the Corporation for the periods indicated:

(Canadian dollars in millions except per share figures)	Third Quarter 2008	Third Quarter 2007	Third Quarter Change $	First Nine Months [1] 2008	First Nine Months [1] 2007	First Nine Months [1] Change $
Financial						
Operating revenues	3,075	2,954	121	8,584	8,133	451
Operating income before a special provision [2]	112	351	(239)	107	361	(254)
Operating income (loss)	112	351	(239)	(18)	361	(379)
Non-operating expense	(147)	(45)	(102)	(126)	(70)	(56)
Income (loss) before non-controlling interest, foreign exchange and income taxes	(35)	306	(341)	(144)	291	(435)
Income (loss) for the period	(132)	273	(405)	(298)	394	(692)
Operating margin before a special provision % [2]	3.6%	11.9%	(8.3) pp	1.2%	4.4%	(3.2) pp
Operating margin %	3.6%	11.9%	(8.3) pp	-0.2%	4.4%	(4.6) pp
EBITDAR before a special provision [2][3]	355	561	(206)	826	989	(163)
EBITDAR [2]	355	561	(206)	701	989	(288)
EBITDAR margin before a special provision % [2][3]	11.5%	19.0%	(7.5) pp	9.6%	12.2%	(2.6) pp
EBITDAR margin % [3]	11.5%	19.0%	(7.5) pp	8.2%	12.2%	(4.0) pp
Cash, cash equivalents and short-term investments	1,114	1,502	(388)	1,114	1,502	(388)
Free cash flow	(373)	(534)	161	(557)	(1,341)	784
Adjusted debt/equity ratio	72.0%	66.9%	5.1 pp	72.0%	66.9%	5.1 pp
Earnings (loss) per share - basic and diluted	($1.32)	$2.73	($4.05)	($2.98)	$3.94	($6.92)
Operating Statistics			**Change %**			**Change %**
Revenue passenger miles (millions) (RPM)	14,458	14,789	(2.2)	39,674	39,183	1.3
Available seat miles (millions) (ASM)	17,515	18,144	(3.5)	48,503	48,099	0.8
Passenger load factor	82.5%	81.5%	1.0 pp	81.8%	81.5%	0.3 pp
Passenger revenue per RPM (cents) [4]	19.0	17.9	6.2	18.9	18.2	3.8
Passenger revenue per ASM (cents) [4]	15.7	14.6	7.5	15.5	14.8	4.2
Operating revenue per ASM (cents) [4]	17.6	16.3	7.8	17.7	17.0	4.3
Operating expense per ASM ("CASM") (cents)	16.9	14.3	17.9	17.5	16.2	8.2
CASM, excluding fuel expense (cents)	10.8	10.4	4.3	12.1	12.1	(0.6)
Average number of full-time equivalent (FTE) employees (thousands)	24.5	24.1	1.6	24.4	23.9	2.0
Aircraft in operating fleet at period end [5]	341	338	0.9	341	338	0.9
Average fleet utilization (hours per day) [6]	10.2	10.7	(4.7)	9.9	10.0	(1.0)
Average aircraft flight length (miles) [6]	894	911	(1.9)	873	881	(0.9)
Fuel price per litre (cents) [7]	101.0	64.7	56.1	88.9	65.0	36.8
Fuel litres (millions)	1,048	1,102	(4.9)	2,941	2,968	(0.9)

(1) Reflects the financial and operating highlights for Air Canada for the first nine months of 2008 and the financial and operating highlights for the Air Canada Services segment, which excluded the consolidation of Jazz, for the first nine months of 2007. Refer to section 2 of Air Canada's Third Quarter 2008 MD&A for additional information.

(2) A provision for cargo investigations of $125 million was recorded in the first quarter of 2008. Refer to section 13 of Air Canada's Third Quarter 2008 MD&A for additional information.

(3) See section 15 "Non-GAAP Financial Measures" of Air Canada Third Quarter 2008 MD&A for a reconciliation of EBITDAR before the provision for cargo investigations to operating income (loss) and EBITDAR to operating income (loss).

(4) A revenue adjustment of $26 million relating to a change in accounting estimates was recorded in the fourth quarter of 2007 of which $29 million pertained to the first quarter of 2007. For comparative purposes, yield and RASM percentage changes were adjusted to include the impact of adding back $29 million to the first quarter of 2007.

(5) Excludes chartered freighters in 2008 and 2007. Includes Jazz aircraft covered under the Jazz CPA.

(6) Excludes third party carriers operating under capacity purchase arrangements. Includes Jazz aircraft covered under the Jazz CPA.

(7) Includes fuel handling and is net of fuel hedging results.