AIR CANADA

News Release

Air Canada Reports Second Quarter 2012 Results

Second Quarter 2012 EBITDAR of $314 million
Cash and short-term investments of $2.383 billion at June 30, 2012

MONTRÉAL, August 8, 2012 – Air Canada recorded earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent (EBITDAR) of $314 million in the second quarter of 2012 compared to EBITDAR of $338 million in the second quarter of 2011. Operating income of $63 million decreased $10 million from the same quarter in 2011.

“We reported passenger revenue growth of 3.3 per cent in the quarter on traffic growth and an overall yield improvement. Our Pacific performance was especially strong, with a revenue increase of 18.5 per cent year-over-year,” said Calin Rovinescu, President and Chief Executive Officer. “We continued to effectively manage capacity with a load factor of 83.5 per cent in the quarter. Our liquidity position remained strong with cash and cash equivalents of almost $2.4 billion at the end of June, an increase of $124 million from the previous year. We also made ongoing progress in improving our balance sheet and reduced adjusted net debt by $353 million in the first six months of the year.

“As previously reported, Air Canada’s operations were adversely impacted by labour disruptions in March and April of 2012 which resulted in a decline in bookings for travel originating in Canada in the immediate aftermath. Our brand is resilient and we were encouraged to see booking trends return to normal levels by the end of the second quarter of 2012. Capacity and, as a result, passenger revenues were also negatively affected by aircraft scheduling changes due to the closure by Aveos of its maintenance, repair and overhaul (MRO) facilities in Canada. We estimate that the combined impact of the labour disruptions and the slight reduction in capacity stemming from the Aveos closure resulted in a reduction of $0.12 to $0.17 to earnings per diluted share in the second quarter 2012.

“New collective agreements have now been finalized with the International Association of Machinists and Aerospace Workers (IAMAW) and the Air Canada Pilots Association (ACPA) through binding arbitration. Both the arbitrators in the IAMAW and ACPA arbitrations concluded that an extension of funding relief regulations is essential to the viability of Air Canada’s pension plans. We plan to pursue such an extension for the benefit of all stakeholders. The conclusion of these last two collective agreements brings finality to what has been a challenging collective bargaining process with our large Canadian-based unions. We will now be able to more closely focus on our four priorities which are key to our transformation, namely leveraging our international network, cost transformation, engaging our customers, and culture change.

“In July 2012, the airline was named the 'Best International Airline in North America' following a worldwide survey of more than 18 million air travellers at the Skytrax World Airline Awards. It is an honour to be recognized with this award for the third consecutive year and a testament to the skill and professionalism of Air Canada’s employees. I want to thank our employees for taking care of our customers and delivering them safely to their destinations throughout the challenges of this past quarter,” said Mr. Rovinescu.

Following Aveos’ CCAA filing, Air Canada agreed to arrangements to assist Aveos to find potential purchasers for its engine and component business and Aveos and Air Canada entered into an exclusive contract until 2018 for engine maintenance at current market rates of certain engine types used by Air Canada. This new contract would become effective upon assignment by Aveos to a purchaser that is among five parties identified by Air Canada to be equally acceptable in terms of operational requirements. Air Canada continues to work diligently through an RFP process to secure an experienced, cost competitive MRO supplier for its components. Air Canada is also concluding terms with independent and experienced service providers to perform airframe maintenance on its fleet of aircraft.

Income Statement Highlights

On a system capacity growth of 0.6 per cent, system passenger revenues increased $85 million or 3.3 per cent in the second quarter of 2012, on a 1.4 per cent growth in traffic and a 1.2 per cent improvement in yield. Passenger revenue per available seat mile (RASM) increased 2.0 per cent from the second quarter of 2011. In the premium cabin, second quarter 2012 passenger revenues increased $21 million or 3.7 per cent from the same quarter in 2011, driven by a 2.1 per cent improvement in yield and a 1.6 per cent growth in traffic.

In the second quarter of 2012, operating expenses increased $81 million or 3 per cent from the second quarter of 2011, primarily due to increases in wages, salaries and benefits, aircraft maintenance, capacity purchase costs and other expenses. Partially offsetting these increases was a reduction in depreciation, amortization and impairment expense. Unit cost, as measured by operating expense per available seat mile (CASM), increased 2.3 per cent from the second quarter of 2011. Excluding fuel expense and the cost of ground packages at Air Canada Vacations, CASM increased 3.6 per cent from the second quarter of 2011. The 3.6 per cent increase in CASM, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations, was less than the 4.0 per cent to 5.0 per cent increase projected in Air Canada’s news release dated May 4, 2012, as a number of cost categories were slightly below what Air Canada had previously anticipated.

Air Canada reported an operating income of $63 million in the second quarter of 2012, a decline of $10 million from the second quarter of 2011.

Air Canada reported a net loss of $96 million or $0.35 per diluted share in the second quarter of 2012 compared to a net loss of $46 million or $0.17 per diluted share in the second quarter of 2011. On an adjusted basis, net loss per diluted share was $0.05 in the second quarter of 2012 compared to a net loss per diluted share of $0.01 in the second quarter of 2011. Removing the impact of the labour disruptions and the capacity impact related to the Aveos closure, the adjusted income per diluted share would have been $0.07 to $0.12, an improvement over the same quarter in 2011.

Liquidity Highlights

At June 30, 2012, Air Canada's cash and short-term investments amounted to $2,383 million, $124 million higher than Air Canada's cash and short-term investments balance at June 30, 2011, and represented 20 per cent of 12-month trailing operating revenues.

At June 30, 2012, adjusted net debt of $4,223 million decreased $353 million from December 31, 2011. This reduction in adjusted net debt included the impact of lower debt balances and the impact of an increase in cash and short-term investments of $284 million from December 31, 2011, which was mainly due to positive free cash flow of $368 million in the first six months of 2012.

Current Outlook

In the third quarter of 2012, Air Canada expects its system ASM capacity, as measured by available seat miles (ASMs), to increase in the range of 0 to 1.0 per cent when compared to the third quarter of 2011.

Taking into account reported ASM capacity for the first six months of 2012, Air Canada expects its full year 2012 system capacity to increase in the range of 0.5 to 1.5 per cent when compared to the full year 2011 (as opposed to the 0 to 1.5 per cent ASM increase projected in Air Canada's news release dated May 4, 2012) and expects its full year 2012 domestic capacity to increase in the range of 0.5 to 1.5 per cent from the full year 2011 (as opposed to the 0 to 1.5 per cent ASM increase projected in Air Canada's news release dated May 4, 2012).

For the third quarter of 2012, Air Canada expects CASM, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations, to increase by 1.0 per cent to 2.0 per cent from the third quarter of 2011.

Air Canada continues to expect its full year 2012 CASM, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations, to increase by 0.5 per cent to 1.5 per cent from the full year 2011 level.

Air Canada's above-mentioned outlook assumes Canadian GDP growth of 1.5 per cent to 2.0 per cent in 2012. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.01 per U.S. dollar in the third quarter of 2012 and for the full year 2012 and that the price of jet fuel will average 85 cents per litre for the third quarter of 2012 and 88 cents per litre for the full year 2012.

The following table summarizes Air Canada's above-mentioned outlook for the third quarter of 2012 and for the full year 2012 and related major assumptions:

	Third Quarter 2012 versus Third Quarter 2011	Full Year 2012 versus Full Year 2011
Current Outlook		
Available seat miles (System)	Increase 0% to 1.0%	Increase 0.5% to 1.5%
Available seat miles (Canada)	n/a	Increase 0.5% to 1.5%
CASM, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations	Increase 1.0% to 2.0%	Increase 0.5% to 1.5%

	Major Assumptions – Third Quarter 2012	Major Assumptions – Full Year 2012
Major Assumptions		
Canadian dollar per U.S. dollar	1.01	1.01
Jet fuel price – CAD cents per litre (net of fuel hedging)	85 cents	88 cents
Canadian economy	2012 annualized Canadian GDP growth of 1.5% to 2.0%	Canadian GDP growth of 1.5% to 2.0%

For the full year 2012, Air Canada also projects the following:

- Depreciation, amortization and impairment expense to decrease by $55 million from the full year 2011, as opposed to the decrease of $70 million projected in Air Canada's new release dated May 4, 2012. This revised guidance reflects changes in residual values of aircraft and the acceleration of depreciation of various assets, including as a result of the planned removal of nine CRJ-100 aircraft from the covered fleet under Air Canada's capacity purchase agreement with Jazz Air LP.

- Employee benefits expense to increase by $30 million from the full year 2011.

The following table summarizes the above-mentioned projections for the full year 2012:

	Full Year 2012 versus Full Year 2011
Depreciation, amortization and impairment expense	Decrease $55 million
Employee benefits expense	Increase $30 million

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

Non-GAAP Measures

Below is a description of certain non-GAAP measures used by Air Canada to provide additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under Canadian GAAP and do not have standardized meanings and therefore may not be comparable to similar measures presented by other public companies. Readers should refer to Air Canada's Second Quarter 2012 MD&A for a reconciliation of non-GAAP financial measures.

- Adjusted net income (loss) per diluted share is used by Air Canada to assess share performance without the effects of foreign exchange, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value and unusual items.

- EBITDAR is commonly used in the airline industry and is used by Air Canada to assess earnings before interest, taxes, 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.

- Operating expense, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations, is used by Air Canada to assess the operating performance of its ongoing airline business as such expenses may distort the analysis of certain business trends and render comparative analyses to other airlines less meaningful.

- Free cash flow is used by Air Canada as an indicator of the financial strength and performance of its business because it shows how much cash is available for such purposes as repaying debt, meeting ongoing financial obligations and reinvesting in Air Canada.

- Adjusted net debt is a key component of the capital managed by Air Canada and provides a measure of the airline's net indebtedness.

Air Canada's Second Quarter 2012 Unaudited Interim Condensed Consolidated Financial Statements and Notes and its Second Quarter 2012 Management's Discussion and Analysis (MD&A) are available on Air Canada's website at **aircanada.com,** and will be filed on SEDAR at **www.sedar.com**.

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 29, 2012, consult SEDAR at **www.sedar.com.**

Analyst Conference Call Advisory

Air Canada will host its quarterly analysts' call today, August 8, 2012 at 08:30 ET. Calin Rovinescu, President and Chief Executive Officer, Michael Rousseau, Executive Vice President and Chief Financial Officer, Ben Smith, Executive Vice President and Chief Commercial Officer, and Pierre Houle, Treasurer, will review Air Canada's second quarter 2012 financial results and be available to answer questions from analysts and high yield bond holders.

Dial (416) 340-8018 or 1-866-223-7781 or listen (only) through our live audio web cast at http://bellwebcasting.ca/audience/index.asp?eventid=25745790

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This press release includes forward-looking statements within the meaning of applicable securities laws. 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 preliminary results, guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "preliminary", "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, employee and labour relations, currency exchange and interest rates, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), 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 news release and those identified in section 18 "Risk Factors" of Air Canada's 2011 MD&A dated February 9, 2012 and section 14 "Risk Factors" of Air Canada's Second Quarter 2012 MD&A dated August 8, 2012. The forward-looking statements contained in this news release represent Air Canada's expectations as of the date of this news release (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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Highlights

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

(Canadian dollars in millions, except where indicated)	Second Quarter			First Six Months		
	2012	2011	Change $	2012	2011	Change $
Financial Performance Metrics						
Operating revenues	2,989	2,918	71	5,951	5,671	280
Operating income (loss)	63	73	(10)	(30)	7	(37)
Non-operating expense	(158)	(120)	(38)	(220)	(73)	(147)
Loss before income taxes	(95)	(47)	(48)	(250)	(66)	(184)
Net loss from continuing operations	(96)	(46)	(50)	(251)	(65)	(186)
Net loss from discontinued operations - Aveos	-	-	-	(55)	-	(55)
Net loss	(96)	(46)	(50)	(306)	(65)	(241)
Operating margin %	2.1%	2.5%	(0.4 pp)	(0.5%)	0.1%	(0.6 pp)
EBITDAR (1)	314	338	(24)	489	545	(56)
EBITDAR margin % (1)	10.5%	11.6%	(1.1 pp)	8.2%	9.6%	(1.4 pp)
Cash, cash equivalents and short-term investments	2,383	2,259	124	2,383	2,259	124
Free cash flow (2)	239	241	(2)	368	431	(63)
Adjusted net debt (3)	4,223	4,362	(139)	4,223	4,362	(139)
Net income (loss) per share – Basic and diluted	($0.35)	($0.17)	($0.18)	($1.11)	($0.25)	($0.86)
Adjusted net income (loss) per share – Basic and diluted (4)	($0.05)	($0.01)	($0.04)	($0.66)	($0.56)	($0.10)
Operating Statistics			Change %			Change %
Revenue passenger miles (millions) (RPM)	13,868	13,677	1.4	26,814	26,032	3.0
Available seat miles (millions) (ASM)	16,606	16,512	0.6	32,950	32,371	1.8
Passenger load factor %	83.5%	82.8%	0.7 pp	81.4%	80.4%	1.0 pp
Passenger revenue per RPM ("Yield") (cents)	19.0	18.8	1.2	19.1	18.7	2.2
Passenger revenue per ASM ("RASM") (cents)	15.9	15.6	2.0	15.6	15.0	3.4
Operating revenue per ASM (cents)	18.0	17.7	1.9	18.1	17.5	3.1
Operating expense per ASM ("CASM") (cents)	17.6	17.2	2.3	18.2	17.5	3.7
CASM, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations (cents) (5)	11.9	11.5	3.6	12.1	11.9	2.2
Average number of full-time equivalent (FTE) employees (thousands) (6)	24.0	23.5	1.9	24.0	23.6	1.7
Aircraft in operating fleet at period end (7)	352	352	-	352	352	-
Average fleet utilization (hours per day) (8)	10.0	10.0	-	10.1	10.1	-
Revenue frequencies (thousands)	140	138	0.9	275	271	1.6
Average aircraft flight length (miles) (8)	880	886	(0.7)	886	888	(0.3)
Economic fuel price per litre (cents) (9)	90.8	87.9	3.3	91.2	83.2	9.7
Fuel litres (millions)	978	984	(0.6)	1,948	1,922	1.3
Revenue passengers carried (millions) (10)	8.6	8.5	1.2	16.9	16.5	3.0

(1) *EBITDAR (earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent) is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of Air Canada's Second Quarter 2012 MD&A dated August 8, 2012 for a reconciliation of EBITDAR to operating income (loss).*

(2) *Free cash flow (cash flows from operating activities less additions to property, equipment and intangible assets) is a non-GAAP financial measure. Refer to section 7.5 of Air Canada's Second Quarter 2012 MD&A dated August 8, 2012 for additional information.*

(3) *Adjusted net debt (total debt less cash, cash equivalents and short-term investments plus capitalized operating leases) is a non-GAAP financial measure. Refer to section 7.3 of Air Canada's Second Quarter 2012 MD&A dated August 8, 2012 for additional information.*

(4) *Adjusted net income (loss) per share - Basic and diluted is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of Air Canada's Second Quarter 2012 MD&A for additional information.*

(5) *Operating expense, excluding fuel expense and excluding the cost of ground packages at Air Canada Vacations, is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of Air Canada's Second Quarter 2012 MD&A dated August 8, 2012 for additional information.*

(6) *Reflects FTE employees at Air Canada. Excludes FTE employees at third party carriers (such as at Jazz Aviation LP ("Jazz")) operating under capacity purchase agreements with Air Canada.*

(7) *Includes Jazz aircraft covered under the Jazz CPA and aircraft operated by third party carriers operating under capacity purchase agreements. Refer to section 6 of Air Canada's Second Quarter 2012 MD&A dated August 8, 2012 for additional information on Air Canada's operating fleet.*

(8) *Excludes charter operations. Also excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the Jazz CPA.*

(9) *Excludes third party carriers, other than Jazz, operating under capacity purchase agreements. Includes fuel handling. Economic fuel price per litre is a non-GAAP financial measure. Refer to section 4 of Air Canada's Second Quarter 2012 MD&A dated August 8, 2012 for additional information.*

(10) *As per IATA definition of revenue passengers carried, revenue passengers are counted on a flight number basis.*