

News Release

Air Canada Reports Third Quarter 2012 Results

Third Quarter 2012 EBITDAR of \$554 million (\$678 million including benefit plan amendments)

Cash and short-term investments of \$2.196 billion at September 30, 2012

MONTRÉAL, November 8, 2012 – Air Canada reported earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent (EBITDAR), before the impact of certain benefit plan amendments, of \$554 million in the third quarter of 2012 compared to EBITDAR of \$535 million in the third quarter of 2011, an increase of \$19 million. Including the favourable impact of benefit plan amendments, EBITDAR was \$678 million for the third quarter of 2012. Adjusted net income ⁽¹⁾ of \$230 million increased \$37 million from the third quarter of 2011. Adjusted net income per diluted share ⁽¹⁾ was \$0.82 in the third quarter of 2012 compared to adjusted net income per diluted share of \$0.68 in the same quarter in 2011. On a GAAP basis, Air Canada reported net income of \$429 million or \$1.54 per diluted share for the third quarter of 2012 compared to a net loss of \$124 million or \$0.45 per diluted share for the same period last year. This improvement in net income was driven in large part by favourable foreign exchange gains quarter-over-quarter.

“I am extremely pleased with Air Canada’s strong financial performance in the third quarter especially given the economic environment we are operating in,” said Calin Rovinescu, President and Chief Executive Officer. “We recorded EBITDAR of \$554 million, or \$678 million including benefit plan amendments, and adjusted net income of \$230 million. We achieved passenger revenue growth of 3.1 per cent from both yield improvement and traffic growth. Our disciplined approach to capacity management allowed us to produce a record load factor of 86.3 per cent in the quarter. Our Pacific performance continued to be particularly strong with a revenue increase of 13.9 per cent year-over-year.

“Moreover, in the first nine months of 2012, consistent with our priority of improving our balance sheet, adjusted net debt was reduced by \$308 million, and our cash levels remained strong at approximately \$2.2 billion.

“We continued to focus on pursuing international growth opportunities and on the ongoing transformation of our cost structure. In addition, we have announced a number of planned fleet realignment initiatives: the transfer of 15 regional Embraer 175 aircraft to one of our Air Canada Express operators, Sky Regional Airlines, subject to certain conditions; the deployment of new Bombardier Q400s by another of our Air Canada Express operators, Jazz, on key Western Canada markets; and the introduction of two new Boeing 777 aircraft in the mainline fleet next year.

“We are forming an integrated leisure group by combining the activities of our tour operator business with our new leisure airline. Our commercial team is currently focused on the 2013 launch of the leisure carrier and we look forward to providing further details in the coming weeks. Another recent positive development is the agreement reached with Canada’s Commissioner of Competition that will allow us to finalize and implement a Canada-U.S. transborder joint venture with United Airlines, our longstanding alliance partner, in this important aviation market.

“These initiatives, combined with our on-going focus on cost transformation, are aimed at ensuring Air Canada’s global competitiveness and long-term success.

“For the third consecutive year, Air Canada has been named as the Best International Airline in North America in Skytrax’s industry benchmark survey of international air travelers. I thank our employees for their ongoing commitment to excellence and share their pride in this great honour during the airline’s 75th anniversary year,” concluded Mr. Rovinescu.

Air Canada has entered into discussions with the federal government with respect to an extension of pension deficit funding relief given that the Air Canada special funding regulations expire in January 2014. Air Canada’s Canadian-based unions support the extension request. This is in addition to various changes to Air Canada’s pension plans that were made during the last round of labour negotiations, which remain subject to regulatory approval.

Income Statement Highlights

System passenger revenues increased \$92 million or 3.1 per cent, on a 1.6 per cent improvement in yield and a 0.8 per cent growth in traffic. Passenger revenue per available seat mile (RASM) increased 2.2 per cent from the third quarter of 2011 due to the yield increase and a 0.5 percentage point improvement in passenger load factor.

Excluding the impact of certain benefit plan amendments described below, fuel expense and the cost of ground packages at Air Canada Vacations, CASM increased 1.6 per cent from the third quarter of 2011. This 1.6 per cent CASM increase was in line with the 1.0 per cent to 2.0 per cent third quarter increase projected in Air Canada’s news release dated August 8, 2012.

In the third quarter of 2012, operating expenses decreased \$65 million or 2 per cent from the corresponding quarter in 2011. Included in operating expenses in the third quarter of 2012 was an expense reduction of \$124 million related to changes made to the terms of the new collective agreement with pilots pertaining to retirement age. This reduction is reflected under “Benefit plan amendments” on Air Canada’s consolidated statement of operations.

In the quarter, operating income of \$421 million, which included the favourable impact of the benefit plan amendments, increased \$151 million from the third quarter of 2011.

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Liquidity Highlights

At September 30, 2012, Air Canada's cash and short-term investments amounted to \$2,196 million, \$17 million higher than Air Canada's cash and short-term investments balance at September 30, 2011, and represented 18 per cent of 12-month trailing operating revenues

At September 30, 2012, adjusted net debt of \$4,268 million decreased \$308 million from December 31, 2011, reflecting the impact of net debt repayments, as well as the favourable impact of a stronger Canadian dollar.

Current Outlook

In the fourth 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 fourth quarter of 2011.

Taking into account reported ASM capacity for the first nine months of 2012, Air Canada now expects its full year 2012 system capacity to increase in the range of 0.75 to 1.25 per cent when compared to the full year 2011 (as opposed to the 0.5 to 1.5 per cent ASM increase projected in Air Canada's news release dated August 8, 2012) and expects its full year 2012 domestic capacity to increase in the range of 0.5 to 1.0 per cent from the full year 2011 (as opposed to the 0.5 to 1.5 per cent ASM increase projected in Air Canada's news release dated August 8, 2012).

For the fourth quarter of 2012, Air Canada expects adjusted CASM ⁽¹⁾ to decrease by 2.0 to 3.0 per cent as compared to the fourth quarter of 2011. Taking into account reported operating expense results for the first nine months of 2012, Air Canada now expects adjusted CASM for the full year 2012 to increase by 0.75 to 1.25 per cent from the full year 2011 level (as opposed to the 0.5 to 1.5 per cent increase projected in Air Canada's news release dated August 8, 2012).

In addition, Air Canada plans to increase its full year 2013 system capacity by 1.5 to 3.0 per cent when compared to the full year 2012. This projection includes all carriers operating under the Air Canada Express banner and the expected impacts of the new leisure group and the two Boeing 777 aircraft scheduled for delivery in June and August 2013.

Air Canada's above-mentioned outlook assumes Canadian GDP growth of between 1.5 to 2.0 per cent for 2012 and 2013. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C\$0.99 per U.S. dollar in the fourth quarter of 2012 and C\$1.00 per U.S. dollar for the full year 2012 and that the price of jet fuel will average 88 cents per litre in the fourth quarter of 2012 and 89 cents per litre for the full year 2012.

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

	Fourth Quarter 2012 versus Fourth Quarter 2011	Full Year 2012 versus Full Year 2011
<u>Current Outlook</u>		
Available seat miles (System)	Increase 0% to 1.0%	Increase 0.75% to 1.25%
Available seat miles (Canada)	n/a	Increase 0.5% to 1.0%
Adjusted CASM ⁽¹⁾	Decrease 2.0% to 3.0%	Increase 0.75% to 1.25%

	Major Assumptions – Fourth Quarter 2012	Major Assumptions – Full Year 2012
<u>Major Assumptions</u>		
Canadian dollar per U.S. dollar	0.99	1.00
Jet fuel price – CAD cents per litre (net of fuel hedging)	88 cents	89 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 \$50 million from the full year 2011 (as opposed to the decrease of \$55 million projected in Air Canada's new release dated August 8, 2012). This revised guidance takes into account actual expenses recorded in the first nine months of 2012.
- 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 \$50 million
Employee benefits expense	Increase \$30 million

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The following table summarizes Air Canada's outlook for the full year 2013:

	Full Year 2013 versus Full Year 2012
<u>Current Outlook</u>	
Available seat miles (System)	Increase 1.5% to 3.0%
<u>Major Assumptions</u>	
Canadian economy	Canadian GDP growth of 1.5% to 2.0%

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."

(1) 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 may not be comparable to similar measures presented by other public companies. Readers should refer to Air Canada's Third Quarter 2012 MD&A for a reconciliation of non-GAAP financial measures.

- Adjusted net income (loss) and adjusted net income (loss) per diluted share are used by Air Canada to assess share performance without the effects of foreign exchange, net financing income (expense) on employee benefits, 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.
- Adjusted CASM is used by Air Canada to assess the operating performance of its ongoing airline business without the effects of fuel expense, the cost of ground packages at Air Canada Vacations and unusual items 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.

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- 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 Third Quarter 2012 Unaudited Interim Condensed Consolidated Financial Statements and Notes and its Third 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, November 8, 2012 at 09:00 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 third quarter 2012 financial results and be available to answer questions from analysts and high yield bond holders.

Dial (416) 695-9706 or 1-866-225-0198 or listen (only) through our live audio web cast at <http://bellwebcasting.ca/audience/index.asp?eventid=95158021>.

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 Third Quarter 2012 MD&A dated November 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)	Third Quarter			First Nine Months		
	2012	2011	Change \$	2012	2011	Change \$
Financial Performance Metrics						
Operating revenues	3,328	3,242	86	9,279	8,913	366
Operating income	421	270	151	391	277	114
Non-operating income (expense)	8	(394)	402	(212)	(467)	255
Income (loss) before income taxes	429	(124)	553	179	(190)	369
Net income (loss) from continuing operations	429	(124)	553	178	(189)	367
Net income (loss) from discontinued operations - Aveos	-	-	-	(55)	-	(55)
Net income (loss)	429	(124)	553	123	(189)	312
Adjusted net income ⁽¹⁾	230	193	37	59	45	14
Operating margin (%), excluding the impact of benefit plan amendments ⁽²⁾	8.9%	8.3%	0.6 pp	2.9%	3.1%	(0.2) pp
Operating margin %	12.7%	8.3%	4.4 pp	4.2%	3.1%	1.1 pp
EBITDAR, excluding the impact of benefit plan amendments ⁽²⁾ ⁽³⁾	554	535	19	1,043	1,080	(37)
EBITDAR ⁽³⁾	678	535	143	1,167	1,080	87
EBITDAR margin (%), excluding the impact of benefit plan amendments ⁽²⁾ ⁽³⁾	16.6%	16.5%	0.1 pp	11.2%	12.1%	(0.9) pp
EBITDAR margin % ⁽³⁾	20.4%	16.5%	3.9 pp	12.6%	12.1%	0.5 pp
Cash, cash equivalents and short-term investments	2,196	2,179	17	2,196	2,179	17
Free cash flow ⁽⁴⁾	(164)	4	(168)	204	435	(231)
Adjusted net debt ⁽⁵⁾	4,268	4,645	(377)	4,268	4,645	(377)
Net income (loss) per share – diluted	\$1.54	(\$0.45)	\$1.99	\$0.63	(\$0.70)	\$1.33
Adjusted net income per share – diluted ⁽¹⁾	\$0.82	\$0.68	\$0.14	\$0.21	\$0.16	\$0.05
Operating Statistics						
			Change %			Change %
Revenue passenger miles (millions) (RPM)	16,258	16,126	0.8	43,072	42,158	2.2
Available seat miles (millions) (ASM)	18,835	18,799	0.2	51,785	51,170	1.2
Passenger load factor %	86.3%	85.8%	0.5 pp	83.2%	82.4%	0.8 pp
Passenger revenue per RPM ("Yield") (cents)	18.4	18.1	1.6	18.8	18.5	2.0
Passenger revenue per ASM ("RASM") (cents)	15.9	15.5	2.2	15.7	15.2	2.9
Operating revenue per ASM (cents)	17.7	17.2	2.4	17.9	17.4	2.9
Operating expense per ASM ("CASM") (cents)	15.4	15.8	(2.4)	17.2	16.9	1.7
Adjusted CASM (cents) ⁽⁶⁾	10.7	10.6	1.6	11.6	11.4	2.0
Average number of full-time equivalent (FTE) employees (thousands) ⁽⁷⁾	24.0	23.9	0.2	24.0	23.7	1.2
Aircraft in operating fleet at period end ⁽⁸⁾	352	353	(0.3)	352	353	(0.3)
Average fleet utilization (hours per day) ⁽⁹⁾	11.0	10.8	1.5	10.4	10.3	0.4
Revenue frequencies (thousands)	148	147	0.8	423	418	1.3
Average aircraft flight length (miles) ⁽⁹⁾	925	931	(0.6)	899	903	(0.4)
Economic fuel cost per litre (cents) ⁽¹⁰⁾	87.8	85.8	2.3	90.0	84.1	7.0
Fuel litres (millions) ⁽⁹⁾	1,104	1,103	0.1	3,052	3,025	0.9
Revenue passengers carried (millions) ⁽¹¹⁾	9.8	9.5	2.5	26.7	26.0	2.8

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- (1) *Adjusted net income (loss) and adjusted net income (loss) per share – diluted are non-GAAP financial measures. Refer to section 16 “Non-GAAP Financial Measures” of Air Canada’s Third Quarter 2012 MD&A dated November 8, 2012 for additional information.*
- (2) *In the third quarter of 2012, Air Canada recorded an operating expense reduction of \$124 million related to changes to the terms of the ACPA collective agreement pertaining to retirement age.*
- (3) *EBITDAR (earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent), excluding the impact of benefit plan amendments, and EBITDAR are non-GAAP financial measures. Refer to section 16 “Non-GAAP Financial Measures” of Air Canada’s Third Quarter 2012 MD&A dated November 8, 2012 for additional information.*
- (4) *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 Third Quarter 2012 MD&A dated November 8, 2012 for additional information.*
- (5) *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 Third Quarter 2012 MD&A dated November 8, 2012 for additional information.*
- (6) *Adjusted CASM is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of Air Canada’s Third Quarter 2012 MD&A dated November 8, 2012 for additional information.*
- (7) *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.*
- (8) *Includes Jazz aircraft covered under the capacity purchase agreement with Jazz (“Jazz CPA”) and aircraft operated by third party carriers operating under capacity purchase agreements. Refer to section 6 of Air Canada’s Third Quarter 2012 MD&A dated November 8, 2012 for additional information on Air Canada’s operating fleet.*
- (9) *Excludes charter operations. Also excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the Jazz CPA.*
- (10) *Excludes third party carriers, other than Jazz, operating under capacity purchase agreements. Includes fuel handling expenses. Economic fuel price per litre is a non-GAAP financial measure. Refer to section 4 of Air Canada’s Third Quarter 2012 MD&A dated November 8, 2012 for additional information.*
- (11) *Consistent with the IATA definition of revenue passengers carried, revenue passengers are counted on a flight number basis.*