

News Release

Air Canada Reports Full Year and Fourth Quarter 2012 Results

- **Net income of \$131 million in 2012 on a GAAP basis; Adjusted net income of \$53 million in 2012**
- **Fourth Quarter EBITDAR of \$284 million, an increase of \$122 million**
- **Annual EBITDAR of \$1.451 billion, including the impact of benefit plan amendments**
- **Cash and short-term investments of \$2.026 billion at December 31, 2012**

MONTRÉAL, February 7, 2013 – Air Canada today reported full year and fourth quarter earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent (“EBITDAR”) of \$1.451 billion (or \$1.327 billion before the impact of benefit plan amendments) compared to EBITDAR of \$1.242 billion in 2011. Including the favourable impact of benefit plan amendments, EBITDAR of \$1.451 billion increased \$209 million year-over-year (or \$85 million before the impact of benefit plan amendments). On a GAAP basis, in 2012, net income was \$131 million or \$0.45 per diluted share compared to a net loss of \$249 million or \$0.92 per diluted share in 2011. On an adjusted basis, net income was \$53 million or \$0.19 per diluted share compared to a net loss of \$122 million or \$0.44 per diluted share in 2011.

For the fourth quarter of 2012, Air Canada reported EBITDAR of \$284 million compared to EBITDAR of \$162 million in the fourth quarter of 2011, an improvement of \$122 million. On a GAAP basis, in the fourth quarter of 2012, Air Canada reported net income of \$8 million or \$0.03 per diluted share compared to a net loss of \$60 million or \$0.22 per diluted share in the fourth quarter of 2011. Air Canada reported an adjusted net loss of \$6 million or \$0.02 per diluted share compared to an adjusted net loss of \$167 million or \$0.60 per diluted share in the same quarter in 2011.

“I am extremely pleased to report a strong fourth quarter and a full year net profit for Air Canada of \$131 million in 2012,” said Calin Rovinescu, President and Chief Executive Officer. “These results reflect the success of Air Canada’s ongoing transformation aligned with strict cost control and disciplined capacity management. In particular, the strong revenue performance of our international network was led by significant improvements, not only in the Pacific region but also on the Atlantic where we overcame challenges faced by

the industry earlier in the year. Our focus remains firmly fixed on further cost reduction and increased revenue generation, including improved yields, positioning us well for the future.

“Air Canada marked its 75th anniversary in 2012 by proving it is dynamic and adaptable to an ever-changing industry. In pursuing our global strategy we will continue to build our international network with expanding services to Asia and new routes and destinations such as Istanbul, Venice and Edinburgh. Our commitment to this priority is underscored by our ongoing fleet modernization with the addition of five new Boeing 777s. The further enhancement of our range of international product and service offerings, including the introduction of a Premium Economy product and launch of our leisure carrier Air Canada *rouge*[™], gives us the tools to more effectively compete in a wider range of international markets. I thank our 27,000 employees for taking care of our customers as recognized by our many awards and accolades throughout the year, culminating in Air Canada recently receiving a Four-Star rating in the Skytrax Airline Star Ranking, the only international network carrier in North America to earn this distinction.”

Full Year Income Statement Highlights

In 2012, system passenger revenues were \$10.737 billion, an increase of \$529 million or 5.2 per cent, on a 2.6 per cent growth in traffic and a 1.8 per cent improvement in yield. Passenger revenue per available seat mile (RASM) increased 3.2 per cent from 2011 due to the yield growth and a 1.1 percentage point improvement in passenger load factor.

Adjusted CASM increased 1.0 per cent from 2011, in line with the 0.75 per cent to 1.25 per cent full year increase projected in Air Canada’s news release dated November 8, 2012.

In 2012, operating expenses increased \$250 million from 2011, reflecting increases in fuel expense, wages, salaries and benefits expense, capacity purchase costs and other expenses. Partly offsetting these increases was an operating expense reduction of \$124 million related to changes to the terms of the ACPA collective agreement pertaining to retirement age and a decrease in depreciation, amortization and impairment expense.

In 2012, operating income of \$437 million increased \$258 million from 2011.

Fourth Quarter Income Statement Highlights

In the fourth quarter of 2012, system passenger revenues increased \$139 million or 5.8 per cent, on a 4.2 per cent growth in traffic and a 1.2 per cent improvement in yield. RASM increased 4.2 per cent from the fourth quarter of 2011 due to a 2.3 percentage point improvement in passenger load factor and to the yield growth.

In the fourth quarter of 2012, operating expenses decreased \$2 million from the fourth quarter of 2011, mainly due to lower aircraft maintenance expense and a decrease in ownership costs (comprised of depreciation, amortization and impairment and aircraft rent). Offsetting these decreases were increases in wages, salaries and benefits expense, fuel expense, capacity purchase costs, food, beverage and supplies expense and other expenses.

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Adjusted CASM decreased 2.0 per cent from the fourth quarter of 2011, in line with the 2.0 per cent to 3.0 per cent fourth quarter decrease projected in Air Canada's news release dated November 8, 2012.

In the fourth quarter of 2012, operating income of \$46 million improved \$144 million from the fourth quarter of 2011.

Liquidity Highlights

At December 31, 2012, cash and short-term investments amounted to \$2,026 million, or 17 per cent of 2012 annual operating revenues.

At December 31, 2012, adjusted net debt of \$4,281 million decreased \$295 million from December 31, 2011, reflecting net debt repayments made during 2012.

Appointment to the Board of Directors

The Corporation also announced the appointment of Thomas Birks to the Air Canada Board of Directors. The appointment is effective immediately. Currently, he is the President of Birinco Inc., a merchant bank with investment portfolios ranging from private equity to passive investments. He previously served as President of Henry Birks and Sons Ltd. and as Chair of the board of directors of Viterra Inc. Mr. Birks has extensive global experience having worked in various countries including Australia, Japan and South Africa.

In addition, Mr. Birks has served as Chair and board member of numerous corporations, education institutions, hospitals and foundations.

Current Outlook

In the first quarter of 2013, Air Canada expects its system ASM capacity, as measured by available seat miles (ASMs), to decrease in the range of 0 to 1.5 per cent when compared to the first quarter of 2012. The comparative decrease in capacity in the first quarter of 2013 versus the first quarter of 2012 is due, in large part, to the first quarter of 2012 having had an additional leap year day.

Air Canada continues to expect full year 2013 system capacity to increase in the range of 1.5 to 3.0 per cent when compared to the full year 2012. Air Canada expects its full year 2013 domestic capacity to increase in the range of 0 to 1.5 per cent from the full year 2012.

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As described in Air Canada's 2012 consolidated financial statements, Air Canada will be required to adopt certain revised and new accounting standards beginning on January 1, 2013, with retroactive restatement of 2012 comparative figures. These revised standards include changes to the accounting for pensions and other employee benefits and changes to the accounting for consolidation.

Air Canada continues to evaluate the impact of these standards on its consolidated financial statements however, for the purposes of providing adjusted CASM guidance for 2013, Air Canada has assumed that these standards will result in the following restatements to 2012 operating expenses:

Canadian dollars in millions	Full Year 2012
Decrease to employee benefits expense	(2)
Decrease to depreciation, amortization and impairment	(9)
Net operating expense decrease due to impact of 2012 restatements	(11)

The adjusted CASM guidance for the first quarter and full year 2013 are compared to the first quarter and full year 2012, respectively, assuming the adjustments to operating expense noted above.

For the first quarter of 2013, Air Canada expects adjusted CASM to increase by 3 to 4 per cent when compared to the first quarter of 2012. For the full year 2013, Air Canada expects adjusted CASM to decrease in the range of 0 to 1.0 per cent from the full year 2012.

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

The following table summarizes Air Canada's above-mentioned outlook for the first quarter of 2013 and for the full year 2013 and related major assumptions:

	First Quarter 2013 versus First Quarter 2012	Full Year 2013 versus Full Year 2012
<u>Current Outlook</u>		
Available seat miles (System)	Decrease 0% to 1.5%	Increase 1.5% to 3.0%
Available seat miles (Canada)	n/a	Increase 0% to 1.5%
Adjusted CASM ⁽¹⁾	Increase 3% to 4%	Decrease 0% to 1.0%

	Major Assumptions – First Quarter 2013	Major Assumptions – Full Year 2013
Major Assumptions		
Canadian dollar per U.S. dollar	1.00	1.00
Jet fuel price – CAD cents per litre (net of fuel hedging)	88 cents	89 cents
Canadian economy	2013 annualized Canadian GDP growth of 1.5% to 2.0%	Canadian GDP growth of 1.5% to 2.0%

For the full year 2013, Air Canada also projects the following:

- Depreciation, amortization and impairment expense to decrease by approximately \$130 million from the full year 2012.
- Employee benefits expense to increase by approximately \$70 million from the full year 2012. Refer to section 14 of Air Canada’s 2012 MD&A for important disclosures on changes to accounting for employee benefits effective January 1, 2013.
- Aircraft maintenance expense to increase by up to 5 per cent from the full year 2012, which includes the impact of the favourable maintenance return provision adjustment of \$32 million recorded in the fourth quarter of 2012.

The following table summarizes the above-mentioned projections for the full year 2013:

	Full Year 2013 versus Full Year 2012
Depreciation, amortization and impairment expense	Decrease by approximately \$130 million
Employee benefits expense	Increase by approximately \$70 million
Aircraft maintenance expense	Increase up to 5%

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 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.
- 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 2012 Audited Consolidated Financial Statements and Notes and its 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, February 7, 2013 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 fourth quarter 2012 financial results and will be available to answer questions from analysts and high yield bond holders.

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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 2012 MD&A dated February 7, 2013. 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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INFORMATION

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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)	Fourth Quarter			Full Year		
	2012	2011	Change \$	2012	2011	Change \$
Financial Performance Metrics						
Operating revenues	2,841	2,699	142	12,120	11,612	508
Operating income (loss)	46	(98)	144	437	179	258
Non-operating income (expense)	(38)	38	(76)	(250)	(429)	179
Income (loss) before income taxes and discontinued operations	8	(60)	68	187	(250)	437
Net income (loss) from continuing operations	8	(60)	68	186	(249)	435
Net income (loss) from discontinued operations - Aveos	-	-	-	(55)	-	(55)
Net income (loss)	8	(60)	68	131	(249)	380
Adjusted net income (loss) ⁽¹⁾	(6)	(167)	161	53	(122)	175
Operating margin (%), excluding the impact of benefit plan amendments ⁽²⁾	1.6%	(3.6)%	5.2 pp	2.6%	1.5%	1.1 pp
Operating margin %	1.6%	(3.6)%	5.2 pp	3.6%	1.5%	2.1 pp
EBITDAR, excluding the impact of benefit plan amendments ^{(2) (3)}	284	162	122	1,327	1,242	85
EBITDAR ⁽³⁾	284	162	122	1,451	1,242	209
EBITDAR margin (%), excluding the impact of benefit plan amendments ^{(2) (3)}	10.0%	6.0%	4.0 pp	10.9%	10.7%	0.2 pp
EBITDAR margin % ⁽³⁾	10.0%	6.0%	4.0 pp	12.0%	10.7%	1.3 pp
Cash, cash equivalents and short-term investments	2,026	2,099	(73)	2,026	2,099	(73)
Free cash flow ⁽⁴⁾	(23)	(62)	39	187	356	(169)
Adjusted net debt ⁽⁵⁾	4,281	4,576	(295)	4,281	4,576	(295)
Net income (loss) per share – diluted	\$ 0.03	\$ (0.22)	\$ 0.25	\$ 0.45	\$ (0.92)	\$ 1.37
Adjusted net income (loss) per share – diluted ⁽¹⁾	\$ (0.02)	\$ (0.60)	\$ 0.58	\$ 0.19	\$ (0.44)	\$ 0.63
Operating Statistics			Change %			Change %
Revenue passenger miles (millions) (RPM)	12,574	12,065	4.2	55,646	54,223	2.6
Available seat miles (millions) (ASM)	15,484	15,290	1.3	67,269	66,460	1.2
Passenger load factor %	81.2%	78.9%	2.3 pp	82.7%	81.6%	1.1 pp
Passenger revenue per RPM ("Yield") (cents)	19.7	19.5	1.2	19.0	18.7	1.8
Passenger revenue per ASM ("RASM") (cents)	16.0	15.4	4.2	15.8	15.3	3.2
Operating revenue per ASM (cents)	18.4	17.7	3.9	18.0	17.5	3.1
Operating expense per ASM ("CASM") (cents)	18.1	18.3	(1.3)	17.4	17.2	1.0
Adjusted CASM (cents) ⁽⁶⁾	12.4	12.6	(2.0)	11.8	11.7	1.0
Average number of full-time equivalent (FTE) employees (thousands) ⁽⁷⁾	24.1	23.6	2.1	24.0	23.7	1.4
Aircraft in operating fleet at period end ⁽⁸⁾	351	352	(0.3)	351	352	(0.3)
Average fleet utilization (hours per day) ⁽⁹⁾	9.5	9.4	1.3	10.1	10.1	0.6
Revenue frequencies (thousands)	134	133	0.5	557	551	1.1
Average aircraft flight length (miles) ⁽⁹⁾	863	857	0.8	891	892	(0.1)
Economic fuel cost per litre (cents) ⁽¹⁰⁾	88.8	88.6	0.2	89.7	85.2	5.3
Fuel litres (millions) ⁽⁹⁾	924	912	1.3	3,976	3,937	1.0
Revenue passengers carried (millions) ⁽¹¹⁾	8.3	7.9	5.1	34.9	33.9	2.9

- (1) *Adjusted net income (loss) and adjusted net income (loss) per share – diluted are non-GAAP financial measures. Refer to section 20 "Non-GAAP Financial Measures" of Air Canada's 2012 MD&A dated February 7, 2013 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 20 "Non-GAAP Financial Measures" of Air Canada's 2012 MD&A dated February 7, 2013 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 9.5 of Air Canada's 2012 MD&A dated February 7, 2013 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 9.3 of Air Canada's 2012 MD&A dated February 7, 2013 for additional information.*
- (6) *Adjusted CASM is a non-GAAP financial measure. Refer to section 20 "Non-GAAP Financial Measures" of Air Canada's 2012 MD&A dated February 7, 2013 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 between Jazz and Air Canada ("Jazz CPA") and aircraft operated by third party carriers operating under capacity purchase agreements. Refer to section 8 of Air Canada's 2012 MD&A dated February 7, 2013 for additional information on Air Canada's operating fleet.*
- (9) *Excludes charter operations. Also excludes third party carriers operating under capacity purchase agreements, 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 sections 6 and 7 of Air Canada's 2012 MD&A dated February 7, 2013 for additional information.*
- (11) *Revenue passengers are counted on a flight number basis which is consistent with the IATA definition of revenue passengers carried.*