AIR CANADA

News Release

Air Canada Reports Record Second Quarter 2013 Results

Highest Adjusted Net Income, Operating Income and EBITDAR Results for Second Quarter in Air Canada's History

- Adjusted net income of $115 million versus an adjusted net loss of $7 million in the second quarter of 2012, an improvement of $122 million
- Operating income of $174 million versus operating income of $63 million in the second quarter of 2012, an improvement of $111 million
- EBITDAR (earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent) of $385 million versus EBITDAR of $312 million in the second quarter of 2012, an improvement of $73 million

MONTRÉAL, August 7, 2013 – Air Canada today reported adjusted net income of $115 million or $0.41 per diluted share in the second quarter of 2013 compared to an adjusted net loss of $7 million or $0.02 per diluted share in the second quarter of 2012. Second quarter EBITDAR amounted to $385 million compared to EBITDAR of $312 million in the second quarter of 2012, an increase of $73 million or 23 per cent. On a GAAP basis, Air Canada's net loss was $23 million or $0.09 per diluted share compared to a net loss of $161 million or $0.59 per diluted share in the same quarter of 2012.

"Air Canada delivered its best second quarter financial performance in the Corporation's history, with records reported in all three measures of operating income, adjusted net income and EBITDAR," said Calin Rovinescu, President and Chief Executive Officer. "These results are a clear indication that we are gaining momentum in our transformation towards sustainable profitability at Air Canada and underscore our Company-wide efforts to achieve cost containment and continue to improve on our revenue and yield performance.

"Our success in the quarter was not only financial – I am also especially pleased to report ongoing improvements in operational performance for the second consecutive quarter, with a 30 per cent improvement in On-Time Performance (OTP) for the quarter compared to the previous year. This is a reflection of the professionalism, collaboration and dedication of Air Canada's 27,000 employees in taking care of our customers while operating a safe and efficient airline. Also, we were once again recognized by global travelers as the Best Airline in North America for the fourth consecutive year, a wonderful recognition of our efforts.

"Market response to the launch of our new leisure carrier, Air Canada *rouge*, on July 1st has been very positive and our plans are on track for growing the Air Canada *rouge* fleet to serve more holiday destination markets where we can now compete on a more cost effective basis. In addition, in early July, we began operating the first of five new Boeing 777-300ER aircraft, marking the first significant growth in the mainline wide-body fleet in ten years to support continued development of our international network and Toronto hub as our North American gateway. These aircraft also debut our new Premium Economy cabin, offering customers a high-value option for enhanced comfort and service on select international routes.

"Looking ahead, our focus remains on the execution of the Corporation's business plan led by our four core priorities: cost transformation, international growth, customer engagement and culture change to transform Air Canada into a sustainably profitable company for its shareholders and employees," concluded Mr. Rovinescu.

Second Quarter Income Statement Highlights

Second quarter 2013 system passenger revenues were $2,757 million, an increase of $86 million or 3 per cent over the second quarter of 2012, on a 1.6 per cent growth in traffic and a 1.5 per cent improvement in yield. Passenger revenue per available seat mile (RASM) increased 0.9 per cent from the second quarter of 2012 on the yield growth. Air Canada reported a passenger load factor of 83.0 per cent for the second quarter of 2013, 0.5 percentage points below the second quarter of 2012. In the premium class cabin, passenger revenues increased $19 million or 3.3 per cent on yield and traffic growth of 2.2 per cent and 1.1 per cent, respectively, over the second quarter of 2012.

Operating expenses decreased $42 million or 1 per cent from the second quarter of 2012. Operating expense increases in wages, salaries and benefits and capacity purchase costs were more than offset by operating expense decreases in aircraft fuel and depreciation, amortization and impairment expenses.

Air Canada's adjusted cost per available seat mile (adjusted CASM), which excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items, decreased 1.4 per cent compared to the second quarter of 2012. The 1.4 per cent reduction in adjusted CASM was in line with the adjusted CASM decrease of 0.5 per cent to 1.5 per cent projected in Air Canada's news release dated June 10, 2013.

In the second quarter 2013, Air Canada recorded operating income of $174 million compared to operating income of $63 million in the same quarter in 2012, an improvement of $111 million.

Liquidity Highlights

At June 30, 2013, cash and short-term investments amounted to $2,107 million or 17 per cent of 12-month trailing revenues (June 30, 2012 – $2,323 million or 20 per cent of 12-month trailing revenues).

At June 30, 2013, adjusted net debt of $3,975 million decreased $162 million from December 31, 2012, mainly reflecting the impact of an increase in cash balances.

Free cash flow of $147 million decreased $86 million from the second quarter of 2012, largely reflecting the addition of one Boeing 777 aircraft, partly offset by an increase in cash flows from operating activities due to better operating results.

Current Outlook

For the third quarter of 2013, Air Canada expects its system ASM capacity, as measured by available seat miles (ASMs), to increase in the range of 2.5 to 3.5 per cent when compared to the third quarter of 2012.

Air Canada continues to expect its full year 2013 system ASM capacity to increase in the range of 1.5 to 2.5 per cent when compared to the full year 2012. Air Canada also continues to expect its full year 2013 domestic capacity to increase in the range of 1.5 to 2.5 per cent from the full year 2012.

For the third quarter of 2013, Air Canada expects adjusted CASM to decrease 1.5 to 2.5 per cent when compared to the third quarter of 2012.

Taking into account Air Canada's adjusted CASM result for the second quarter 2013, Air Canada now expects its full year 2013 adjusted CASM to decrease in the range of 1.0 to 2.0 per cent from the full year 2012 (as opposed to the decrease of 0.5 to 1.5 per cent projected in Air Canada news release dated June 10, 2013).

Air Canada continues to expect its full year 2014 system capacity to increase by 9.0 to 11.0 per cent when compared to the full year 2013. This projected increase in capacity, expected to be deployed primarily on international markets, is consistent with the fleet plan discussed in Air Canada's Second Quarter 2013 MD&A and is due to the addition of five high-density Boeing 777-300ER aircraft, the first having been delivered in June 2013 and the remainder scheduled for delivery between August 2013 and February 2014, the scheduled arrival in 2014 of the first six Boeing 787 aircraft, and the planned growth from Air Canada *rouge*.

Air Canada's outlook assumes Canadian GDP growth of 1.25 to 1.75 per cent for 2013 and Canadian GDP growth of 2.0 to 3.0 per cent for 2014.

Air Canada also expects that the Canadian dollar will trade, on average, at C$1.04 per U.S. dollar for the third quarter of 2013 and C$1.03 per U.S. dollar for the full year 2013 and that the price of jet fuel will average 87 cents per litre for the third quarter of 2013 and the full year 2013.

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

	Third Quarter 2013 versus Third Quarter 2012	Full Year 2013 versus Full Year 2012
Current Outlook		
Available seat miles (System)	Increase 2.5% to 3.5%	Increase 1.5% to 2.5%
Available seat miles (Canada)	n/a	Increase 1.5% to 2.5%
Adjusted CASM (1)	Decrease 1.5% to 2.5%	Decrease 1.0% to 2.0%

(1) *Excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items*

	Major Assumptions – Third Quarter 2013	Major Assumptions – Full Year 2013
Major Assumptions		
Canadian dollar per U.S. dollar	1.04	1.03
Jet fuel price – CAD cents per litre	87 cents	87 cents
Canadian economy	2013 Annualized Canadian GDP growth of 1.25% to 1.75%	Canadian GDP growth of 1.25% to 1.75%

For the full year 2013, Air Canada continues to expect:

- Depreciation, amortization and impairment expense to decrease by $115 million from the full year 2012.
- Employee benefits expense to increase by $70 million from the full year 2012. Refer to section 14 of Air Canada's 2012 MD&A dated February 7, 2013 for important disclosures on changes to accounting for employee benefits effective January 1, 2013.
- Aircraft maintenance expense to decrease by $40 million from the full year 2012 level.

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 $115 million
Employee benefits expense	Increase $70 million
Aircraft maintenance expense	Decrease $40 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 may not be comparable to similar measures presented by other public companies. Refer to Air Canada's Second Quarter 2013 MD&A for reconciliation of non-GAAP financial measures.

- Adjusted net income (loss) is used by Air Canada to assess its performance without the effects of foreign exchange, net financing 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, such as impairment charges, 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. Adjusted net debt is calculated as the sum of total long-term debt and finance lease obligations and capitalized operating leases less cash and cash equivalents and short-term investments.

Air Canada's Second Quarter 2013 unaudited Consolidated Financial Statements and Notes and its Second Quarter 2013 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 22, 2013, consult SEDAR at **www.sedar.com.**

Analyst Conference Call Advisory

Air Canada will host its quarterly analysts' call today, August 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 second quarter 2013 financial results and will be available to answer questions from analysts and high yield bond holders.

Dial 416-340-8018 or 1-866-223-7781 or listen through our live audio webcast at http://bell.media-server.com/m/p/ujar62rm

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 and in section 14 of Air Canada's Second Quarter 2013 MD&A dated August 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.

Contacts :	Isabelle Arthur (Montréal) Peter Fitzpatrick (Toronto) Angela Mah (Vancouver)	514 422-5788 416 263-5576 604 270-5741
Internet :	aircanada.com	

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		
	2013	2012	Change $	2013	2012	Change $
Financial Performance Metrics						
Operating revenues	3,057	2,988	69	6,009	5,949	60
Operating income (loss)	174	63	111	68	(28)	96
Non-operating expense	(197)	(223)	26	(351)	(351)	-
Loss before income taxes and discontinued operations	(23)	(160)	137	(283)	(379)	96
Net loss from continuing operations	(23)	(161)	138	(283)	(380)	97
Net loss from discontinued operations - Aveos	-	-	-	-	(55)	55
Net loss	(23)	(161)	138	(283)	(435)	152
Adjusted net income (loss) [1]	115	(7)	122	(28)	(169)	141
Operating margin %	5.7%	2.1%	3.6 pp	1.1%	(0.5%)	1.6 pp
EBITDAR [2]	385	312	73	530	486	44
EBITDAR margin % [2]	12.6%	10.5%	2.1 pp	8.8%	8.2%	0.6 pp
Cash, cash equivalents and short-term investments	2,107	2,323	(216)	2,107	2,323	(216)
Free cash flow [3]	147	233	(86)	294	373	(79)
Adjusted net debt [4]	3,975	4,081	(106)	3,975	4,081	(106)
Net loss per share – basic and diluted	$ (0.09)	$ (0.59)	$ 0.50	$ (1.04)	$ (1.58)	$ 0.54
Adjusted net income (loss) per share – diluted [1]	$ 0.41	$ (0.02)	$ 0.43	$ (0.10)	$ (0.61)	$ 0.51
Operating Statistics [5]			**Change %**			**Change %**
Revenue passenger miles (millions) (RPM)	14,093	13,868	1.6	27,180	26,814	1.4
Available seat miles (millions) (ASM)	16,972	16,606	2.2	33,136	32,950	0.6
Passenger load factor %	83.0%	83.5%	(0.5) pp	82.0%	81.4%	0.6 pp
Passenger revenue per RPM ("Yield") (cents)	19.3	19.0	1.5	19.2	19.1	0.3
Passenger revenue per ASM ("RASM") (cents)	16.0	15.9	0.9	15.7	15.6	1.0
Operating revenue per ASM (cents)	18.0	18.0	0.1	18.1	18.1	0.5
Operating expense per ASM ("CASM") (cents)	17.0	17.6	(3.6)	17.9	18.1	(1.2)
Adjusted CASM (cents) [6]	11.7	11.9	(1.4)	12.1	12.1	-
Average number of full-time equivalent (FTE) employees (thousands) [7]	24.6	24.0	2.8	24.6	24.0	2.5
Aircraft in operating fleet at period end	349	352	(0.9)	349	352	(0.9)
Average fleet utilization (hours per day)	9.9	9.9	0.5	10.0	9.9	0.8
Aircraft frequencies (thousands)	137	140	(1.8)	271	275	(1.4)
Average aircraft flight length (miles)	832	818	1.7	829	825	0.5
Economic fuel cost per litre (cents) [8]	85.7	90.8	(5.6)	89.0	91.3	(2.5)
Fuel litres (millions)	985	988	(0.3)	1,939	1,965	(1.3)
Revenue passengers carried (millions) [9]	8.8	8.6	2.5	17.3	16.9	2.1

(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 Second Quarter 2013 MD&A for additional information.

(2) 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 2013 MD&A for additional information.

(3) 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 2013 MD&A for additional information.

(4) 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 2013 MD&A for additional information.

(5) Operating statistics (except for average number of FTE employees) include third party carriers (such as Jazz Aviation LP ("Jazz")) operating under capacity purchase agreements with Air Canada.

(6) Adjusted CASM is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of Air Canada's Second Quarter 2013 MD&A for additional information.

(7) Reflects FTE employees at Air Canada. Excludes FTE employees at third party carriers (such as Jazz) operating under capacity purchase agreements with Air Canada.

(8) Includes fuel handling expenses. Economic fuel price per litre is a non-GAAP financial measure. Refer to sections 4 and 5 of Air Canada's Second Quarter 2013 MD&A for additional information.

(9) Revenue passengers are counted on a flight number basis which is consistent with the IATA definition of revenue passengers carried.