News Release

Air Canada Reports Record First Quarter 2015 Results

EBITDAR triples over last year to $442 million, an increase of 200 per cent
Operating income improves by $262 million and operating margin expands by 820 basis points

MONTRÉAL, May 12, 2015 – Air Canada today reported first quarter adjusted net income(1) of $122 million or $0.41 per diluted share compared to an adjusted net loss of $132 million or $0.46 per diluted share in the first quarter of 2014, an improvement of $254 million or $0.87 per diluted share. EBITDAR(1) (earnings before interest, taxes, depreciation, amortization and aircraft rent) amounted to $442 million compared to EBITDAR of $147 million in the same quarter in 2014, an increase of $295 million or 200 per cent year-over-year. On a GAAP basis, Air Canada reported operating income of $200 million in the first quarter of 2015 compared to an operating loss of $62 million in the first quarter of 2014, an improvement of $262 million. The airline recorded an operating margin of 6.2 per cent compared to a negative operating margin of 2.0 per cent in the first quarter of 2014, an improvement of 8.2 percentage points.

"I am delighted to report the best first quarter financial performance in Air Canada's history," said Calin Rovinescu, President and Chief Executive Officer. "Record results in adjusted net income, operating income, operating margin, EBITDAR, passenger revenues and passenger load factor for the quarter all underscore our team's success in executing on our value-enhancing strategies. We have continued to see a strong demand environment, and in the first quarter our margins expanded dramatically, bolstered by strong cost control, with adjusted CASM declining 1.8 per cent despite the weaker Canadian dollar, and solid traffic growth particularly on leisure sun routes.

"While fuel prices remain volatile, in 2015 we expect to continue to expand margins, increase adjusted net income, strengthen our balance sheet and create value for shareholders. We also expect to set a new record for second quarter operating income this year; however year-over-year improvements will likely be modest when compared to the first quarter improvement. This is due to a particularly strong revenue performance in the second quarter of 2014 and higher projected maintenance expense, the absence of favourable tax-related provisions adjustments of $41 million recorded in the second quarter of 2014, as well as higher relative fuel prices in the second quarter versus the first quarter of 2015.

"I would like to thank Air Canada's 27,000 employees for their hard work earning the loyalty of our customers as we continue to implement our commercial strategy focused on international growth with a renewed fleet and onboard product."

First Quarter Income Statement Highlights

In the first quarter of 2015, on capacity growth of 9.3 per cent, system passenger revenues of $2.786 billion increased $178 million or 6.9 per cent from the first quarter of 2014. The increase in system passenger revenues was due to traffic growth of 10.9 per cent partly offset by a yield decline of 4.2 per cent. An increase in average stage length of 2.7 per cent versus the same quarter in 2014, reflecting international long-haul growth, had the effect of reducing system yield by 1.6 percentage points. On a stage length adjusted basis, system yield decreased 2.6 per cent year-over-year. Modest yield declines are an anticipated and natural consequence of the successful implementation of Air Canada's strategy to profitably increase long-haul international and leisure flying.

Passenger revenue per available seat mile (PRASM) decreased 2.7 per cent from the first quarter of 2014 as the lower yield was partly offset by a passenger load factor improvement of 1.2 percentage points.

In the first quarter of 2015, operating expenses of $3.049 billion decreased $78 million or 2 per cent from the first quarter of 2014 on capacity growth of 9.3 per cent. The decline in operating expenses reflected the impact of lower jet fuel prices largely offset by the impact of the weaker Canadian dollar and capacity-related cost increases. The unfavourable impact of a weaker Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars) in the first quarter of 2015, when compared to the first quarter of 2014, increased operating expenses by approximately $135 million. This currency impact was partly offset by a favourable currency impact of $38 million on passenger revenues and realized currency derivatives gains of $51 million.

Air Canada's adjusted cost per available seat mile (adjusted CASM[(1)]), which excludes fuel expense, the cost of ground packages at Air Canada Vacations® and unusual items, decreased 1.8 per cent from the first quarter of 2014, better than the 0.5 to 1.5 per cent increase projected in Air Canada's news release dated February 11, 2015. The better than expected adjusted CASM performance was largely due to:

- Lower than anticipated aircraft maintenance expenses, primarily driven by the acceleration of aircraft lease extensions and certain favourable lease return condition provision adjustments, reducing maintenance expenses by $22 million in the first quarter of 2015;

- The impact of the new Jazz CPA, effective January 1, 2015, whereby certain costs, such as ground handling services performed by Air Canada, are no longer recovered from Jazz and passed through to Air Canada under the Jazz CPA as capacity purchase fees, thereby reducing both other revenues and capacity purchase fees; and

- Lower than expected employee benefits expense due to lower benefit payments and improved plan experience.

Financial and Capital Management Highlights

At March 31, 2015, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to over $3.1 billion (March 31, 2014 – $2.5 billion). Air Canada's principal objective in managing liquidity risk is to maintain a minimum unrestricted liquidity level of $1.7 billion.

At March 31, 2015, adjusted net debt(1) amounted to $5.19 billion, an increase of $58 million from December 31, 2014, as higher long-term debt and finance lease balances were largely offset by higher cash and short-term investments balances. The airline's adjusted net debt to EBITDAR ratio was 2.6 at March 31, 2015 versus a ratio of 3.1 at December 31, 2014. Air Canada uses this ratio to manage its financial leverage risk and its objective is to maintain the ratio below 3.5.

In the first quarter of 2015, free cash flow(1) of $383 million was $349 million higher than in the first quarter of 2014, reflecting higher cash flows from operating activities partly offset by an increase in capital expenditures which included the acquisition of two Boeing 787-8 aircraft in the first quarter of 2015.

For the 12 months ended March 31, 2015, return on invested capital (ROIC(1)) was 15.2 per cent versus 10.9 per cent for the 12 months ended March 31, 2014. Air Canada's goal is to maintain a sustainable ROIC of 10 to 13 per cent.

Further to Air Canada's foreign exchange risk management practices (which are more fully described in Air Canada's 2014 MD&A dated February 11, 2015), foreign denominated revenues essentially act as a natural hedge against U.S. dollar denominated non-fuel operating expenses. As such, net U.S. dollar operating expenses are largely attributable to the airline's fuel purchases which are currently at a much lower cost in Canadian dollars despite the impact of a weaker Canadian dollar.

U.S. dollar currency derivatives and U.S. dollar cash reserves which, as at March 31, 2015, amounted to US$2.2 billion and US$711 million, respectively, are employed to offset approximately 65 per cent of the net U.S. dollar currency exposure over the next 18 months. The currency derivatives enable Air Canada to purchase U.S. dollars at a weighted average price of C$1.1784 (subject to various option pricing features, such as knock-out terms and profit cap limitations). These derivatives and U.S. dollar cash reserves would be available to mitigate certain cash flow exposure from the currency movements over the next 18 months; however the benefit of these hedging activities is recorded as a foreign exchange gain and not within operating income.

Current Outlook

Capacity

Air Canada expects second quarter 2015 system ASM capacity, as measured by available seat miles (ASMs), to increase 8.75 to 9.75 per cent when compared to the second quarter of 2014, and to be comprised of an increase in the total number of seats dispatched (system) of 5.5 to 6.5 per cent and an increase in system average stage length (measured by ASMs divided by seats dispatched) of approximately 3.0 per cent when compared to the same quarter in 2014.

Air Canada continues to expect its full year 2015 system ASM capacity to increase by 9.0 to 10.0 per cent. For the full year 2015, Air Canada continues to expect an increase in the total number of seats dispatched (system) of 6.0 to 7.0 per cent and an increase in average stage length (system) of approximately 3.0 per cent when compared to the full year 2014. Approximately 55 per cent of the 2015 forecasted capacity increase will be through the continued lower-cost growth of Air Canada rouge® while approximately 38 per cent of the capacity growth will be targeted to international markets operated by the mainline carrier.

Air Canada continues to expect its full year 2015 domestic ASM capacity to increase 3.5 to 4.5 per cent when compared to 2014, with a large part of the growth focused on the airline's transcontinental services. The increase on transcontinental services is partly driven by the positioning of certain Boeing 777 and 787 aircraft at Air Canada's major hubs in Toronto and Vancouver. Furthermore, in 2015, an overlap of the aircraft brought into the fleet to replace the exiting Embraer 190 aircraft is expected to account for approximately 30 per cent of the projected domestic capacity growth in 2015. This overlap is designed to better match capacity with expected 2015 summer season demand. For the full year 2015, Air Canada continues to expect an increase in the total number of seats dispatched (domestic) of 2.5 to 3.5 per cent and an increase in average stage length (domestic) of approximately 1.0 per cent when compared to the full year 2014.

Adjusted CASM

For the second quarter of 2015, Air Canada expects adjusted CASM (which excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items) to increase 0.25 to 1.25 per cent when compared to the second quarter of 2014.

For the full year 2015, Air Canada now expects adjusted CASM to decrease 1.5 to 2.5 per cent from the full year 2014 (as opposed to the decrease of 0.75 to 1.75 per cent projected in Air Canada's February 11, 2015 news release). This improvement is largely driven by the impact of the new Jazz CPA, effective January 1, 2015, whereby certain costs, such as ground handling services performed by Air Canada, are no longer recovered from Jazz and passed through to Air Canada under the Jazz CPA.

Major Assumptions

Air Canada's outlook assumes annual Canadian GDP growth of 1.75 to 2.25 per cent for 2015. Air Canada also expects that the Canadian dollar will trade, on average, at C$1.22 per U.S. dollar in the second quarter of 2015 and for the full year 2015 and that the price of jet fuel will average 69 cents per litre for the second quarter of 2015 and 70 cents per litre for the full year 2015.

The following table summarizes Air Canada's above-mentioned outlook for the second quarter and full year 2015 and related major assumptions:

	Second Quarter 2015 versus Second Quarter 2014	Full Year 2015 versus Full Year 2014
<u>Current Outlook</u>		
System		
Available seat miles	Increase 8.75% to 9.75%	Increase 9.0% to 10.0%
Seats dispatched	Increase 5.5% to 6.5%	Increase 6.0% to 7.0%
Average stage length	Increase approximately 3.0%	Increase approximately 3.0%
Canada		
Available seat miles		Increase 3.5% to 4.5%
Seats dispatched		Increase 2.5% to 3.5%
Average stage length		Increase approximately 1.0%
Adjusted CASM(1)	Increase 0.25% to 1.25%	Decrease 1.5% to 2.5%

	Major Assumptions – Second Quarter 2015	Major Assumptions – Full Year 2015
<u>Major Assumptions</u>		
Canadian dollar per U.S. dollar	$1.22	$1.22
Jet fuel price – CAD cents per litre	69 cents	70 cents
Canadian economy	2015 Annualized Canadian GDP growth of 1.75% to 2.25%	Canadian GDP growth of 1.75% to 2.25%

For the full year 2015, Air Canada also expects:

- Depreciation, amortization and impairment expense to increase by $100 million from the full year 2014.

- Employee benefits expense to increase $50 million from the full year 2014 as opposed to the increase of $85 million projected in Air Canada's February 11, 2015 news release. This improvement is largely due to lower than expected benefit payments and improved plan experience.

- Aircraft maintenance expense to increase $120 million (approximately $80 million of which is expected to be due to the weaker Canadian dollar when compared to the U.S. dollar) from the full year 2014 as opposed to the $140 million increase projected in Air Canada's February 11, 2015 news release. This improvement is mainly driven by the lower than expected aircraft maintenance expenses in the first quarter of 2015, as well as the reclassification of certain aircraft maintenance expenses to the Regional airlines expense line category.

The following table summarizes the above-mentioned projections for the full year 2015:

	Full Year 2015 versus Full Year 2014
Depreciation, amortization and impairment expense	Increase $100 million
Employee benefits expense	Increase $50 million
Aircraft maintenance expense	Increase $120 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."

(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. Refer to Air Canada's First Quarter 2015 MD&A for 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 its performance without the effects of foreign exchange, net financing expense on employee benefits, mark-to-market adjustments on fuel and other derivatives 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, 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 analysis to other airlines less meaningful.

- 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.

- 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.

- Return on invested capital (ROIC) is used by Air Canada to assess the efficiency with which it allocates its capital to generate returns. Return is based on Adjusted net income (loss) (as referred to in the above paragraph), excluding interest expense and implicit interest on operating leases. Invested capital includes average year-over-year total assets, net of average year-over-year non-interest-bearing operating liabilities, and the value of capitalized operating leases (calculated by multiplying annualized aircraft rent by 7).

Air Canada's First Quarter 2015 Interim Unaudited Condensed Consolidated Financial Statements and Notes and its First Quarter 2015 Management's Discussion and Analysis 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 31, 2015, consult SEDAR at **www.sedar.com**.

Analyst Conference Call Advisory

Air Canada will host its quarterly analysts' call today, May 12, 2015 at 09:00 ET. Calin Rovinescu, President and Chief Executive Officer, Michael Rousseau, Executive Vice President and Chief Financial Officer, and Benjamin Smith, President, Passenger Airlines, will be available for analysts' questions. Immediately following the analysts' Q&A session, Michael Rousseau, Executive Vice President and Chief Financial Officer, and Pierre Houle, Managing Director and Treasurer, will be available to answer questions from holders of Air Canada's bonds and term loan B lenders. Media and the public may access this call on a listen-in basis. Details are as follows:

Dial 416-340-2218 or 1-866-225-0198

Live audio webcast: **http://bell.media-server.com/m/p/psujz8gq**

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This news 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, energy prices, currency exchange and interest rates, competition, employee and labour relations, pension issues, 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 2014 MD&A dated February 11, 2015. 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)	First Quarter 2015	2014	$ Change
Financial Performance Metrics			
Operating revenues	3,249	3,065	184
Operating income (loss)	200	(62)	262
Non-operating expense	(509)	(279)	(230)
Net loss	(309)	(341)	32
Adjusted net income (loss) (1)	122	(132)	254
Operating margin %	6.2%	(2.0)%	8.2 pp
EBITDAR (2)	442	147	295
EBITDAR margin % (2)	13.6%	4.8%	8.8 pp
Unrestricted liquidity (3)	3,123	2,515	608
Free cash flow (4)	383	34	349
Adjusted net debt (5)	5,190	4,426	764
Return on invested capital ("ROIC") % (6)	15.2%	10.9%	4.3 pp
Net loss per share – basic and diluted	$ (1.08)	$ (1.20)	$ 0.12
Adjusted net income (loss) per share – diluted (1)	$ 0.41	$ (0.46)	$ 0.87
Operating Statistics (7)			**% Change**
Revenue passenger miles (millions) ("RPM")	14,937	13,466	10.9
Available seat miles (millions) ("ASM")	18,335	16,774	9.3
Passenger load factor %	81.5%	80.3%	1.2 pp
Passenger revenue per RPM ("Yield") (cents)	18.3	19.1	(4.2)
Passenger revenue per ASM ("PRASM") (cents)	14.9	15.3	(2.7)
Operating revenue per ASM (cents)	17.7	18.3	(3.0)
Operating expense per ASM ("CASM") (cents)	16.6	18.6	(10.8)
Adjusted CASM (cents) (8)	11.9	12.2	(1.8)
Average number of full-time equivalent ("FTE") employees (thousands) (9)	24.5	24.3	0.9
Aircraft in operating fleet at period-end	369	353	4.5
Average fleet utilization (hours per day)	9.7	9.8	(1.0)
Seats dispatched (thousands)	12,337	11,597	6.4
Aircraft frequencies (thousands)	134	131	2.3
Average stage length (miles) (10)	1,486	1,446	2.7
Economic fuel cost per litre (cents) (11)	66.3	94.7	(30.0)
Fuel litres (millions)	1,039	973	6.8
Revenue passengers carried (thousands) (12)	9,487	8,749	8.4

(1) *Adjusted net income (loss) and adjusted net income (loss) per share – diluted are non-GAAP financial measures. Refer to section 15 "Non-GAAP Financial Measures" of Air Canada's First Quarter 2015 MD&A for additional information.*

(2) *EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent) is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of Air Canada's First Quarter 2015 MD&A for additional information.*

(3) *Unrestricted liquidity refers to the sum of cash, cash equivalents, short-term investments and the amount of available credit under Air Canada's revolving credit facilities. At March 31, 2015, unrestricted liquidity was comprised of cash and short-term investments of $2,850 million and undrawn lines of credit of $273 million. At March 31, 2014, unrestricted liquidity was comprised of cash and short-term investments of $2,390 million and undrawn lines of credit of $125 million.*

(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 6.5 "Consolidated Cash Flow Movements" of Air Canada's First Quarter 2015 MD&A 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 6.3 "Adjusted Net Debt" of Air Canada's First Quarter 2015 MD&A for additional information.*

(6) *Return on invested capital ("ROIC") is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of Air Canada's First Quarter 2015 MD&A for additional information.*

(7) *Operating statistics (except for average number of FTE employees) include third party carriers (such as Jazz Aviation LP ("Jazz") and Sky Regional Airlines Inc. ("Sky Regional")) operating under capacity purchase agreements with Air Canada.*

(8) *Adjusted CASM is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of Air Canada's First Quarter 2015 MD&A for additional information.*

(9) *Reflects FTE employees at Air Canada. Excludes FTE employees at third party carriers (such as Jazz and Sky Regional) operating under capacity purchase agreements with Air Canada.*

(10) *Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.*

(11) *Includes aircraft fuel expense related to regional airline operations. Includes fuel handling expenses. Economic fuel price per litre is a non-GAAP financial measure. Refer to section 4 "Results of Operations" of Air Canada's First Quarter 2015 MD&A for additional information.*

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