

News Release

Air Canada Reports Record Second Quarter 2015 Results

- ***EBITDAR of \$591 million, an increase of \$135 million, approximately 30 per cent***
- ***Operating income of \$323 million, an improvement of \$78 million, approximately 32 per cent***

MONTRÉAL, August 12, 2015 – Air Canada today reported record second quarter adjusted net income⁽¹⁾ of \$250 million or \$0.85 per diluted share compared to adjusted net income of \$139 million or \$0.47 per diluted share in the second quarter of 2014, an improvement of \$111 million or approximately 80 per cent. EBITDAR⁽¹⁾ (earnings before interest, taxes, depreciation, amortization and aircraft rent) amounted to \$591 million compared to EBITDAR of \$456 million in the same quarter in 2014, an increase of \$135 million or approximately 30 per cent year-over-year. The airline recorded an EBITDAR margin of 17.3 per cent compared to an EBITDAR margin of 13.8 per cent in the second quarter of 2014, an improvement of 3.5 percentage points. On a GAAP basis, Air Canada reported record second quarter operating income of \$323 million compared to operating income of \$245 million, an improvement of \$78 million or approximately 32 per cent from the second quarter of 2014. An operating margin of 9.5 per cent in the second quarter of 2015 reflected an improvement of 2.1 percentage points from the same quarter in 2014.

“I am very pleased to report that Air Canada achieved record EBITDAR results for a fifth consecutive quarter in addition to record operating income and adjusted net income results and significant year-over-year improvements to operating margin and EBITDAR margin,” said Calin Rovinescu, President and Chief Executive Officer of Air Canada. “I would like to thank and acknowledge the efforts of our 28,000 employees who worked together to deliver yet another outstanding operational and financial performance in the quarter.

“Our record results this quarter reflect a focused execution of our business plan, which we outlined in detail at our June 2015 Investor Day. With our growth this quarter, we have successfully increased passenger revenue by 3.9 per cent, expanded margins, significantly increased our adjusted net income and EBITDAR and continued to improve our return on invested capital. We have delivered on planned cost transformation initiatives and eliminated our significant pension solvency deficit. We have strengthened our balance sheet with increased liquidity levels, improved net cash flows, reduced adjusted net debt, and expect further benefits from our recent credit rating upgrade.

“We again expect to deliver record results in the third quarter, with EBITDAR margin expansion versus prior year higher than the 350 basis point expansion recorded in the second quarter.



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Demand continues to be robust moving into, historically, our most important quarter given the travel demands and patterns of our North American customers. Our capacity additions for the year, which are largely in our international markets, are important contributors to our increased profits and remain consistent with our plan established in a higher fuel price environment. Our plan is not dependant or conditional on fuel prices staying at the current levels; and the transformative changes we have made over the last several years provide us with the cost structure, fleet and flexibility to respond not only to increased competition in any of our key markets, but also to weaknesses in the Canadian dollar or a downturn in the economy. If we see demand weakening, we can adjust quickly. We are building a resilient airline for the long-term, a sustainably profitable company and global industry leader,” said Mr. Rovinescu.

Second Quarter Income Statement Highlights

In the second quarter of 2015, on capacity growth of 9.3 per cent, system passenger revenues of \$3.082 billion increased \$117 million or 3.9 per cent from the second quarter of 2014. Traffic growth of 8.7 per cent reflected traffic increases in all of Air Canada’s five geographic markets. A yield decline of 5.0 per cent, consistent with the anticipated yield impact stemming from the implementation of the airline’s strategic plan, reflected an increase in average stage length of 3.4 per cent, which had the effect of reducing system yield by 1.9 percentage points, a higher proportional growth of lower-yielding international-to-international passenger flows in support of the airline’s international expansion strategy, a higher proportion of seats into long-haul leisure markets, and a reduction in carrier surcharges relating to lower fuel prices, particularly where carrier surcharges are regulated. The favourable impact of a weaker Canadian dollar on foreign currency denominated passenger revenues increased passenger revenues by approximately \$61 million in the second quarter of 2015. Passenger revenue per available seat mile (PRASM) decreased 5.5 per cent from the second quarter of 2014 on the lower yield and, to a much lesser extent, a passenger load factor decline of 0.5 percentage points.

In the second quarter of 2015, operating expenses of \$3.091 billion increased \$31 million or 1.0 per cent from the second quarter of 2014 on the capacity growth of 9.3 per cent. The increase in operating expenses reflected the impact of the weaker Canadian dollar and capacity-related cost increases largely offset by the impact of lower jet fuel prices. The second quarter of 2015 included impairment charges of \$14 million and favourable tax-related provision adjustments of \$23 million while the second quarter of 2014 included favourable tax-related provision adjustments of \$41 million (the impairment charges and tax-related provision adjustments are excluded from adjusted net income and adjusted CASM results). The unfavourable impact of a weaker Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars) in the second quarter of 2015, when compared to the second quarter of 2014, increased operating expenses by approximately \$134 million (comprised of \$73 million in aircraft fuel expense and an aggregate of \$61 million in non-fuel operating expenses).

Air Canada’s cost per available seat mile (CASM) decreased 7.6 per cent from the second quarter of 2014. The airline’s adjusted CASM⁽¹⁾, which excludes fuel expense, the cost of ground packages at Air Canada Vacations® and unusual items (such as the impairment charges and the tax-related provision adjustments discussed above) increased 0.7 per cent from the second quarter of 2014, in line with the 0.25 to 1.25 per cent increase projected in Air Canada’s news

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release dated May 12, 2015. Had the Canadian-U.S. dollar exchange rate remained at 2014 levels, adjusted CASM would have decreased 1.8 per cent when compared to the second quarter of 2014.

Financial and Capital Management Highlights

At June 30, 2015, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to \$3.283 billion (June 30, 2014 – \$2.954 billion).

Adjusted net debt amounted to \$4.896 billion at June 30, 2015, a decrease of \$236 million from December 31, 2014 as higher cash and short-term investments balances more than offset the increase in long-term debt and finance lease balances (including current portion). The airline's adjusted net debt to EBITDAR ratio was 2.3 at June 30, 2015 versus a ratio of 3.1 at December 31, 2014.

In the second quarter of 2015, net cash flows from operating activities totaled \$509 million, an improvement of \$123 million from the second quarter of 2014. Free cash flow⁽¹⁾ amounted to \$299 million, \$335 million higher than the second quarter of 2014. This increase reflected a decrease in capital expenditures of \$212 million and the higher cash flows from operating activities.

For the 12 months ended June 30, 2015, return on invested capital (ROIC⁽¹⁾) was 16.2 per cent versus 11.0 per cent for the 12 months ended June 30, 2014.

Current Outlook

EBITDAR Margin

For the third quarter of 2015, Air Canada expects to deliver record results, with EBITDAR margin expansion versus prior year higher than the 350 basis point expansion recorded in the second quarter of 2015.

Capacity

Air Canada expects third quarter 2015 system ASM capacity, as measured by available seat miles (ASMs), to increase 9.5 to 10.5 per cent when compared to the third quarter of 2014, and to be comprised of an increase in the total number of seats dispatched (system) of 6.5 to 7.5 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.

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Air Canada now expects its full year 2015 domestic ASM capacity to increase by 3.0 to 4.0 per cent when compared to 2014 as opposed to the 3.5 to 4.5 per cent increase projected in Air Canada's May 12, 2015 news release, primarily the result of minor schedule changes. The year-over-year growth in full year 2015 domestic ASM capacity is largely focused on the airline's transcontinental services, reflecting, in large part, 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 now expects an increase in the total number of seats dispatched (domestic) of 2.0 to 3.0 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 third 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 decrease by 0.5 to 1.5 per cent when compared to the third quarter of 2014.

For the full year 2015, Air Canada now expects adjusted CASM to decrease 1.0 to 2.0 per cent from the full year 2014 as opposed to the decrease of 1.5 to 2.5 per cent projected in Air Canada's May 12, 2015 news release, reflecting, in large part, the impact of a weaker Canadian dollar on U.S. denominated operating expenses.

Major Assumptions

Air Canada's outlook assumes relatively low Canadian GDP growth for 2015. Air Canada also expects that the Canadian dollar will trade, on average, at C\$1.30 per U.S. dollar in the third quarter of 2015 and C\$1.27 for the full year 2015 and that the price of jet fuel will average 62 cents per litre for the third quarter of 2015 and 64 cents per litre for the full year 2015.

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

	Third Quarter 2015 versus Third Quarter 2014	Full Year 2015 versus Full Year 2014
Current Outlook		
System		
Available seat miles	Increase 9.5% to 10.5%	Increase 9.0% to 10.0%
Seats dispatched	Increase 6.5% to 7.5%	Increase 6.0% to 7.0%
Average stage length	Increase approximately 3.0%	Increase approximately 3.0%
Canada		
Available seat miles		Increase 3.0% to 4.0%

Seats dispatched		Increase 2.0% to 3.0%
Average stage length		Increase approximately 1.0%
EBITDAR Margin (EBITDAR as a % of operating revenue)	Expand by more than 350 bps	
Adjusted CASM	Decrease 0.5% to 1.5%	Decrease 1.0% to 2.0%

	Major Assumptions – Third Quarter 2015	Major Assumptions – Full Year 2015
Major Assumptions		
Canadian dollar per U.S. dollar	\$1.30	\$1.27
Jet fuel price – CAD cents per litre	62 cents	64 cents
Canadian economy	Relatively low GDP growth	Relatively low GDP growth

For the full year 2015, Air Canada also expects:

- Depreciation, amortization and impairment expense to increase by \$125 million from the full year 2014 as opposed to the increase of \$100 million projected in Air Canada's May 12, 2015 news release. The increase in projected depreciation, amortization and impairment expense is largely driven by the impairment charges recorded in the second quarter of 2015.
- Employee benefits expense to increase \$30 million from the full year 2014 (as opposed to the increase of \$50 million projected in Air Canada's May 12, 2015 news release). The lower expected increase in employee benefits expense is primarily driven by benefit plan amendments relating to U.S. post-retirement health plans which reduced employee benefits expense by \$19 million in the second quarter of 2015.
- Aircraft maintenance expense to increase \$90 million as opposed to the \$120 million increase projected in Air Canada's May 12, 2015 news release. The lower expected increase in aircraft maintenance expense is mainly driven by the timing of engine maintenance events when compared to 2014 and certain contract amendments.

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 \$125 million
Employee benefits expense	Increase \$30 million
Aircraft maintenance expense	Increase \$90 million

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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 in order to provide readers with 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 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 the overall financial performance of its business without the effects of foreign exchange, net financing income (expense) relating to employee benefits, mark-to-market adjustments on fuel and other derivatives and unusual items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful. Air Canada also uses adjusted net income as a measure to determine return on invested capital.
- 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 and cost 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.
- 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 paragraph above), 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 Second Quarter 2015 Interim Unaudited Condensed Consolidated Financial Statements and Notes and its Second 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, August 12, 2015 at 08:30 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/a3xxuti6>

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, economic and geopolitical conditions, currency exchange, the ability to reduce operating costs and secure financing, energy prices, 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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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		
	2015	2014	\$ Change	2015	2014	\$ Change
Financial Performance Metrics						
Operating revenues	3,414	3,305	109	6,663	6,370	293
Operating income	323	245	78	523	183	340
Non-operating expense	(27)	(22)	(5)	(536)	(301)	(235)
Net income (loss)	296	223	73	(13)	(118)	105
Adjusted net income ⁽¹⁾	250	139	111	372	7	365
Operating margin %	9.5%	7.4%	2.1 pp	7.8%	2.9%	4.9 pp
EBITDAR ⁽²⁾	591	456	135	1,033	603	430
EBITDAR margin % ⁽²⁾	17.3%	13.8%	3.5 pp	15.5%	9.5%	6.0 pp
Unrestricted liquidity ⁽³⁾	3,283	2,954	329	3,283	2,954	329
Net cash flows from operating activities	509	386	123	1,317	730	587
Free cash flow ⁽⁴⁾	299	(36)	335	682	(2)	684
Adjusted net debt ⁽⁵⁾	4,896	4,309	587	4,896	4,309	587
Return on invested capital ("ROIC") % ⁽⁶⁾	16.2%	11.0%	5.2 pp	16.2%	11.0%	5.2 pp
Net income (loss) per share – diluted	\$ 1.00	\$ 0.75	\$ 0.25	\$ (0.06)	\$ (0.42)	\$ 0.36
Adjusted net income per share – diluted ⁽¹⁾	\$ 0.85	\$ 0.47	\$ 0.38	\$ 1.26	\$ 0.02	\$ 1.24
Operating Statistics ⁽⁷⁾			% Change			% Change
Revenue passenger miles (millions) ("RPM")	16,845	15,495	8.7	31,782	28,961	9.7
Available seat miles (millions) ("ASM")	20,132	18,413	9.3	38,467	35,187	9.3
Passenger load factor %	83.7%	84.2%	(0.5) pp	82.6%	82.3%	0.3 pp
Passenger revenue per RPM ("Yield") (cents)	18.0	18.9	(5.0)	18.1	19.0	(4.6)
Passenger revenue per ASM ("PRASM") (cents)	15.0	15.9	(5.5)	15.0	15.6	(4.2)
Operating revenue per ASM (cents)	17.0	17.9	(5.5)	17.3	18.1	(4.3)
Operating expense per ASM ("CASM") (cents)	15.4	16.6	(7.6)	16.0	17.6	(9.2)
Adjusted CASM (cents) ⁽⁸⁾	11.3	11.2	0.7	11.6	11.7	(0.5)
Average number of full-time equivalent ("FTE") employees (thousands) ⁽⁹⁾	24.8	24.5	1.2	24.7	24.4	1.0
Aircraft in operating fleet at period-end	372	360	3.3	372	360	3.3
Average fleet utilization (hours per day)	10.0	9.9	1.1	9.9	9.9	-
Seats dispatched (thousands)	12,992	12,288	5.7	25,329	23,885	6.0
Aircraft frequencies (thousands)	143	139	2.5	277	270	2.3
Average stage length (miles) ⁽¹⁰⁾	1,550	1,498	3.4	1,519	1,473	3.1
Fuel cost per litre (cents)	66.9	91.8	(27.1)	66.1	93.0	(29.0)
Fuel litres (millions)	1,114	1,048	6.3	2,153	2,021	6.5
Revenue passengers carried (thousands) ⁽¹¹⁾	10,229	9,620	6.3	19,716	18,358	7.4

- (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 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 16 “Non-GAAP Financial Measures” of Air Canada’s Second 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 June 30, 2015, unrestricted liquidity was comprised of cash and short-term investments of \$3,021 million and undrawn lines of credit of \$262 million. At June 30, 2014, unrestricted liquidity was comprised of cash and short-term investments of \$2,615 million and undrawn lines of credit of \$339 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 7.5 “Consolidated Cash Flow Movements” of Air Canada’s Second 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 an additional GAAP financial measure. Refer to section 7.3 “Adjusted Net Debt” of Air Canada’s Second Quarter 2015 MD&A for additional information.*
- (6) *Return on invested capital (“ROIC”) is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of Air Canada’s Second Quarter 2015 MD&A for additional information.*
- (7) *Except for the reference to average number of FTE employees, operating statistics in this table 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 16 “Non-GAAP Financial Measures” of Air Canada’s Second 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) *Revenue passengers are counted on a flight number basis which is consistent with the IATA definition of revenue passengers carried.*