

News Release

Air Canada Reports Record Full Year 2015 Results

- **Record adjusted net income⁽¹⁾ of \$1.222 billion or \$4.18 per diluted share in 2015 versus record 2014 adjusted net income of \$531 million or \$1.81 per diluted share (an increase of \$691 million, 130.1 per cent or \$2.37 per diluted share versus the 2014 record)**
- **Record operating income of \$1.496 billion in 2015, an increase of \$681 million or 83.6 per cent from the 2014 record**
- **Record EBITDAR margin⁽¹⁾ of 18.3 per cent, exceeding 2014 by 5.7 percentage points and surpassing the 2015 Investor Day target**
- **Return on Invested Capital⁽¹⁾ of 18.3 per cent in 2015, exceeding 2014 ROIC by 6.2 percentage points and surpassing the 2015 Investor Day target**

MONTRÉAL, February 17, 2016 – Air Canada today reported record full year adjusted net income⁽¹⁾ of \$1.222 billion or \$4.18 per diluted share compared to record adjusted net income of \$531 million or \$1.81 per diluted share in 2014, an improvement of \$691 million or \$2.37 per diluted share. EBITDAR⁽¹⁾ (earnings before interest, taxes, depreciation, amortization and aircraft rent) amounted to \$2.534 billion compared to EBITDAR of \$1.671 billion in 2014, an improvement of \$863 million or 51.6 per cent. On a GAAP basis, Air Canada reported operating income of \$1.496 billion in 2015, an increase of \$681 million or 83.6 per cent from 2014. The airline reported net income of \$308 million or \$1.03 per diluted share in 2015 compared to net income of \$105 million or \$0.34 per diluted share in 2014.

“In 2015, we achieved the best financial results in Air Canada’s history for a second year in a row, by a substantial margin, underscoring the effectiveness of our business strategy and enhanced competitive position. Our results reflect the significant progress being achieved through our various value-enhancing initiatives, including fleet modernization, international expansion, the roll-out of rouge and our network diversification,” said Calin Rovinescu, President and Chief Executive Officer.

“As I have said previously, our plan is not dependent on fuel prices staying at current levels, and the transformative changes we’ve made in recent years provide us with a cost structure, fleet and flexibility to respond, as we did in 2015, to competitive market conditions, fluctuations in the Canadian dollar and to economic weakness. Moreover, we have a proven track record of proactively managing and allocating capacity to meet demand, as we did last year upon seeing signs of weakness in Western Canada; and we will continue to adjust capacity to maximize profitability.

“Looking forward, we are committed to maintaining the strong momentum that we achieved in 2015 and we remain firmly on track to execute on all of our key objectives. We are therefore reconfirming today the three key financial targets established at our June 2015 Investor Day: namely an annual EBITDAR margin of 15 to 18 per cent from 2015 to 2018; a year-over-year return on invested capital of 13 to 16 percent from 2015 to 2018; and reducing our leverage ratio⁽¹⁾ to 2.2 or less by 2018. These metrics are the main financial indicators we use to measure the continuing success of our long range plan which is focused on margin expansion and sustained profitability. In addition, we remain committed to reducing our unit costs and are on track to realizing CASM savings of 21 per cent, excluding the impact of foreign exchange and fuel prices, by the end of 2018 when compared to 2012.

“We’ve transformed and created a solid financial framework for our airline. We have remarkable employees who are rising to the challenge and I would like to thank and acknowledge their dedication and efforts to deliver exceptional customer service and an excellent financial performance in 2015,” concluded Mr. Rovinescu.

Full year Income Statement Highlights

In 2015, system passenger revenues of \$12.420 billion increased \$616 million or 5.2 per cent from 2014. Traffic growth of 9.6 per cent reflected traffic increases in all of Air Canada’s five geographic markets. A yield decline of 4.6 per cent (consistent with the anticipated yield impact stemming from the successful implementation of the airline’s strategic plans) reflected an increase in average stage length of 3.2 per cent, which had the effect of reducing system yield by 1.8 percentage points, a higher proportional growth of lower-yielding international-to-international passenger flows supporting the airline’s international expansion strategy and higher EBITDAR margins, 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. Passenger revenue per available seat mile (PRASM) decreased 4.4 per cent on the lower yield, which was more than offset by the 9.3 per cent CASM decline discussed below.

In 2015, operating expenses of \$12.372 billion decreased \$85 million or 1 per cent from 2014. This decrease was mainly due to lower aircraft fuel expense of \$924 million, largely offset by the impact of a 9.4 per cent growth in capacity and the unfavourable impact of a weaker Canadian dollar on foreign currency denominated non-fuel operating expenses of \$326 million. Special items increased operating expenses by \$8 million in 2015 while special items reduced operating expenses by \$11 million in 2014.

Air Canada’s cost per available seat mile (CASM) decreased 9.3 per cent from 2014. The airline’s adjusted CASM⁽¹⁾, which excludes fuel expense, the cost of ground packages at Air Canada Vacations® and special items, decreased 0.2 per cent from 2014, in line with the decrease of up to 1.0 per cent projected in Air Canada’s news release dated November 5, 2015. Had the Canadian-U.S. dollar exchange rate remained at the 2014 level, adjusted CASM would have decreased 3.6 per cent when compared to 2014.

In 2015, Air Canada recorded EBITDAR of \$2.534 billion versus EBITDAR of \$1.671 billion in 2014, an increase of \$863 million.

Fourth Quarter Income Statement Highlights

In the fourth quarter of 2015, system passenger revenues of \$2.836 billion increased \$81 million or 3.0 per cent from the fourth quarter of 2014. Traffic growth of 8.6 per cent reflected traffic increases in all of Air Canada's five geographic markets. A yield decline of 5.5 per cent, consistent with the anticipated yield impact stemming from the successful implementation of the airline's strategic plan, reflected an increase in average stage length of 2.6 per cent, which alone had the effect of reducing system yield by 1.5 percentage points. PRASM decreased 5.3 per cent on the lower yield, which was more than offset by a 7.0 per cent CASM decline discussed below.

In the fourth quarter of 2015, operating expenses of \$3.024 billion increased \$26 million or 1 per cent from the fourth quarter of 2014. This increase was mainly due to the impact of an 8.4 per cent growth in capacity and the unfavourable impact of a weaker Canadian dollar on foreign currency denominated non-fuel operating expenses of \$105 million, largely offset by lower aircraft fuel expense of \$183 million. In the fourth quarters of 2015 and 2014, special items increased operating expenses by \$31 million and \$30 million, respectively.

CASM decreased 7.0 per cent from the fourth quarter of 2014. Adjusted CASM increased 0.8 per cent from the fourth quarter of 2014, in line with the increase of up to 1.0 per cent projected in Air Canada's news release dated November 5, 2015. Had the Canadian-U.S. dollar exchange rate remained at the fourth quarter 2014 level, adjusted CASM would have decreased 3.5 per cent when compared to the fourth quarter of 2014.

Excluding special items in both periods, EBITDAR amounted to \$456 million in the fourth quarter of 2015 versus EBITDAR of \$349 million in the fourth quarter of 2014, an improvement of \$107 million. Excluding special items, EBITDAR margin was 14.3 per cent in the fourth quarter of 2015 versus 11.2 per cent in the fourth quarter of 2014, an improvement of 3.1 percentage points. Including special items, EBITDAR amounted to \$425 million in the fourth quarter of 2015 compared to EBITDAR of \$319 million in fourth quarter of 2014.

In the fourth quarter of 2015, taking into account the special items for both periods, Air Canada recorded operating income of \$158 million in the fourth quarter of 2015 compared to operating income of \$106 million in the fourth quarter of 2014, an increase of \$52 million or 49.1 per cent. Air Canada recorded an operating margin of 5.0 per cent in the fourth quarter of 2015 compared to an operating margin of 3.4 per cent in the fourth quarter of 2014, an improvement of 1.6 percentage points.

For the fourth quarter of 2015, adjusted net income of \$116 million or \$0.40 per diluted share increased \$49 million or \$0.17 per diluted share from the same quarter of 2014.

Financial and Capital Management Highlights

At December 31, 2015, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to \$2.968 billion (December 31, 2014 – \$2.685 billion).

Adjusted net debt amounted to \$6.291 billion at December 31, 2015, an increase of \$1.159 billion from December 31, 2014 due to higher long-term debt and finance lease balances (including current portion) partly offset by higher cash balances. The increase in long-term debt and finance lease balances year-over-year was largely due to the unfavourable impact

of a weaker Canadian dollar on foreign currency denominated debt and to the financing of aircraft purchases. The airline's adjusted net debt to EBITDAR ratio was 2.5 at December 31, 2015 versus a ratio of 3.1 at December 31, 2014.

In 2015, net cash flows from operating activities totaled \$2.012 billion, an improvement of \$1.058 billion from 2014. Free cash flow⁽¹⁾ of \$197 million improved \$744 million when compared to 2014, driven by higher cash flows from operating activities partly offset by higher capital expenditures. Air Canada took delivery of two Boeing 787 aircraft in the fourth quarter of 2015 (a total of six Boeing 787 aircraft in 2015).

For the 12 months ended December 31, 2015, return on invested capital (ROIC⁽¹⁾) was 18.3 per cent versus 12.1 per cent for the 12 months ended December 31, 2014, higher than the ROIC of 13 to 16 percent projected in Air Canada's news release dated June 2, 2015.

Fleet Flexibility

Air Canada's fleet renewal program includes Boeing 787 aircraft as well as Boeing 737 MAX aircraft (with deferral rights). By mid-2016, Air Canada will also own outright 22 older wide-body and narrow-body aircraft (B767, A330, A319). In addition, the leases for 18 narrow-body aircraft expire later in 2016 and 2017. Together, these aircraft provide the airline with tremendous flexibility to implement its strategic plans and to adjust aircraft and capacity to better match passenger demand.

Right to Vote on the Remuneration of Executives

Air Canada recently changed its Advisory Vote on Executive Compensation ("Say on Pay") policy to allow shareholders to provide their views on the Corporation's approach to executive compensation on an annual basis rather than on a bi-annual basis, commencing with the Annual Meeting of Shareholders to be held on May 10, 2016 in Halifax. Air Canada is committed to demonstrating leadership in evolving governance issues including executive compensation as well as providing shareholders with clear, comprehensive and transparent disclosure relating to executive compensation and to receive feedback from shareholders on this matter.

Current Outlook

Reconfirming Three Key Financial Targets

At Air Canada's June 2015 Investor Day, the Corporation established three key financial targets which are being reconfirmed today:

- Annual EBITDAR⁽¹⁾ margin of 15-18 per cent over the term of 2016-2018 (following on the achievement of an 18.3 per cent EBITDAR margin for 2015)
- Year-over-year ROIC⁽¹⁾ of 13-16 per cent over the term of 2016-2018 (following on the achievement of an 18.3 per cent year-over-year ROIC for 2015)
- A leverage ratio⁽¹⁾ not exceeding 2.2 by 2018 (measured by adjusted net debt over normalized EBITDAR)

In addition, Air Canada remains committed to reducing its unit cost and is on track to realizing CASM savings (excluding the impact of foreign exchange and fuel prices) of 21 per cent by the end of 2018 when compared to 2012.

Quarterly Reporting/Change to Guidance Practices

To better align Air Canada's reporting with the above-noted key financial targets, Air Canada will report on its progress against these targets on a quarterly basis at the same time as it provides actual traffic and capacity results for the quarter in its comprehensive quarterly and annual financial disclosures. Air Canada will no longer provide monthly traffic information nor will it provide forward-looking quarterly and annual capacity guidance as it believes that such information and guidance, without the context of a full quarterly review of other key financial metrics, risks distorting the proper understanding of Air Canada's progress against its key financial targets and long range plan.

Adjusted CASM

For the first quarter of 2016, Air Canada expects adjusted CASM (which excludes fuel expense, the cost of ground packages at Air Canada Vacations and special items) to increase between 7.0 to 8.0 per cent when compared to the first quarter of 2015, of which 3.5 to 4.5 per cent is estimated to result from a weaker Canadian dollar versus the U.S. dollar relative to the first quarter of 2015. The remaining increase is largely due to Boeing 777 aircraft being removed from operations for conversion into more competitive configurations, as previously announced, in support of Air Canada's business strategy.

For the full year 2016, Air Canada projects adjusted CASM to vary between ± 0.5 per cent from the full year 2015. If the value of the Canadian dollar were at 2015 levels, adjusted CASM for the full year 2016 versus the full year 2015 would be projected to decrease 2.0 to 3.0 per cent.

Major Assumptions

Air Canada assumes relatively low to modest Canadian GDP growth for the period 2016 to 2018. Air Canada also assumes a continuing relationship between the price of jet fuel and the value of the Canadian dollar whereby declines in the cost of fuel continue to be associated with decreases in the value of the Canadian dollar.

Air Canada expects that the Canadian dollar will trade, on average, at C\$1.41 per U.S. dollar for the first quarter and for the full year of 2016 and that the price of jet fuel will average 50 cents per litre for the first quarter of 2016 and 52 cents per litre for the full year 2016.

For the full year 2016, Air Canada also expects:

- Depreciation, amortization and impairment expense to increase by \$150 million from the full year 2015. This increase is mainly due to new deliveries of Boeing 787 and 777 aircraft, as well as the Boeing 777 fleet reconfiguration program.
- Employee benefits expense to increase \$35 million from the full year 2015. This increase is mainly due to changes in discount rate assumptions related to pension and post-employment benefits.

- Aircraft maintenance expense to increase \$250 million from the full year 2015, of which approximately \$100 million is estimated to be due to the weaker Canadian dollar when compared to the U.S. dollar. The remaining increase is mainly due to higher end-of-lease maintenance provisions, which is due to fewer lease extensions in 2016 versus 2015 and to the impact of a higher number of operating leases; and an increase in maintenance expense due to Boeing 787 aircraft flying under power-by-the-hour arrangements.

The following table summarizes the above-mentioned projections for the full year 2016:

	Full Year 2016 versus Full Year 2015
Depreciation, amortization and impairment expense	Increase \$150 million
Employee benefits expense	Increase \$35 million
Aircraft maintenance expense	Increase \$250 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 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 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 special items as these items may distort the analysis of certain business trends. 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 special 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.
- 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 to trailing 12-month normalized EBITDAR leverage ratio is commonly used in the airline industry and is used by Air Canada to measure financial leverage and is calculated by dividing adjusted net debt by trailing 12-month normalized EBITDAR.
- 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), 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).
- Special items refer to those items that, in management's view, are to be separately disclosed by virtue of their size or incidence to enable a fuller understanding of the Corporation's financial performance. Refer to sections 6 and 7 of Air Canada's 2015 Management's Discussion and Analysis of Results and Financial Condition for a description of special items recorded in the fourth quarters and full years 2015 and 2014.

Air Canada's 2015 Audited Consolidated Financial Statements and Notes and its 2015 Management's Discussion and Analysis of Results and Financial Condition 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, February 17, 2016 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 416-340-8010 or 1-866-225-9256

Live audio webcast: <http://bell.media-server.com/m/p/7ve6ectn>

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, our ability to successfully achieve or sustain positive net profitability or to realize our initiatives and objectives, our ability to pay our indebtedness, reduce operating costs and secure financing, currency exchange, industry, market, credit, economic and geopolitical conditions, energy prices, competition, our ability to successfully implement strategic initiatives and our dependence on technology, war, terrorist acts, epidemic diseases, casualty losses, employee and labour relations, pension issues, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), limitations due to restrictive covenants, insurance issues and costs, changes in demand due to the seasonal nature of the business, dependence on suppliers and third parties, including regional carriers, Aeroplan and the Star Alliance, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties and the ability to attract and retain required personnel, as well as the factors identified throughout this news release and those identified in section 17 "Risk Factors" of Air Canada's 2015 MD&A dated February 17, 2016. 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.

- 30 -

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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		
	2015	2014	\$ Change	2015	2014	\$ Change
Financial Performance Metrics						
Operating revenues	3,182	3,104	78	13,868	13,272	596
Operating income	158	106	52	1,496	815	681
Non-operating expense	(274)	(206)	(68)	(1,188)	(710)	(478)
Net income (loss)	(116)	(100)	(16)	308	105	203
Adjusted net income ⁽¹⁾	116	67	49	1,222	531	691
Operating margin %	5.0%	3.4%	1.6 pp	10.8%	6.1%	4.7 pp
EBITDAR ⁽¹⁾	425	319	106	2,534	1,671	863
EBITDAR margin % ⁽¹⁾	13.4%	10.3%	3.1 pp	18.3%	12.6%	5.7 pp
Unrestricted liquidity ⁽²⁾	2,968	2,685	283	2,968	2,685	283
Net cash flows from operating activities	238	16	222	2,012	954	1,058
Free cash flow ⁽¹⁾	(376)	(370)	(6)	197	(547)	744
Adjusted net debt ⁽¹⁾	6,291	5,132	1,159	6,291	5,132	1,159
Return on invested capital ("ROIC") % ⁽¹⁾	18.3%	12.1%	6.2 pp	18.3%	12.1%	6.2 pp
Diluted earnings per share	\$ (0.41)	\$ (0.35)	\$ (0.06)	\$ 1.03	\$ 0.34	\$ 0.69
Adjusted earnings per share – diluted ⁽¹⁾	\$ 0.40	\$ 0.23	\$ 0.17	\$ 4.18	\$ 1.81	\$ 2.37
Operating Statistics ⁽³⁾			% Change			% Change
Revenue passenger miles ("RPM") (millions)	15,301	14,090	8.6	67,545	61,616	9.6
Available seat miles ("ASM") (millions)	18,869	17,403	8.4	80,871	73,889	9.4
Passenger load factor %	81.1%	81.0%	0.1	83.5%	83.4%	0.1
Passenger revenue per RPM ("Yield") (cents)	18.2	19.2	(5.5)	18.0	18.9	(4.6)
Passenger revenue per ASM ("PRASM") (cents)	14.7	15.6	(5.3)	15.1	15.8	(4.4)
Operating revenue per ASM (cents)	16.9	17.8	(5.4)	17.1	18.0	(4.5)
Operating expense per ASM ("CASM") (cents)	16.0	17.2	(7.0)	15.3	16.9	(9.3)
Adjusted CASM (cents) ⁽¹⁾	12.2	12.1	0.8	11.3	11.3	(0.2)
Average number of full-time equivalent ("FTE") employees (thousands) ⁽⁴⁾	25.1	24.3	3.5	24.9	24.4	1.8
Aircraft in operating fleet at period-end	370	364	1.6	370	364	1.6
Average fleet utilization (hours per day)	9.4	9.2	1.4	10.0	9.9	1.1
Seats dispatched (thousands)	12,623	11,948	5.6	52,359	49,351	6.1
Aircraft frequencies (thousands)	136	135	0.9	567	555	2.1
Average stage length (miles) ⁽⁵⁾	1,495	1,457	2.6	1,545	1,497	3.2
Fuel cost per litre (cents)	58.6	79.7	(26.5)	63.0	88.9	(29.1)
Fuel litres (millions)	1,035	992	4.3	4,478	4,213	6.3
Revenue passengers carried (thousands) ⁽⁶⁾	9,686	9,189	5.3	41,126	38,526	6.7

- (1) Refer to sections 9 and 19 of Air Canada's 2015 MD&A for descriptions of Air Canada's non-GAAP financial measures and additional GAAP measures.
- (2) 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 December 31, 2015, unrestricted liquidity was comprised of cash and short-term investments of \$2,672 million and undrawn lines of credit of \$296 million. At December 31, 2014, unrestricted liquidity was comprised of cash and short-term investments of \$2,275 million and undrawn lines of credit of \$410 million.
- (3) 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.
- (4) 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.
- (5) Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.
- (6) Revenue passengers are counted on a flight number basis which is consistent with the IATA definition of revenue passengers carried whereby passengers are counted on a flight no. basis rather than by journey/itinerary or by leg.