AIR CANADA

News Release

Air Canada Reports First Quarter 2016 Results

- **Record first quarter EBITDAR of $460 million**
- **Operating income of $154 million**
- **Air Canada expects full year 2016 EBITDAR to increase 4 to 8 per cent from full year 2015 EBITDAR**

MONTRÉAL, April 29, 2016 – Air Canada today reported first quarter 2016 record EBITDAR(1) (earnings before interest, taxes, depreciation, amortization and aircraft rent) of $460 million compared to EBITDAR of $442 million in the same quarter in 2015. For the 12 months ended March 31, 2016, Air Canada's EBITDAR margin was 18.3 per cent. Air Canada recorded adjusted net income(1) of $85 million or $0.30 per diluted share compared to adjusted net income of $122 million or $0.41 per diluted share in the first quarter of 2015. On a GAAP basis, in the first quarter of 2016, Air Canada reported operating income of $154 million compared to operating income of $200 million in the first quarter of 2015. The airline reported net income of $101 million or $0.35 per diluted share in the first quarter of 2016 compared to a net loss of $309 million or $1.08 per diluted share in the first quarter of 2015.

"I am pleased to report strong financial results for the first quarter, as we continue to execute on our strategic initiatives including fleet modernization, international expansion and the growth of Air Canada *rouge,*" said Calin Rovinescu, President and Chief Executive Officer. "Despite somewhat unsettled economic times in Canadian resource markets, a very competitive domestic pricing environment, and a continued weak Canadian dollar in the quarter, we were able to increase our revenue base, increase our unrestricted liquidity, increase net cash flow from operations, deliver on our ROIC target, produce a record EDITDAR level and take delivery of four new Boeing 787-9 aircraft while maintaining our adjusted net debt level and leverage ratio.

"Our business model and the investments we are making towards building a sustainable, profitable business for the long term are delivering as planned and, as outlined in the Outlook section of this news release, we have now set out our expectation that full year 2016 EBITDAR will increase between 4 and 8 per cent from last year. This would set yet another record for Air Canada, underscoring the effectiveness of our business strategy and enhanced competitive position.

"We continue to see a marked increase in the number of international and U.S.-originating customers choosing Air Canada for their global travel plans. The performance of Air Canada *rouge* continues to exceed our expectations and is allowing us to compete more effectively in leisure markets. The next generation Boeing 787-9 aircraft that entered our fleet in the quarter are providing us with significant productivity improvements, allowing us to offer customers superior comfort and amenities.

"I would like to thank our 28,000 employees for their unwavering focus in taking care of our customers and for their part in achieving these strong financial results," concluded Mr. Rovinescu.

First Quarter Income Statement Highlights

In the first quarter of 2016, system passenger revenues of $2.864 billion increased $78 million or 2.8 per cent from the first quarter of 2015. Traffic growth of 7.7 per cent reflected traffic increases in all of Air Canada's five geographic markets. A yield decline of 4.7 per cent reflected the impact of increased market capacity, increased competition on regional routes and competitive pricing activities affecting certain domestic markets; a decline in higher-yielding oil market-related traffic; a reduction in carrier surcharges relating to lower fuel prices; an increase in average stage length of 1.3 per cent, which had the effect of reducing system yield by 0.7 percentage points; a higher proportion of seats into long-haul leisure markets; and a higher proportional growth of lower-yielding international connecting sixth freedom traffic.

In the first quarter of 2016, operating expenses of $3.189 billion increased $140 million or 5 per cent from the first quarter of 2015. This increase was mainly due to the impact of an 8.2 per cent growth in capacity and the unfavourable impact of a weaker Canadian dollar on foreign currency denominated non-fuel operating expenses of $106 million, partly offset by lower aircraft fuel expense of $168 million.

Air Canada's cost per available seat mile (CASM) decreased 3.3 per cent from the first quarter of 2015. The airline's adjusted CASM[(1)], which excludes fuel expense and the cost of ground packages at Air Canada Vacations®, increased 3.3 per cent from the first quarter of 2015, better than the 7.0 to 8.0 per cent increase forecast in Air Canada's news release dated February 17, 2016. This improvement was primarily driven by the impact of less flying by airlines operating flights on behalf of Air Canada under the Air Canada Express banner (which are typically lower stage length flights), the timing of certain aircraft maintenance events, the impact of a stronger Canadian dollar versus what had previously been assumed, and other operating expense reductions. Had the Canadian-U.S. dollar exchange rate remained at the first quarter 2015 level, adjusted CASM for the first quarter of 2016 would have been essentially unchanged from the first quarter of 2015.

Financial and Capital Management Highlights

At March 31, 2016, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to $3.229 billion (March 31, 2015 – $3.123 billion).

At March 31, 2016, total long-term debt and finance leases (including current portion) of $6.448 billion increased $54 million from December 31, 2015. In the first quarter of 2016, new borrowings of $616 million were largely offset by debt repayments of $224 million and the favourable impact of a stronger Canadian dollar of $335 million, as at March 31, 2016 compared to December 31, 2015, on Air Canada's foreign currency denominated debt (mainly U.S. dollars). Adjusted net debt amounted to $6.308 billion at March 31, 2016, an increase of $17 million from December 31, 2015. The impact of higher capitalized operating lease balances, largely driven by additional aircraft leases in the first three months of 2016 and an unfavourable currency impact on aircraft rent expense, was mostly offset by higher cash and short-term investment balances. The airline's adjusted net debt to EBITDAR ratio was 2.5 at March 31, 2016, unchanged from December 31, 2015.

In the first quarter of 2016, net cash flows from operating activities of $968 million, which reflected strong operating results, improved $158 million compared to the same quarter in 2015. This increase in net cash flows from operating activities was mainly due to the impact of higher cash inflows from working capital and the impact of lower pension past service funding payments.

For the 12 months ended March 31, 2016, return on invested capital (ROIC(1)) was 17.4 per cent versus 15.2 per cent for the 12 months ended March 31, 2015, and better than the 13-16 per cent year-over-year ROIC projected in Air Canada's news release dated February 17, 2016.

Normal Course Issuer Bid

In May 2015, Air Canada implemented a normal course issuer bid to purchase, for cancellation, up to 10,000,000 Class A variable voting shares and/or Class B voting shares (the "Shares"). This maximum allotment was completed in the first quarter of 2016, with a total of 10,000,000 Shares purchased and cancelled for aggregate consideration of $97 million. Of this amount, in the first quarter of 2016, Air Canada purchased, for cancellation, 4,416,065 Shares at an average cost of $7.78 per Share for aggregate consideration of $34 million. In March 2016, the Board of Directors of Air Canada approved the purchase for cancellation of up to an additional 5,000,000 Shares as part of and before the expiry of the existing normal course issuer bid on May 28, 2016.

Current Outlook

EBITDAR

For the full year 2016, Air Canada expects EBITDAR to increase 4 to 8 per cent from the full year 2015.

Adjusted CASM

For the second quarter of 2016, Air Canada expects adjusted CASM (which excludes fuel expense and the cost of ground packages at Air Canada Vacations) to increase between 2.0 to 3.0 per cent when compared to the second quarter of 2015, of which 1.0 to 2.0 per cent is expected to result from an anticipated weaker Canadian dollar versus the U.S. dollar relative to the second quarter of 2015.

For the full year 2016, Air Canada expects adjusted CASM to decrease between 1.75 to 2.75 per cent compared to the full year 2015, as opposed to the range of between ± 0.5 per cent projected in its news release dated February 17, 2016. This improvement is largely due to the favourable impact of a stronger Canadian dollar versus the U.S. dollar than what was assumed in Air Canada's February 17, 2016 news release. If the value of the Canadian dollar during 2016 were to remain at 2015 levels, adjusted CASM for the full year 2016 versus the full year 2015 would be projected to decrease 2.75 to 3.75 per cent.

Investor Day Targets

After exceeding its EBITDAR margin and ROIC targets in respect of 2015 and the first quarter of 2016, Air Canada is confirming that it remains on track to meet or exceed the following key financial targets:

- Annual EBITDAR margin (EBITDAR as a percentage of operating revenue) of 15-18 per cent over the term of 2016-2018 (following on the achievement of 18.3 per cent EBITDAR margins for each of the 12 months ending December 31, 2015 and March 31, 2016)
- Year-over-year ROIC of 13-16 per cent over the term of 2016-2018 (following on the achievement of year-over-year 18.3 per cent ROIC for the 12 months ending December 31, 2015 and a 17.4 per cent ROIC for the 12 months ending March 31, 2016)
- A leverage ratio(1) not exceeding 2.2 by 2018 (measured by adjusted net debt over normalized EBITDAR)

Air Canada also remains committed to reducing unit costs by 21 per cent, excluding the impact of foreign exchange and fuel prices, by the end of 2018 when compared to 2012.

Additional Guidance

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 by $30 million from the full year 2015 as opposed to the increase of $35 million projected in Air Canada's February 17, 2016 news release, largely the result of lower cost assumptions.
- Aircraft maintenance expense to increase by $190 million from the full year 2015 (of which approximately $40 million is expected to result from an anticipated weaker Canadian dollar compared to the U.S. dollar) as opposed to the increase of $250 million projected in Air Canada's February 17, 2016 news release. This improvement is mainly driven by the favourable impact of a stronger Canadian dollar versus the U.S. dollar than what was projected in Air Canada's February 17, 2016 news release.

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 $30 million
Aircraft maintenance expense	Increase $190 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".

Major Assumptions

Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its 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 changes in the cost of fuel continue to be associated, to some degree, with changes in the opposite direction in the value of the Canadian dollar. Air Canada expects that the Canadian dollar will trade, on average, at C$1.29 per U.S. dollar in the second quarter and C$1.31 per U.S. dollar for the full year of 2016 and that the price of jet fuel (taking the impact of fuel hedging into account) will average 52 cents per litre for the second quarter and the full year 2016.

(1) <u>Non-GAAP Measures</u>

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 First Quarter 2016 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 derivatives and other financial instruments recorded at fair value 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.

- 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. It 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).

Air Canada's First Quarter 2016 Interim Unaudited Condensed Consolidated Financial Statements and Notes and its First Quarter 2016 Management's Discussion and Analysis of Results of Operations 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 24, 2016, consult SEDAR at **www.sedar.com**.

Analyst Conference Call Advisory

Air Canada will host its quarterly analysts' call today, April 29, 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 416-340-2216 or 1-866-225-0198

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

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.*

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 2016	2015	$ Change
Financial Performance Metrics			
Operating revenues	3,343	3,249	94
Operating income	154	200	(46)
Non-operating expense	(53)	(509)	456
Net income (loss)	101	(309)	410
Adjusted net income (1)	85	122	(37)
Operating margin %	4.6%	6.2%	(1.6) pp
EBITDAR (1)	460	442	18
EBITDAR margin % (1)	13.8%	13.6%	0.2 pp
Unrestricted liquidity (2)	3,229	3,123	106
Net cash flows from operating activities	968	810	158
Free cash flow (1)	(148)	385	(533)
Adjusted net debt (1)	6,308	5,190	1,118
Return on invested capital ("ROIC") % (1)	17.4%	15.2%	2.2 pp
Basic earnings per share	$ 0.36	$ (1.08)	$ 1.44
Diluted earnings per share	$ 0.35	$ (1.08)	$ 1.43
Adjusted earnings per share – diluted (1)	$ 0.30	$ 0.41	$ (0.11)
Operating Statistics (3)			**% Change**
Revenue passenger miles ("RPM") (millions)	16,092	14,937	7.7
Available seat miles ("ASM") (millions)	19,833	18,335	8.2
Passenger load factor %	81.1%	81.5%	(0.3) pp
Passenger revenue per RPM ("Yield") (cents)	17.4	18.3	(4.7)
Passenger revenue per ASM ("PRASM") (cents)	14.1	14.9	(5.1)
Operating revenue per ASM (cents)	16.9	17.7	(4.9)
Operating expense per ASM ("CASM") (cents)	16.1	16.6	(3.3)
Adjusted CASM (cents) (1)	12.3	11.9	3.3
Average number of full-time equivalent ("FTE") employees (thousands) (4)	25.4	24.5	3.7
Aircraft in operating fleet at period-end	374	369	1.4
Average fleet utilization (hours per day)	9.8	9.7	0.9
Seats dispatched (thousands)	13,177	12,337	6.8
Aircraft frequencies (thousands)	134	134	(0.2)
Average stage length (miles) (5)	1,505	1,486	1.3
Fuel cost per litre (cents)	48.1	65.2	(26.3)
Fuel litres (millions)	1,062	1,039	2.1
Revenue passengers carried (thousands) (6)	9,957	9,487	5.0

(1) EBITDAR, EBITDAR margin and the adjusted measures are each non-GAAP financial measures. Refer to sections 6 and 14 of Air Canada's First Quarter 2016 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 March 31, 2016, unrestricted liquidity was comprised of cash and short-term investments of $2,947 million and undrawn lines of credit of $282 million. 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.

(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 (rather than by journey/itinerary or by leg) which is consistent with the IATA definition of revenue passengers carried.