AIR CANADA

News Release

Air Canada Reports Second Quarter 2016 Results

- **Record second quarter EBITDAR of $605 million**
- **Operating income of $277 million**
- **Air Canada continues to expect full year 2016 EBITDAR to increase 4 to 8 per cent from record full year 2015 EBITDAR**

MONTRÉAL, July 29, 2016 – Air Canada today reported record second quarter 2016 EBITDAR(1) (earnings before interest, taxes, depreciation, amortization and aircraft rent) of $605 million compared to the previous record EBITDAR of $591 million in the same quarter in 2015. EBITDAR in the second quarter of 2015 included a special item which improved EBITDAR by $23 million. Air Canada recorded adjusted net income(1) of $203 million or $0.72 per diluted share compared to adjusted net income of $250 million or $0.85 per diluted share in the second quarter of 2015. On a GAAP basis, Air Canada reported net income of $186 million or $0.66 per diluted share in the second quarter of 2016 compared to net income of $296 million or $1.00 per diluted share in the second quarter of 2015.

"I am pleased to report record EBITDAR results for the quarter from both an increase in revenue and traffic, and specifically from our continued strong focus on unit cost improvement," said Calin Rovinescu, President and Chief Executive Officer. "Traffic growth in all five of our geographic markets exceeded last year's strong growth. We continued to increase our revenue base in the face of a challenging revenue environment principally in the domestic and Atlantic markets and despite a generally weak global economy. Overall revenue growth included an increase in international-to-international connecting passengers via Canada as we continue to successfully build our main hubs as attractive and efficient options for international travellers.

"Our continued focus on our strategic priorities, as well as our increased flexibility and our ability to adapt and react to an evolving business environment, unexpected macroeconomic or geopolitical threats or natural disasters, are helping us deliver on the key financial targets established at our 2015 Investor Day, namely annual EBITDAR margin, return on invested capital and leverage ratio, as well as a significant reduction in unit costs.

"In the quarter, Air Canada and Air Canada Rouge launched 10 new international routes and 11 new transborder routes marking the most intensive period of expansion in Air Canada's history. Moreover, on June 30th we served more than 160,000 customers, setting an all-time record which we expect to surpass during the upcoming August long weekend. I would like to thank our employees for their continued focus on taking care of customers and working together to help make Air Canada a global industry leader," concluded Mr. Rovinescu.

Second Quarter Income Statement Highlights

In the second quarter of 2016, record system passenger revenues of $3.143 billion increased $61 million or 2.0 per cent from the second quarter of 2015. Traffic growth of 9.3 per cent reflected traffic increases in all of Air Canada's five geographic markets. A yield decline of 6.8 per cent principally resulted from a 4.2 per cent increase in average stage length (reducing system yield by 2.4 per cent) as well as increased market capacity and competitive pricing affecting primarily domestic and European services. As previously discussed, Air Canada's network strategy for sustained profitable growth involves higher average stage lengths, an increased number of seats at, on average, lower fares in long-haul leisure markets and a higher proportional growth of international connecting traffic, all of which contributed, as expected, to a decline in yield.

In the second quarter of 2016, operating expenses of $3.181 billion increased $90 million or 3 per cent from the second quarter of 2015. This increase was due to the impact of an 11.0 per cent capacity growth and the unfavourable impact of a weaker Canadian dollar on non-fuel foreign currency denominated operating expenses which increased operating expenses by $51 million in the second quarter of 2016. These increases were partly offset by the impact of lower fuel expense of $141 million over the same period.

Air Canada's cost per available seat mile (CASM) decreased 7.3 per cent from the second quarter of 2015. The airline's adjusted CASM[(1)], which excludes fuel expense, the cost of ground packages at Air Canada Vacations® and special items, decreased 1.1 per cent from the second quarter of 2015, better than the 2.0 to 3.0 per cent increase forecast in Air Canada's April 29, 2016 news release. The better than forecasted adjusted CASM results were due to lower than previously expected regional airlines expense, aircraft maintenance expense and wages, salaries and benefit expense and to other operating expense reductions.

Financial and Capital Management Highlights

At June 30, 2016, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to $3.449 billion (June 30, 2015 – $3.283 billion).

Capital expenditures in the first six months of 2016 were $2.568 billion compared to $635 million in the first six months of 2015. Capital expenditures for the second half of 2016 are expected to amount to $437 million.

At June 30, 2016, total long-term debt and finance leases (including current portion) of $6.950 billion increased $556 million from December 31, 2015. In the first six months of 2016, new borrowings of $1.308 billion, which were all related to aircraft financings, were partly offset by debt repayments of $381 million and the favourable impact of a stronger Canadian dollar of $357 million, as at June 30, 2016 compared to December 31, 2015, on Air Canada's foreign currency denominated debt (mainly U.S. dollars).

Adjusted net debt amounted to $6.840 billion at June 30, 2016, an increase of $549 million from December 31, 2015. This increase in adjusted net debt reflected higher long-term debt and financial lease balances as discussed above. The impact of higher capitalized operating lease balances, largely driven by additional aircraft leases in the first six 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 2.7 at June 30, 2016 versus a ratio of 2.5 at December 31, 2015.

Net cash flows from operating activities of $657 million improved $145 million when compared to the same quarter in 2015. Negative free cash flow of $444 million in the second quarter of 2016 decreased $746 million from the second quarter of 2015 due to a higher level of capital expenditures year-over-year, partly offset by proceeds of $351 million from the sale and leaseback of two Boeing 787 aircraft and by the impact of the higher cash flows from operating activities.

For the 12 months ended June 30, 2016, return on invested capital (ROIC[(1)]) was 16.2 per cent, unchanged from the 12 months ended June 30, 2015, and better than Air Canada's year-over-year ROIC target of 13-16 per cent, discussed below.

Current Outlook

EBITDAR

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

Adjusted CASM

For the third quarter of 2016, Air Canada expects adjusted CASM (which excludes fuel expense and the cost of ground packages at Air Canada Vacations) to decrease between 5.5 to 6.5 per cent when compared to the third quarter of 2015.

For the full year 2016, Air Canada now expects adjusted CASM to decrease between 2.75 to 3.75 per cent compared to the full year 2015, as opposed to the 1.75 to 2.75 decrease projected in Air Canada's April 29, 2016 news release, reflecting, in large part, the better than expected adjusted CASM performance in the second quarter of 2016 and, to a lesser extent, the benefit of lower regional airlines expense continuing into the second half of 2016. 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 3.75 to 4.75 per cent.

Investor Day Targets

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, March 31, 2016 and June 30, 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, 17.4 per cent ROIC for the 12 months ending March 31, 2016, and 16.2 per cent ROIC for the 12 months ending June 30, 2016)

- A leverage ratio[(1)] not exceeding 2.2 by 2018 (measured by adjusted net debt over normalized EBITDAR)

Air Canada also remains committed and on track to reducing CASM 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 continues to expect depreciation, amortization and impairment expense to increase by $150 million from the full year 2015. This expected year-over-year increase is mainly due to new deliveries of Boeing 787 and 777 aircraft and to the Boeing 777 fleet reconfiguration program.

- Air Canada now expects employee benefits expense to increase by $20 million from the full year 2015, as opposed to the increase of $30 million projected in Air Canada's April 29, 2016 news release. The lower than expected increase in employee benefits expense is driven by the impact of a gain on post-employment liabilities which reduced employee benefits expense by $10 million in the second quarter of 2016.

- Air Canada now expects aircraft maintenance expense to increase by $165 million from the full year 2015, as opposed to the increase of $190 million projected in Air Canada's April 29, 2016 news release. This improvement is largely driven by the lower than expected aircraft maintenance expense in the second quarter of 2016, as well as to various related expense reductions.

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 increases and decreases in the cost of fuel continue to be respectively associated, to some degree, with increases and decreases in the value of the Canadian dollar. Air Canada expects that the Canadian dollar will trade, on average, at C$1.30 per U.S. dollar in the third 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 55 CAD cents per litre for the third quarter and 53 CAD cents per litre for the full year 2016.

[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 2016 MD&A for reconciliation of non-GAAP financial measures.

- Adjusted net income (loss) and adjusted earnings (loss) per share – diluted 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 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 special items, as such expenses may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful. Aircraft fuel expense is excluded from operating expense results as it fluctuates widely depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and Canada/U.S. currency exchange rates. Air Canada also incurs expenses related to ground packages at Air Canada Vacations® which some airlines, without comparable tour operator businesses, may not incur. In addition, these costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

- 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 (excluding pension 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 2016 Interim Unaudited Condensed Consolidated Financial Statements and Notes and its Second 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, July 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/pmujyiee**

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.

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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		
	2016	2015	$ Change	2016	2015	$ Change
Financial Performance Metrics						
Operating revenues	3,458	3,414	44	6,801	6,663	138
Operating income	277	323	(46)	431	523	(92)
Non-operating expense	(91)	(27)	(64)	(144)	(536)	392
Net income (loss)	186	296	(110)	287	(13)	300
Adjusted net income (1)	203	250	(47)	288	372	(84)
Operating margin %	8.0%	9.5%	(1.5) pp	6.3%	7.8%	(1.5) pp
EBITDAR (1)	605	591	14	1,065	1,033	32
EBITDAR margin % (1)	17.5%	17.3%	0.2 pp	15.7%	15.5%	0.2 pp
Unrestricted liquidity (2)	3,449	3,283	166	3,449	3,283	166
Net cash flows from operating activities	657	512	145	1,625	1,322	303
Free cash flow (1)	(444)	302	(746)	(592)	687	(1,279)
Adjusted net debt (1)	6,840	4,896	1,944	6,840	4,896	1,944
Return on invested capital ("ROIC") % (1)	16.2%	16.2%	-	16.2%	16.2%	-
Diluted earnings per share	$ 0.66	$ 1.00	$ (0.34)	$ 1.01	$ (0.06)	$ 1.07
Adjusted earnings per share – diluted (1)	$ 0.72	$ 0.85	$ (0.13)	$ 1.01	$ 1.26	$ (0.25)
Operating Statistics (3)			**% Change**			**% Change**
Revenue passenger miles ("RPM") (millions)	18,418	16,845	9.3	34,510	31,782	8.6
Available seat miles ("ASM") (millions)	22,344	20,132	11.0	42,177	38,467	9.6
Passenger load factor %	82.4%	83.7%	(1.2) pp	81.8%	82.6%	(0.8) pp
Passenger revenue per RPM ("Yield") (cents)	16.7	18.0	(6.8)	17.0	18.1	(5.9)
Passenger revenue per ASM ("PRASM") (cents)	13.8	15.0	(8.2)	13.9	15.0	(6.8)
Operating revenue per ASM (cents)	15.5	17.0	(8.7)	16.1	17.3	(6.9)
Operating expense per ASM ("CASM") (cents)	14.2	15.4	(7.3)	15.1	16.0	(5.4)
Adjusted CASM (cents) (1)	11.2	11.3	(1.1)	11.7	11.6	1.0
Average number of full-time equivalent ("FTE") employees (thousands) (4)	26.1	24.8	5.1	25.8	24.7	4.4
Aircraft in operating fleet at period-end	380	371	2.4	380	371	2.4
Average fleet utilization (hours per day)	10.1	10.0	0.4	9.9	9.9	0.6
Seats dispatched (thousands)	13,840	12,992	6.5	27,017	25,329	6.7
Aircraft frequencies (thousands)	139	143	(2.0)	273	277	(1.2)
Average stage length (miles) (5)	1,614	1,550	4.2	1,561	1,519	2.8
Fuel cost per litre (cents)	52.2	66.9	(22.0)	50.2	66.1	(24.0)
Fuel litres (millions)	1,157	1,114	3.9	2,219	2,153	3.1
Revenue passengers carried (thousands) (6)	10,846	10,229	6.0	20,803	19,716	5.5

(1) *Adjusted net income (loss), EBITDAR, EBITDAR margin, free cash flow, ROIC and adjusted CASM are each non-GAAP financial measures and adjusted net debt is an additional GAAP measure. Refer to sections 6 and 14 of Air Canada's Second 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 June 30, 2016, unrestricted liquidity was comprised of cash and short-term investments of $3,148 million and undrawn lines of credit of $301 million. 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.*

(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"), Sky Regional Airlines Inc. ("Sky Regional"), Air Georgian Limited ("Air Georgian") and Exploits Valley Air Services Ltd. ("EVAS")) 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, Sky Regional, Air Georgian and EVAS) 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.*