AIR CANADA

News Release

Air Canada Reports Record Third Quarter 2016 Results

- **Record EBITDAR of $1.248 billion, an increase of $172 million or 16.0 per cent from last year's third quarter record**
- **Record operating income of $896 million, an improvement of $81 million or 9.9 per cent from last year's third quarter record**
- **Traffic growth of 18.9 per cent, on a system-basis, versus the same quarter in 2015**

MONTRÉAL, November 7, 2016 – Air Canada today reported third quarter 2016 EBITDAR(1) (earnings before interest, taxes, depreciation, amortization and aircraft rent) of $1.248 billion, the highest in its history for any quarter, compared to the previous record EBITDAR of $1.076 billion in the same quarter in 2015. Air Canada generated record adjusted net income(1) of $821 million or $2.93 per diluted share compared to adjusted net income of $734 million or $2.50 per diluted share in the third quarter of 2015, an increase of $87 million or 11.9 per cent from the same quarter in 2015. On a GAAP basis, Air Canada reported record operating income of $896 million, an improvement of $81 million from the same quarter in 2015. The airline also reported net income of $768 million or $2.74 per diluted share in the third quarter of 2016 compared to net income of $437 million or $1.48 per diluted share in the third quarter of 2015.

"I am very pleased to report record third quarter results, surpassing the previous records for EBITDAR, operating revenues, operating income and adjusted net income," said Calin Rovinescu, President and Chief Executive Officer. "While the global economy continued to be challenged in some respects, we managed to exceed last year's record quarter EBITDAR performance by 16 per cent, clear evidence of the success of our fleet investment strategy and the profitable expansion of our international network. These strong results underscore the successful execution of Air Canada's strategic plan and the tremendous efforts by the entire Air Canada workforce.

"In the quarter, traffic grew by almost 19 per cent compared to the previous year's quarter, including a 27.9 per cent growth in international-to-international passengers connecting via Canada. The transformative changes we have made in recent years provide us with the cost structure and flexibility to respond to competitive market conditions and grow profitably, as realized this summer with the launch of more than 20 international and U.S. transborder routes.

"We continue to direct the majority of operating cash flow to finance the renewal of our fleet with more efficient aircraft and to reduce net debt levels, including with the recent completion of a $1.25 billion refinancing transaction. With our continued focus on strategic priorities, we remain on target to deliver on the key financial targets of annual EBITDAR margin, return on invested capital and leverage ratio, as well as a significant reduction in unit costs that were established at our 2015 Investor Day. In addition, we are maintaining our priority on investments and training for our employees, contributing to higher engagement levels and improved customer service experience and scores. Air Canada's brand value has been evaluated as one of the fastest growing in Canada, and the only airline to rank among the country's top brands," concluded Mr. Rovinescu.

Third Quarter Income Statement Highlights

In the third quarter of 2016, record system passenger revenues of $4.106 billion increased $390 million or 10.5 per cent from the third quarter of 2015. Traffic growth of 18.9 per cent reflected traffic increases in all of Air Canada's five geographic markets. A yield decline of 7.0 per cent resulted principally from a 7.2 per cent increase in average stage length (reducing system yield by 4.0 percentage points) as well as from increased market capacity and competitive pricing affecting primarily 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 the decline in yield.

In the third quarter of 2016, operating expenses of $3.555 billion increased $347 million or 11 per cent from the third quarter of 2015 on a 20.9 per cent growth in capacity.

Air Canada's cost per available seat mile (CASM) decreased 8.3 per cent from the third 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 5.9 per cent from the third quarter of 2015, in line with the 5.5 to 6.5 per cent decrease projected in Air Canada's July 29, 2016 news release.

Financial and Capital Management Highlights

At September 30, 2016, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to $3.715 billion (September 30, 2015 – $3.399 billion).

At September 30, 2016, total long-term debt and finance leases (including current portion) of $6.977 billion increased $583 million from December 31, 2015. In the first nine months of 2016, new borrowings of $1.308 billion, which were all related to aircraft financings, were partly offset by debt repayments of $461 million and the favourable impact of a stronger Canadian dollar of $259 million, as at September 30, 2016 compared to December 31, 2015, on Air Canada's foreign currency denominated debt (mainly U.S. dollars).

Adjusted net debt amounted to $6.819 billion at September 30, 2016, an increase of $528 million from December 31, 2015, which largely reflected the higher long-term debt and financial lease balances discussed above. At September 30, 2016, the adjusted net debt to EBITDAR ratio ("leverage ratio") was 2.5, unchanged from December 31, 2015.

In the third quarter of 2016, net cash flows from operating activities of $438 million decreased by $14 million when compared to the same quarter in 2015. The cash benefit of stronger operating income was offset by unfavourable changes in non-cash working capital balances of $209 million. Changes in working capital included higher advance booking levels at June 30, 2016 leading into the third quarter of 2016 versus the prior year's third quarter. Free cash flow[(1)] of $315 million in the third quarter of 2016 represented an increase of $429 million from the negative free cash flow of $114 million in the third quarter of 2015. This improvement was due to a lower level of capital expenditures year-over-year.

For the 12 months ended September 30, 2016, return on invested capital (ROIC[(1)]) was 15.5 per cent, in line with Air Canada's annual ROIC target of 13-16 per cent (discussed below).

Current Outlook

EBITDAR

Taking into account Air Canada's EBITDAR performance in the third quarter of 2016, for the full year 2016, Air Canada is able to narrow the range of its forecast and now expects EBITDAR to increase 6 to 8 per cent from record full year 2015 EBITDAR, as opposed to the increase of 4 to 8 per cent projected in Air Canada's July 29, 2016 news release.

Adjusted CASM

For the fourth quarter of 2016, Air Canada expects adjusted CASM (which excludes fuel expense and the cost of ground packages at Air Canada Vacations) to decrease 5.0 to 6.0 per cent when compared to the fourth quarter of 2015.

For the full year 2016, Air Canada continues to expect adjusted CASM to decrease 2.75 to 3.75 per cent compared to the full year 2015. If the value of the Canadian dollar during 2016 were to have remained 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 EBITDAR margins of 18.3 per cent for each of the 12 months ended December 31, 2015, March 31, 2016 and June 30, 2016 and 19.0 per cent for the 12 months ended September 30, 2016).

- Annual ROIC of 13-16 per cent over the term of 2016-2018 (following on the achievement of annual 18.3 per cent ROIC for the 12 months ended December 31, 2015, 17.4 per cent ROIC for the 12 months ended March 31, 2016, 16.2 per cent ROIC for the 12 months ended June 30, 2016 and 15.5 per cent ROIC for the 12 months ending September 30, 2016).

- A leverage ratio[(1)] not exceeding 2.2 by 2018 (measured by adjusted net debt over trailing 12-month 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 now expects depreciation, amortization and impairment expense to increase by $160 million from the full year 2015, as opposed to the increase of $150 million projected in Air Canada's July 29, 2016 news release. This revised guidance takes into account Air Canada's depreciation, amortization and impairment expense in the third quarter of 2016 which was slightly higher than previously anticipated.

- Air Canada continues to expect employee benefits expense to increase by $20 million from the full year 2015.

- Air Canada now expects aircraft maintenance expense to increase by $120 million from the full year 2015, as opposed to the increase of $165 million projected in Air Canada's July 29, 2016 news release. This revised guidance takes into account Air Canada's aircraft maintenance expense in the third quarter of 2016 which was lower than previously anticipated, the impact of certain maintenance savings now expected in the fourth quarter of 2016, as well as the impact of certain maintenance costs now expected to be capitalized as opposed to expensed.

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$1.33 per U.S. dollar in the fourth quarter of 2016 and C$1.32 per U.S. dollar for the full year 2016 and that the price of jet fuel (taking the impact of fuel hedging into account) will average 60 CAD cents per litre in the fourth quarter and 54 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 an effort to provide readers with additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Readers are advised to review the section entitled Non-GAAP Financial Measures in Air Canada's Third Quarter 2016 MD&A for a further discussion of such non-GAAP measures and a reconciliation of such measures to Canadian GAAP.

- Adjusted net income (loss) and adjusted earnings (loss) per share – diluted are used by Air Canada as a means 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 as a means to view operating results before interest, taxes, depreciation, amortization and 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 as a means 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.

- Adjusted net debt to trailing 12-month EBITDAR leverage ratio (also referred to as "leverage ratio" in this news release) is commonly used in the airline industry and is used by Air Canada as a means to measure financial leverage. Leverage ratio is calculated by dividing adjusted net debt by trailing 12-month EBITDAR.

- Free cash flow is commonly used in the airline industry and is used by Air Canada as an indicator of the financial strength and performance of its business, indicating how much cash Air Canada is able to generate from operations and after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment and intangible assets, and is net of proceeds from sale-leaseback transactions.

- Return on invested capital (ROIC) is used by Air Canada as a means 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 Third Quarter 2016 Interim Unaudited Condensed Consolidated Financial Statements and Notes and its Third 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, November 7, 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/az5yox6f**

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 the "Risk Factors" sections of Air Canada's 2015 MD&A dated February 17, 2016 and Air Canada's Third Quarter MD&A dated November 7, 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 -

INFORMATION

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HIGHLIGHTS

The financial and operating highlights for Air Canada for the periods indicated are as follows.

(Canadian dollars in millions, except where indicated)	Third Quarter 2016	Third Quarter 2015	Third Quarter $ Change	First Nine Months 2016	First Nine Months 2015	First Nine Months $ Change
Financial Performance Metrics						
Operating revenues	4,451	4,023	428	11,252	10,686	566
Operating income	896	815	81	1,327	1,338	(11)
Non-operating expense	(128)	(378)	250	(272)	(914)	642
Net income	768	437	331	1,055	424	631
Adjusted net income (1)	821	734	87	1,109	1,106	3
Operating margin %	20.1%	20.3%	(0.2) pp	11.8%	12.5%	(0.7) pp
EBITDAR (1)	1,248	1,076	172	2,313	2,109	204
EBITDAR margin % (1)	28.0%	26.7%	1.3 pp	20.6%	19.7%	0.9 pp
Unrestricted liquidity (2)	3,715	3,399	316	3,715	3,399	316
Net cash flows from operating activities	438	452	(14)	2,063	1,774	289
Free cash flow (1)	315	(114)	429	(277)	573	(850)
Adjusted net debt (1)	6,819	5,423	1,396	6,819	5,423	1,396
Return on invested capital (“ROIC”) % (1)	15.5%	18.0%	(2.5) pp	15.5%	18.0%	(2.5) pp
Leverage ratio (1)	2.5	2.2	0.3	2.5	2.2	0.3
Diluted earnings per share	$ 2.74	$ 1.48	$ 1.26	$ 3.72	$ 1.43	$ 2.29
Adjusted earnings per share – diluted (1)	$ 2.93	$ 2.50	$ 0.43	$ 3.92	$ 3.77	$ 0.15
Operating Statistics (3)			**% Change**			**% Change**
Revenue passenger miles (“RPM”) (millions)	24,328	20,462	18.9	58,838	52,244	12.6
Available seat miles (“ASM”) (millions)	28,458	23,535	20.9	70,635	62,002	13.9
Passenger load factor %	85.5%	86.9%	(1.5) pp	83.3%	84.3%	(1.0) pp
Passenger revenue per RPM ("Yield") (cents)	16.6	17.8	(7.0)	16.8	18.0	(6.4)
Passenger revenue per ASM ("PRASM") (cents)	14.2	15.5	(8.6)	14.0	15.2	(7.4)
Operating revenue per ASM (cents)	15.6	17.1	(8.5)	15.9	17.2	(7.6)
Operating expense per ASM ("CASM") (cents)	12.5	13.6	(8.3)	14.1	15.1	(6.8)
Adjusted CASM (cents) (1)	9.4	10.0	(5.9)	10.8	11.0	(1.9)
Average number of full-time equivalent (“FTE”) employees (thousands) (4)	26.5	25.0	6.2	26.0	24.8	5.0
Aircraft in operating fleet at period-end	382	372	2.7	382	372	2.7
Average fleet utilization (hours per day)	11.4	11.0	3.3	10.4	10.3	1.7
Seats dispatched (thousands)	16,245	14,408	12.7	43,262	39,737	8.9
Aircraft frequencies (thousands)	156	154	0.6	429	431	(0.5)
Average stage length (miles) (5)	1,752	1,634	7.2	1,633	1,560	4.6
Fuel cost per litre (cents)	55.2	61.4	(10.2)	52.2	64.3	(18.9)
Fuel litres (millions)	1,458	1,290	13.0	3,677	3,443	6.8
Revenue passengers carried (thousands) (6)	13,327	11,723	13.7	34,130	31,439	8.6

(1) Adjusted net income (loss), EBITDAR, EBITDAR margin, leverage ratio, 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 Third 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 September 30, 2016 unrestricted liquidity was comprised of cash and short-term investments of $3,434 million and undrawn lines of credit of $281 million. At September 30, 2015, unrestricted liquidity was comprised of cash and short-term investments of $3,116 million and undrawn lines of credit of $283 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.