

News Release

Air Canada Reports 2016 Annual Results

- Record annual EBITDAR⁽¹⁾ (excluding special items) of \$2.768 billion
- Annual operating income of \$1.345 billion
- Net income of \$876 million and Adjusted net income⁽¹⁾ of \$1.147 billion

MONTRÉAL, February 17, 2017 – Air Canada today reported record full year 2016 EBITDAR⁽¹⁾ (earnings before interest, taxes, depreciation, amortization and aircraft rent), excluding special items, of \$2.768 billion, compared to the previous record of \$2.542 billion recorded in 2015, an increase of \$226 million or 8.9 per cent and surpassing the 6 to 8 per cent increase projected in its November 7, 2016 news release. On a GAAP basis, Air Canada reported operating income of \$1.345 billion in 2016 versus \$1.496 billion in 2015.

Air Canada generated adjusted net income⁽¹⁾ of \$1.147 billion or \$4.06 per diluted share compared to adjusted net income of \$1.222 billion or \$4.18 per diluted share in 2015. The airline reported net income of \$876 million or \$3.10 per diluted share in 2016 compared to net income of \$308 million or \$1.03 per diluted share in 2015.

As referenced above, special items are excluded from all of Air Canada's reported EBITDAR calculations. In 2016 and 2015, special items described further below increased operating expenses by \$91 million and \$8 million, respectively.

“In 2016, we achieved outstanding results, surpassing the previous records for EBITDAR, as well as for passenger and operating revenues, underscoring the effectiveness of our business strategy and improved competitive position,” said Calin Rovinescu, President and Chief Executive Officer. “Traffic for the year grew by more than 13 per cent with increases in all five geographic markets and we reached a new record of serving close to 45 million customers on our expanding global network, with the launch of 28 new routes including 15 new international and 12 U.S. transborder routes. Our growth in 2016 also led to the creation of 1,500 new high quality jobs in Canada between our mainline, Rouge and Express services. Along with significant investments in our fleet and product, we maintained our priority on investments and training resulting in higher employee engagement and customer service scores.

“Looking at 2017, we expect to achieve an EBITDAR margin of between 15 to 18 per cent, with our current forecast of rising fuel prices, and our return on invested capital⁽¹⁾ is projected to be between 9 and 12 per cent. Moreover, we forecast positive free cash flow⁽¹⁾ in 2017 in the range of \$200 million to \$500 million.

“Last week, on the occasion of Air Canada's 80th anniversary year and Canada's 150th, we unveiled a new livery for the fleet and new uniforms for our employees, just a few of the many ways we continue to refresh our product and invest in our employees and in our customers' travel experience. I would like to thank Air Canada's employees whose dedication and professionalism

are a cornerstone for the successes achieved in 2016, flying Canada's flag proudly, across Canada and around the world," concluded Mr. Rovinescu.

Full Year Income Statement Highlights

In 2016, record system passenger revenues of \$13.148 billion increased \$728 million or 5.9 per cent from 2015. Traffic growth of 13.2 per cent reflected traffic increases in all of Air Canada's five geographic markets. As an expected effect of the implementation of Air Canada's strategic plan for sustained, profitable growth, yield declined by 6.6 per cent due to a 5.1 per cent increase in average stage length (which reduced system yield by 2.8 percentage points) and an increase in the number of seats in long-haul leisure markets (at, on average, lower fares). Other factors, including lower carrier surcharges, a higher proportional growth of international connecting traffic and competitive pressures in the domestic, European and Pacific markets, also contributed to the yield decrease.

In 2016, operating expenses of \$13.332 billion increased \$960 million or 8 per cent from 2015 on a 14.7 per cent growth in capacity.

Air Canada's cost per available seat mile (CASM) decreased 6.0 per cent from 2015. The airline's adjusted CASM⁽¹⁾, which excludes fuel expense, the cost of ground packages at Air Canada Vacations[®] and special items, decreased 2.9 per cent from 2015, in line with the 2.75 to 3.75 per cent decrease projected in Air Canada's November 7, 2016 news release. Had the Canadian-U.S. dollar exchange rate remained at the full year 2015 level, adjusted CASM would have decreased 3.8 per cent when compared to 2015.

Fourth Quarter Income Statement Highlights

In the fourth quarter of 2016, record system passenger revenues of \$3.035 billion increased \$199 million or 7.0 per cent from the fourth quarter of 2015. Traffic growth of 15.3 per cent reflected traffic increases in all of Air Canada's five geographic markets. A yield decline of 7.2 per cent resulted from a 6.5 per cent increase in average stage length (reducing system yield by 3.6 percentage points). An increase in the number of seats at, on average, lower fares in long-haul leisure markets, lower carrier surcharges, and a higher proportional growth of international connecting traffic, were also contributing factors to the yield decrease.

In the fourth quarter of 2016, operating expenses of \$3.407 billion increased \$383 million or 13 per cent from the fourth quarter of 2015 on a 17.1 per cent growth in capacity. In the fourth quarter of 2016 and 2015, special items increased operating expenses by \$91 million and \$31 million, respectively.

Air Canada's cost per available seat mile (CASM) decreased 3.8 per cent from the fourth quarter of 2015. The airline's adjusted CASM⁽¹⁾ decreased 6.1 per cent from the fourth quarter of 2015, slightly better than the 5.0 to 6.0 per cent decrease projected in Air Canada's November 7, 2016 news release.

EBITDAR amounted to \$455 million in the fourth quarter of 2016 versus EBITDAR of \$456 million in the fourth quarter of 2015. EBITDAR margin was 13.3 per cent in the fourth quarter of 2016 versus EBITDAR margin of 14.3 per cent in the fourth quarter of 2015.

In the fourth quarter of 2016, Air Canada recorded adjusted net income of \$38 million or \$0.14 per diluted share compared to adjusted net income of \$116 million or \$0.40 per diluted share in the same quarter in 2015.

On a GAAP basis, taking into account special items in each quarter, Air Canada recorded operating income of \$18 million in the fourth quarter of 2016 compared to operating income of \$158 million in the fourth quarter of 2015. The airline reported a net loss of \$179 million or \$0.66 per diluted share in the fourth quarter of 2016 compared to a net loss of \$116 million or \$0.41 per diluted share in the fourth quarter of 2015.

Special Items

In the fourth quarter and full year 2016, a special item relating to a past service cost expense of \$91 million was recorded to reflect the estimated cost of defined benefit pension increases applicable to members of the Air Canada Pilots' Association.

In the fourth quarter and full year 2015, special items included the following:

- One-time payments totaling \$62 million related to Air Canada's contract on collective agreement terms with CUPE and the IAMAW; and
- A \$30 million recovery related to cargo investigations and proceedings which had been previously paid.

In addition, for the full year 2015, Air Canada recorded favourable tax-related provision adjustments of \$23 million.

Financial and Capital Management Highlights

At December 31, 2016, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to \$3.388 billion (December 31, 2015 – \$2.968 billion).

At December 31, 2016, total long-term debt and finance leases (including current portion) of \$6.618 billion increased \$224 million from December 31, 2015. In 2016, new borrowings of \$2.538 billion were partly offset by debt repayments of \$2.275 billion and the favourable \$126 million impact of a stronger Canadian dollar as at December 31, 2016 compared to December 31, 2015, on Air Canada's foreign currency denominated debt (mainly U.S. dollars). In October 2016, Air Canada completed a private offering of senior secured notes and a new credit facility in connection with a \$1.25 billion refinancing transaction; new debt was issued and together with cash of \$444 million, existing debt of \$1.674 billion was redeemed, including redemption fees of \$61 million.

Adjusted net debt of \$7.090 billion at December 31, 2016 increased \$799 million from December 31, 2015, reflecting higher long-term debt and financial lease balances as discussed above, as well as a higher capitalized operating lease balance. These increases were partly offset by the impact of higher cash and short-term investment balances year-over-year. At December 31, 2016, the adjusted net debt to EBITDAR ratio was 2.6 versus 2.5 as at December 31, 2015.

For the 12 months ended December 31, 2016, return on invested capital (ROIC⁽¹⁾) was 14.7 per cent, in line with Air Canada's annual ROIC target of 13-16 per cent (discussed below).

Current Outlook

EBITDAR Margin

Air Canada expects to achieve its EBITDAR margin target of 15-18 per cent for the full year 2017. Given the higher fuel price environment relative to last year's first quarter, Air Canada expects the EBITDAR margin in the first quarter of 2017 to be approximately half of the EBITDAR margin recorded in the first quarter of 2016.

Adjusted CASM

For the first quarter of 2017, Air Canada expects adjusted CASM (which excludes fuel expense and the cost of ground packages at Air Canada Vacations) to decrease 3.25 to 4.75 per cent when compared to the first quarter of 2016.

For the full year 2017, Air Canada expects adjusted CASM to decrease 4.0 to 6.0 per cent compared to the full year 2016.

Update on Investor Day Targets

Annual EBITDAR margin (EBITDAR as a percentage of operating revenue) of 15-18 per cent over the term of 2017-2018:

- Air Canada expects to achieve this target in 2017 and 2018.

Annual ROIC of 13 to 16 per cent over the term of 2017-2018:

- Air Canada now expects its annual ROIC to be between 9 and 12 per cent in 2017 and 2018 on lower than forecasted adjusted net income.

A leverage ratio⁽¹⁾ not exceeding 2.2 by 2018 (measured by adjusted net debt over trailing 12-month EBITDAR):

- Air Canada continues to expect to achieve this target by 2018.

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 2017:

- Air Canada expects positive free cash flow in the range of \$200 million to \$500 million.
- Air Canada expects depreciation, amortization and impairment expense to increase by approximately \$145 million from the full year 2016.
- Air Canada expects employee benefits expense to increase by approximately \$40 million from the full year 2016.
- Air Canada expects aircraft maintenance expense to increase by approximately \$100 million from the full year 2016.

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 modest Canadian GDP growth for 2017 and 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\$1.32 per U.S. dollar in the first quarter of 2017 and C\$1.31 per U.S. dollar for the full year 2017 and that the price of jet fuel (taking the impact of fuel hedging into account) will average 65 CAD cents per litre in the first quarter 2017 and 66 CAD cents per litre for the full year 2017.

(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 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. Air Canada excludes special items from EBITDAR as such items would distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.
- 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 (excluding special items). As mentioned above, Air Canada excludes special items from EBITDAR results (which are used to determine leverage ratio) as such items would distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.
- 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 the amount of 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 2016 Audited Consolidated Financial Statements and Notes and its 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, February 17, 2017 at 08:30 E.T. 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/rn4k2iq3>

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, currency exchange, industry, market, credit, economic and geopolitical conditions, energy prices, competition, our ability to successfully implement appropriate strategic initiatives or reduce operating costs, our dependence on technology, cybersecurity risks, our ability to pay our indebtedness and secure financing, war, terrorist acts, epidemic diseases, our dependence on key suppliers including regional carriers and Aeroplan, casualty losses, employee and labour relations and costs, our ability to preserve and grow our brand, 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, our dependence on the Star Alliance, interruptions of service, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties and our 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 2016 MD&A dated February 17, 2017. The forward-looking statements contained in this news release represent Air Canada’s expectations as of February 16, 2017 (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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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)	Fourth Quarter			Full Year		
	2016	2015	\$ Change	2016	2015	\$ Change
Financial Performance Metrics						
Operating revenues	3,425	3,182	243	14,677	13,868	809
Operating income	18	158	(140)	1,345	1,496	(151)
Non-operating expense	(196)	(274)	78	(468)	(1,188)	720
Net income (loss)	(179)	(116)	(63)	876	308	568
Adjusted net income ⁽¹⁾	38	116	(78)	1,147	1,222	(75)
Operating margin %	0.5%	5.0%	(4.5 pp)	9.2%	10.8%	(1.6 pp)
EBITDAR (excluding special items) ⁽¹⁾	455	456	(1)	2,768	2,542	226
EBITDAR margin (excluding special items) % ⁽¹⁾	13.3%	14.3%	(1.0 pp)	18.9%	18.3%	0.6 pp
Unrestricted liquidity ⁽²⁾	3,388	2,968	420	3,388	2,968	420
Net cash flows from operating activities	351	251	100	2,421	2,025	396
Free cash flow ⁽¹⁾	121	(363)	484	(149)	210	(359)
Adjusted net debt ⁽¹⁾	7,090	6,291	799	7,090	6,291	799
Return on invested capital ("ROIC") % ⁽¹⁾	14.7%	18.3%	(3.6 pp)	14.7%	18.3%	(3.6 pp)
Leverage ratio ⁽¹⁾	2.6	2.5	0.1	2.6	2.5	0.1
Diluted earnings per share	\$ (0.66)	\$ (0.41)	\$ (0.25)	\$ 3.10	\$ 1.03	\$ 2.07
Adjusted earnings per share – diluted ⁽¹⁾	\$ 0.14	\$ 0.40	\$ (0.26)	\$ 4.06	\$ 4.18	\$ (0.12)
Operating Statistics ⁽³⁾			% Change			% Change
Revenue passenger miles ("RPM") (millions)	17,643	15,301	15.3	76,481	67,545	13.2
Available seat miles ("ASM") (millions)	22,091	18,869	17.1	92,726	80,871	14.7
Passenger load factor %	79.9%	81.1%	(1.2 pp)	82.5%	83.5%	(1.0 pp)
Passenger revenue per RPM ("Yield") (cents)	16.9	18.2	(7.2)	16.8	18.0	(6.6)
Passenger revenue per ASM ("PRASM") (cents)	13.5	14.7	(8.6)	13.9	15.1	(7.7)
Operating revenue per ASM (cents)	15.5	16.9	(8.1)	15.8	17.1	(7.7)
Operating expense per ASM ("CASM") (cents)	15.4	16.0	(3.8)	14.4	15.3	(6.0)
Adjusted CASM (cents) ⁽¹⁾	11.4	12.2	(6.1)	10.9	11.3	(2.9)
Average number of full-time equivalent ("FTE") employees (thousands) ⁽⁴⁾	26.2	25.1	4.4	26.1	24.9	4.9
Aircraft in operating fleet at period-end	381	370	3.0	381	370	3.0
Average fleet utilization (hours per day)	9.5	9.4	1.4	10.2	10.0	1.6
Seats dispatched (thousands)	13,873	12,623	9.9	57,135	52,359	9.1
Aircraft frequencies (thousands)	137	136	0.3	566	567	(0.3)
Average stage length (miles) ⁽⁵⁾	1,592	1,495	6.5	1,623	1,545	5.1
Fuel cost per litre (cents)	59.4	58.6	1.4	53.9	63.0	(14.5)
Fuel litres (millions)	1,160	1,035	12.1	4,837	4,478	8.0
Revenue passengers carried (thousands) ⁽⁶⁾	10,719	9,686	10.7	44,849	41,126	9.1

- (1) *Adjusted net income, EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent) (excluding special items), EBITDAR margin (excluding special items), 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 9 and 19 of Air Canada's 2016 MD&A for descriptions of Air Canada's non-GAAP financial measures and additional GAAP measures. As referenced in the table above, special items are excluded from all of Air Canada's reported EBITDAR calculations. Refer to sections 6 and 7 of Air Canada's 2016 MD&A for information on the special items.*
- (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, 2016 unrestricted liquidity was comprised of cash and short-term investments of \$2,979 million and undrawn lines of credit of \$409 million. 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.*
- (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.*