AIR CANADA

News Release

Air Canada Reports Record Second Quarter 2017 Results

- Operating income of $281 million and record EBITDAR of $670 million
- Record operating revenues of $3.910 billion and unrestricted liquidity of $4.493 billion

MONTRÉAL, August 1, 2017 – Air Canada today reported record second quarter 2017 EBITDAR(1) (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent) of $670 million compared to the previous record second quarter 2016 EBITDAR of $605 million, an increase of $65 million and consistent with the forecast in Air Canada's July 6th, 2017 news release. The airline recorded a second quarter EBITDAR margin of 17.1 per cent. On a GAAP basis, Air Canada reported second quarter operating income of $281 million versus operating income of $277 million in the second quarter of 2016.

Air Canada recorded adjusted net income(1) of $215 million or $0.78 per diluted share in the second quarter of 2017 compared to adjusted net income of $203 million or $0.72 per diluted share in the second quarter of 2016. The airline reported record second quarter net income of $300 million or $1.08 per diluted share compared to net income of $186 million or $0.66 per diluted share in the second quarter of 2016.

"I am pleased to report that, in our second quarter, we delivered record operating revenues, record EBITDAR and ended with record liquidity levels, exceeding last year's financial results and analysts' consensus estimates for EBITDAR. We also improved our guidance for key financial measures, including a significant improvement in projected free cash flow for 2017," said Calin Rovinescu, President and Chief Executive Officer.

"Moreover, we delivered an excellent unit cost performance and our unit revenue, on a stage-length adjusted basis, increased 1.6 per cent versus last year's quarter. These are important drivers of margin expansion and are the result of the successful execution of our business plan.

"With the launch of 16 international and U.S. transborder routes this quarter alone, we continue to increase international-to-international connecting passengers via Canada. On June 29th, we served close to 167,000 customers, setting an all-time record which we expect to surpass during the upcoming August long weekend. Demand continues to be robust in a stable fuel and pricing environment as we move into what has historically been our most important quarter given the travel demands and patterns of our North American customers. In 2018, capacity growth, driven by our wide-body fleet expansion, will begin to slow as we shift our focus to our mainline narrow-body fleet replacement program which is expected to further reduce our unit costs and improve operating margins.

"I would like to thank our growing customer base who are increasingly choosing Air Canada for convenience, value and comfort. Our achievements are a tribute to our team of 30,000 employees whose dedication and professionalism have been instrumental in Air Canada being named Best Airline in North America in a survey of almost 20 million air travellers by Skytrax, the global benchmark of industry excellence. Also in the quarter, Air Canada was recipient of this year's Airline Strategy Award by Flight Airline Business for its successful financial turnaround allowing for significant investments in, among other things, improvements in the customer experience and environmental initiatives. These recognitions, joining others citing Air Canada as one of Canada's top diversity employers and one of North America's most engaged workplaces, are testament to the team's hard work as we evolve into a global champion," concluded Mr. Rovinescu.

Second Quarter Income Statement Highlights

In the second quarter of 2017, on capacity growth of 13.5 per cent, record system passenger revenues of $3.517 billion increased $374 million or 11.9 per cent from the second quarter of 2016. The increase in system passenger revenues was driven by traffic growth of 13.6 per cent. Yield improvements were recorded in all markets with the exception of the Pacific market. An increase in average stage length of 5.0 per cent had the effect of reducing system yield by 2.8 percentage points. On a stage-length adjusted basis, system yield increased 1.4 per cent year-over-year versus, on an unadjusted basis, a reported system yield decline of 1.4 per cent.

In the business cabin, system passenger revenues increased $90 million or 14.6 per cent from the second quarter of 2016 on traffic and yield growth of 11.2 per cent and 3.0 per cent, respectively.

In the second quarter of 2017, operating expenses of $3.629 billion increased $448 million or 14 per cent from the second quarter of 2016, mainly driven by the 13.5 per cent increase in capacity and higher fuel prices year-over-year.

Air Canada's cost per available seat mile (CASM) increased 0.5 per cent from the second quarter of 2016. The airline's adjusted CASM decreased 3.5 per cent from the second quarter of 2016, better than the 1.5 per cent to 2.5 per cent decrease forecast in Air Canada's news release dated May 5th, 2017. This improvement was largely driven by lower than anticipated aircraft maintenance expense, which was mainly attributable to the deferral of certain maintenance activities into the remainder of 2017 and to lower end of lease maintenance provisions due to more favourable terms on wide-body aircraft lease extensions.

Financial and Capital Management Highlights

At June 30, 2017, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to a record $4.493 billion (December 31, 2016 – $3.388 billion).

At June 30, 2017, total long-term debt and finance leases (including current portion) of $6.765 billion increased $147 million from December 31, 2016. In the first six months of 2017, new borrowings of $733 million were largely offset by debt repayments of $371 million and the favourable impact of a stronger Canadian dollar of $212 million, as at June 30, 2017 compared to December 31, 2016, on Air Canada's foreign currency denominated debt (mainly U.S. dollars).

At June 30, 2017, adjusted net debt of $6.393 billion decreased $697 million from December 31, 2016, reflecting the impact of higher cash and short-term investment balances partly offset by the impact of a higher capitalized operating lease balance and higher long-term debt and finance lease balances. At June 30, 2017, the adjusted net debt to EBITDAR ratio(1) improved to 2.4 versus 2.6 as at December 31, 2016.

Net cash flows from operating activities of $829 million improved $171 million when compared to the same quarter in 2016. Free cash flow of $305 million in the second quarter of 2017 increased $748 million from the second quarter of 2016 due to a lower level of net capital expenditures year-over-year and the impact of higher cash flows from operating activities versus the second quarter of 2016.

For the 12 months ended June 30, 2017, return on invested capital (ROIC(1)) was 12.3 per cent, significantly higher than Air Canada's weighted average cost of capital of 7.6 per cent.

2015 Investor Day Targets and 2017 Outlook

At its June 2015 Investor Day, Air Canada provided guidance on key financial metrics:

- Annual EBITDAR margin (EBITDAR as a percentage of operating revenue) of 15-18 per cent in 2017 and 2018**:**

  Air Canada now expects to achieve an annual EBITDAR margin of 17-19 per cent for the full year 2017 and 2018, as opposed to the annual EBITDAR margin of 15-18 per cent projected in its May 5th, 2017 news release. This increase in projected EBITDAR margin takes into account Air Canada's strong second quarter 2017 EBITDAR results and reflects Air Canada's expectation of a more robust revenue environment in the second half of 2017, as well as a stronger Canadian dollar when compared to the U.S. dollar and a lower fuel price per litre than what was assumed in Air Canada's May 5th, 2017 news release.

- Annual ROIC of 13-16 per cent in 2017 and 2018:

  Air Canada now expects its annual ROIC to be between 11-14 per cent in 2017 and 2018, as opposed to the annual ROIC of 9-12 per cent projected in its May 5th, 2017 news release. This improvement in projected annual ROIC reflects Air Canada's expectation of a higher level of adjusted net income than what was previously expected.

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

  Air Canada continues to expect to achieve this target by the end of 2018.

Update on CASM Reduction Target

Air Canada completed a thorough review of projects which supported its CASM reduction target of 21 per cent over the 2012 to 2018 period (excluding the impact of foreign exchange and fuel prices). These projects included the addition of Boeing 787 and high-density Boeing 777 aircraft, the launch of Air Canada Rouge and other fleet and strategic initiatives. These projects are achieving their expected contribution towards this CASM reduction target. However, largely as a result of lower than anticipated capacity growth and higher non-cash depreciation expense, and also due to cost increases not anticipated at the time related to the airline's investment in initiatives focused on improving customer service levels, the overall CASM reduction over the period is approximately 17 per cent compared to 2012 (excluding the impact of foreign exchange and fuel prices). Given that the contribution of these projects to CASM reduction is now fully known and that Air Canada's focus is on improving EBITDAR margins (of which CASM is but one component), this measure of CASM reduction guidance is being withdrawn and will be subsumed within Air Canada's EBITDAR margin targets, including those provided in this news release.

Additional Guidance

Free Cash Flow

Air Canada now expects positive free cash flow in the range of $600 million to $900 million in 2017, as opposed to the positive free cash of $200 million to $500 million projected in its May 5th, 2017 news release. This increase in projected free cash flow takes into account Air Canada's strong second quarter 2017 operating results and reflects Air Canada's expectation of a more robust revenue environment in the second half of 2017, as well as a stronger Canadian dollar when compared to the U.S. dollar and a lower fuel price per litre than what was assumed in Air Canada's May 5th, 2017 news release.

Adjusted CASM

For the third quarter of 2017, Air Canada expects adjusted CASM (which excludes fuel expense, the cost of ground packages at Air Canada Vacations and special items) to decrease 1.5 to 2.5 per cent when compared to the third quarter of 2016.

For the full year 2017, Air Canada continues to expect adjusted CASM to decrease 3.0 to 5.0 per cent compared to the full year 2016. Air Canada expects a favourable impact from a stronger Canadian dollar when compared to the U.S. dollar. However, this favourable impact is expected to be offset by lower than previously projected capacity growth, as well as certain cost increases, including the impact of a higher share price on stock-based compensation expense (included in wages and salaries expense), higher sales and distribution costs due to competitive pricing initiatives, and higher customer inconvenience expenses.

Depreciation, Amortization and Impairment

Air Canada continues to expect depreciation, amortization and impairment expense to increase by approximately $145 million from the full year 2016.

Employee Benefits

Air Canada continues to expect employee benefits expense to increase by approximately $50 million from the full year 2016.

Aircraft Maintenance

Air Canada now expects aircraft maintenance expense to increase by approximately $75 million from the full year 2016, as opposed to the $110 million increase projected in its news release dated May 5th, 2017. This improvement in projected aircraft maintenance expense is largely due to a stronger Canadian dollar when compared to the U.S. dollar than what was assumed in Air Canada's May 5th, 2017 news release.

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 expects that the Canadian dollar will trade, on average, at C$1.29 per U.S. dollar in the third 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 59 CAD cents per litre in the third quarter 2017 and 61 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 Second Quarter 2017 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, gain on sale and leaseback of assets, loss on debt settlements 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, 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 Second Quarter 2017 Interim Unaudited Condensed Consolidated Financial Statements and Notes and its Second Quarter 2017 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, 2017, consult SEDAR at **www.sedar.com**.

Analyst Conference Call Advisory

Air Canada will host its quarterly analysts’ call today, August 1, 2017 at 09:00 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 1-800-377-0758

Live audio webcast: http://bell.media-server.com/m/p/3ftwa4rd

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 Aimia Inc., 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 and section 12 of Air Canada's Second Quarter 2017 MD&A dated August 1, 2017. The forward-looking statements contained in this news release represent Air Canada's expectations as of July 31, 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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HIGHLIGHTS

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

	Second quarter			First six months		
(Canadian dollars in millions, except where indicated)	**2017**	**2016**	**$ Change**	**2017**	**2016**	**$ Change**
Financial Performance Metrics						
Operating revenues	3,910	3,458	452	7,552	6,801	751
Operating income	281	277	4	227	431	(204)
Non-operating income (expense)	22	(91)	113	39	(144)	183
Net income	300	186	114	263	287	(24)
Adjusted net income (1)	215	203	12	128	288	(160)
Operating margin %	7.2%	8.0%	(0.8 pp)	3.0%	6.3%	(3.3 pp)
EBITDAR (excluding special items) (1)	670	605	65	1,012	1,065	(53)
EBITDAR margin (excluding special items) % (1)	17.1%	17.5%	(0.4 pp)	13.4%	15.7%	(2.3 pp)
Unrestricted liquidity (2)	4,493	3,449	1,044	4,493	3,449	1,044
Net cash flows from operating activities	829	658	171	1,856	1,632	224
Free cash flow (1)	305	(443)	748	775	(585)	1,360
Adjusted net debt (1)	6,393	6,840	(447)	6,393	6,840	(447)
Return on invested capital ("ROIC") % (1)	12.3%	16.2%	(3.9 pp)	12.3%	16.2%	(3.9 pp)
Leverage ratio (1)	2.4	2.6	(0.2)	2.4	2.6	(0.2)
Diluted earnings per share	$ 1.08	$ 0.66	$ 0.42	$ 0.95	$ 1.01	$ (0.06)
Adjusted earnings per share – diluted (1)	$ 0.78	$ 0.72	$ 0.06	$ 0.46	$ 1.01	$ (0.55)
Operating Statistics (3)			**% Change**			**% Change**
Revenue passenger miles ("RPM") (millions)	20,928	18,418	13.6	39,269	34,510	13.8
Available seat miles ("ASM") (millions)	25,357	22,344	13.5	48,251	42,177	14.4
Passenger load factor %	82.5%	82.4%	0.1 pp	81.4%	81.8%	(0.4 pp)
Passenger revenue per RPM ("Yield") (cents)	16.5	16.7	(1.4)	16.5	17.0	(3.2)
Passenger revenue per ASM ("PRASM") (cents)	13.6	13.8	(1.2)	13.4	13.9	(3.7)
Operating revenue per ASM (cents)	15.4	15.5	(0.4)	15.7	16.1	(2.9)
Operating expense per ASM ("CASM") (cents)	14.3	14.2	0.5	15.2	15.1	0.5
Adjusted CASM (cents) (1)	10.8	11.2	(3.5)	11.2	11.7	(4.7)
Average number of full-time equivalent ("FTE") employees (thousands) (4)	27.8	26.1	6.6	27.3	25.8	6.2
Aircraft in operating fleet at period-end	393	380	3.4	393	380	3.4
Average fleet utilization (hours per day)	10.3	10.1	2.8	10.1	9.9	1.8
Seats dispatched (thousands)	14,962	13,840	8.1	29,242	27,017	8.2
Aircraft frequencies (thousands)	141.2	139.9	1.0	275.5	273.4	0.8
Average stage length (miles) (5)	1,695	1,614	5.0	1,650	1,561	5.7
Fuel cost per litre (cents)	61.3	52.2	17.4	62.2	50.2	23.8
Fuel litres (thousands)	1,300,061	1,157,371	12.3	2,493,793	2,219,031	12.4
Revenue passengers carried (thousands) (6)	11,895	10,846	9.7	22,819	20,803	9.7

(1) Adjusted net income, adjusted earnings per share – diluted, EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent), 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 Second Quarter 2017 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 Air Canada's reported EBITDAR calculations. Refer to section 4 of Air Canada's Second Quarter 2017 MD&A for information on 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 June 30, 2017, unrestricted liquidity was comprised of cash and short-term investments of $4,054 million and undrawn lines of credit of $439 million. 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.

(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 carried 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.