AIR CANADA

News Release

Air Canada Reports Record Third Quarter 2017 Results

- Record operating income of $1.004 billion and record EBITDAR of $1.388 billion
- Record operating revenues of $4.880 billion and record unrestricted liquidity of $4.509 billion
- Leverage ratio of 2.1 at September 30, 2017

MONTRÉAL, October 25, 2017 – Air Canada today reported record third quarter 2017 EBITDAR(1) (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent) of $1.388 billion compared to the previous record third quarter 2016 EBITDAR of $1.248 billion, an increase of $140 million. The airline recorded a record third quarter EBITDAR margin of 28.4 per cent. On a GAAP basis, Air Canada reported record third quarter operating income of $1.004 billion compared to the previous record third quarter 2016 operating income of $896 million.

Air Canada reported record adjusted net income(1) of $950 million or $3.43 per diluted share in the third quarter of 2017 compared to adjusted net income of $821 million or $2.93 per diluted share in the third quarter of 2016. The airline reported record third quarter net income of $1.786 billion or $6.44 per diluted share compared to net income of $768 million or $2.74 per diluted share in the previous year's quarter. In the third quarter of 2017, Air Canada recorded a net income tax recovery of $793 million on its consolidated statement of operations. This amount is excluded from Air Canada's reported adjusted net income.

"I am pleased to report that Air Canada delivered its best ever third quarter financial performance," said Calin Rovinescu, President and Chief Executive Officer. "These record results underscore the success of the multi-year transformation of our business model. This follows our September 19th Investor Day when we outlined in further detail our accomplishments and the opportunities that lie ahead which, together with more ambitious financial targets for the next three years, have been well received by the investor community.

"In the quarter, Air Canada's financial performance was strong in all key financial measures, including margins and free cash flow, and we continued to reduce our financial leverage, further lowering the airline's risk profile.

"Reflecting Air Canada's on-going growth, in the quarter we increased passenger revenue by 9.1 per cent to a record $4.478 billion, including strong gains in the business cabin. Traffic increased 8.8 per cent while yield improved 0.4 per cent. This yield growth was achieved despite an increase in average stage length of 3.9 per cent versus last year's quarter, driven by a robust revenue environment and effective revenue management. On a stage length adjusted basis, yield improved 2.6 per cent year-over-year. We also achieved a solid cost performance in the quarter with an adjusted CASM decrease of 2.1 per cent from the previous year's quarter.

"I would like to thank Air Canada's 30,000 employees for their unwavering focus on taking care of our customers in our busiest quarter ever during which we served a record 14 million passengers. And they did so with care and professionalism during a quarter marked by significant disruptions to communities and airports in Western Canada, Southern United States, Caribbean, Mexico and Central America affecting customers and employees alike. The spirit, dedication and compassion of the Air Canada team responding to these situations and making a difference to the lives of so many was a moment of pride for all," concluded Mr. Rovinescu.

Third Quarter Income Statement Highlights

In the third quarter of 2017, on capacity growth of 9.1 per cent, record system passenger revenues of $4.478 billion increased $372 million or 9.1 per cent from the third quarter of 2016. The increase in system passenger revenues was driven by traffic growth of 8.8 per cent and, to a lesser extent, a yield improvement of 0.4 per cent. An increase in average stage length of 3.9 per cent had the effect of reducing system yield by 2.2 percentage points. On a stage-length adjusted basis, system yield increased 2.6 per cent year-over-year.

In the business cabin, system passenger revenues increased $90 million or 13.7 per cent from the third quarter of 2016 on traffic and yield growth of 8.3 per cent and 5.0 per cent, respectively.

In the third quarter of 2017, operating expenses of $3.876 billion increased $321 million or 9 per cent from the third quarter of 2016, mainly driven by the 9.1 per cent increase in capacity and higher fuel prices year-over-year.

Air Canada's cost per available seat mile (CASM) decreased 0.1 per cent from the third quarter of 2016. The airline's adjusted CASM(1) decreased 2.1 per cent from the third quarter of 2016, in line with the 1.5 per cent to 2.5 per cent decrease projected in Air Canada's August 1st, 2017 news release.

Financial and Capital Management Highlights

At September 30, 2017, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to a record $4.509 billion (December 31, 2016 – $3.388 billion).

At September 30, 2017, total long-term debt and finance leases (including current portion) of $6.329 billion decreased $289 million from December 31, 2016. In the first nine months of 2017, new borrowings of $733 million were more than offset by debt repayments of $574 million and the favourable impact of a stronger Canadian dollar of $448 million, as at September 30, 2017 compared to December 31, 2016, on Air Canada's foreign currency denominated debt (mainly U.S. dollars).

At September 30, 2017, adjusted net debt of $5.939 billion decreased $1.151 billion from December 31, 2016, reflecting the impact of higher cash and short-term investment balances. At September 30, 2017, the adjusted net debt to EBITDAR ratio(1) improved to 2.1 versus 2.6 as at December 31, 2016.

Record net cash flows from operating activities of $493 million improved $55 million compared to the same quarter in 2016. Record free cash flow of $324 million in the third quarter of 2017 increased $9 million from the third quarter of 2016 as the impact of higher cash flows from operating activities versus the same quarter in 2016 was mostly offset by a higher level of net capital expenditures year-over-year.

For the 12 months ended September 30, 2017, return on invested capital (ROIC[(1)]) was 14.1 per cent, in line with current guidance and significantly higher than Air Canada's weighted average cost of capital of 8.4 per cent.

2017 Outlook

Air Canada is providing the following guidance for 2017:

- **EBITDAR Margin:** Air Canada continues to expect to achieve an annual EBITDAR margin of 17 to 19 per cent in 2017.

- **ROIC:** Taking into account Air Canada's new methodology for calculating ROIC (as described in Non-GAAP Measures of this news release), Air Canada now expects an annual ROIC of 13.5 to 14.5 per cent in 2017, as opposed to the annual ROIC of 11 to 14 per cent projected in its August 1st, 2017 news release which was based on the prior methodology.

- **Free Cash Flow:** Air Canada continues to expect positive free cash flow in the range of $600 million to $900 million in 2017.

- **Adjusted CASM:**

  For the fourth 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 0.5 to 1.5 per cent when compared to the fourth quarter of 2016.

  For the full year 2017, Air Canada now expects adjusted CASM to decrease 3.0 to 4.0 per cent compared to the full year 2016, as opposed to the decrease of 3.0 to 5.0 per cent projected in its August 1st, 2017 news release. While Air Canada expects a favourable impact from a stronger Canadian dollar when compared to the U.S. dollar, this favourable impact is expected to be offset by certain cost increases, including the impact of a higher share price on stock-based compensation expense (included in wages and salaries expense).

- **Depreciation, Amortization and Impairment Expense:** Air Canada continues to expect depreciation, amortization and impairment expense to increase by approximately $145 million from the full year 2016.

- **Employee Benefits Expense:** Air Canada continues to expect employee benefits expense to increase by approximately $50 million from the full year 2016.

- **Aircraft Maintenance Expense:** Air Canada now expects aircraft maintenance expense to increase by approximately $70 million from the full year 2016, as opposed to the $75 million increase projected in its August 1st, 2017 news release. This lower 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 August 1st, 2017 news release.

2017 Outlook – 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. Air Canada also expects that the Canadian dollar will trade, on average, at C$1.24 per U.S. dollar in the fourth quarter of 2017 and C$1.29 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 63 CAD cents per litre in the fourth quarter 2017 and 61 CAD cents per litre for the full year 2017.

The following table summarizes the above-mentioned outlook for the fourth quarter and full year 2017 and related major assumptions:

	Fourth Quarter 2017 versus Fourth Quarter 2016	**Full Year 2017 versus Full Year 2016**
EBITDAR Margin		17% - 19%
ROIC		13.5% - 14.5%
Free Cash Flow		$600 - $900 million
Adjusted CASM	Decrease by 0.5% to 1.5%	Decrease by 3.0% to 4.0%
Depreciation, Amortization and Impairment Expense		Increase by $145 million
Employee Benefits Expense		Increase by $50 million
Aircraft Maintenance Expense		Increase by $70 million
Major Assumptions	**Fourth Quarter 2017**	**Full Year 2017**
Canadian GDP	Relatively modest growth	Relatively modest growth
Canadian dollar per U.S. dollar	$1.24	$1.29
Jet fuel price – CAD cents per litre	63	61

Investor Day Targets (2018 – 2020)

In addition to the above 2017 outlook, as projected in its September 19, 2017 Investors Day news release, Air Canada is reiterating its guidance on the following key financial metrics:

- **EBITDAR Margin:** Annual EBITDAR margin (EBITDAR as a percentage of operating revenue) of 17 to 20 per cent over the 2018 to 2020 period.

- **ROIC:** Annual ROIC of 13 to 16 per cent over the 2018 to 2020 period.

- **Free Cash Flow:** Cumulative free cash flow of $2 billion to $3 billion over the 2018 to 2020 period.

- **Leverage Ratio:** A leverage ratio not exceeding 1.2 by the end of 2020 (measured by adjusted net debt over trailing 12-month EBITDAR).
    - o Air Canada continues to expect to achieve a leverage ratio not exceeding 2.2 by the end of 2018.

2018 – 2020 Outlook – Major Assumptions: As part of its assumptions, during the 2018 to 2020 period, Air Canada assumes moderate Canadian GDP growth, Canadian Consumer Price Index (CPI) growth of approximately 2 per cent, and an average annual wage rate increase of 2 per cent throughout the period. Air Canada also assumes that the Canadian dollar will trade, on average, at C$1.32 per U.S. dollar and that the price of jet fuel will average 62 CAD cents per litre for 2018, 65 CAD cents per litre for 2019 and 67 CAD cents per litre for 2020.

The following table summarizes Air Canada's above-mentioned 2017 Investor Day targets and related major assumptions:

	2018 – 2020 Target		
Annual EBITDAR Margin	17% - 20%		
Annual ROIC	13% - 16%		
Free Cash Flow (cumulative over the period)	$2.0 - $3.0 billion		
Leverage Ratio*	1.2 by end of 2020		
Major Assumptions	**2018**	**2019**	**2020**
Canadian GDP	Moderate Growth		
Canadian CPI	Approximately 2%		
Average Annual Wage Rate Increase	2%	2%	2%
Canadian dollar per U.S. dollar	1.32	1.32	1.32
Jet fuel price – CAD cents per litre	62	65	67

* *Air Canada continues to expect to achieve a leverage ratio not exceeding 2.2 by the end of 2018.*

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".

(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 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 after-tax effects of foreign exchange gains or losses, 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. The net income tax recovery recorded in the third quarter of 2017 is excluded from adjusted net income as it is a one-time recognition of previously unrecognized income tax assets.

- Adjusted pre-tax income (loss) is used by Air Canada to assess the overall pre-tax financial performance of its business without the effects of foreign exchange gains or losses, 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. Air Canada uses adjusted pre-tax income (loss) 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.

- "Leverage ratio" refers to adjusted net debt to trailing 12-month EBITDAR leverage ratio and 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 pre-tax income (or loss, as applicable), excluding interest expense and implicit interest on operating leases. Invested capital includes average year-over-year long-term debt, average year-over-year finance lease obligations, average year-over-year shareholders' equity and the value of capitalized operating leases (calculated by multiplying annualized aircraft rent by 7). Air Canada previously calculated invested capital based on an asset less operating liabilities approach. Following a significant increase in Air Canada's invested capital and book value of its equity, Air Canada has decided to change the methodology to a book value-based method of calculating ROIC, as described above.

Air Canada's Third Quarter 2017 Interim Unaudited Condensed Consolidated Financial Statements and Notes and its Third 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, October 25, 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 416-340-2218 or 1-800-478-9326

Live audio webcast: http://bell.media-server.com/m/p/ezrw6sg9

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 Canada Inc., our success in transitioning from the Aeroplan program and launching our new loyalty program, 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 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 Third Quarter 2017 MD&A dated October 25, 2017. 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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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			First Nine Months		
	2017	2016	$ Change	2017	2016	$ Change
Financial Performance Metrics						
Operating revenues	4,880	4,451	429	12,432	11,252	1,180
Operating income	1,004	896	108	1,231	1,327	(96)
Non-operating income (expense)	(11)	(128)	117	28	(272)	300
Net income	1,786	768	1,018	2,049	1,055	994
Adjusted net income (1)	950	821	129	1,081	1,109	(28)
Operating margin %	20.6%	20.1%	0.5 pp	9.9%	11.8%	(1.9) pp
EBITDAR (excluding special items) (1)	1,388	1,248	140	2,400	2,313	87
EBITDAR margin (excluding special items) % (1)	28.4%	28.0%	0.4 pp	19.3%	20.6%	(1.3) pp
Unrestricted liquidity (2)	4,509	3,715	794	4,509	3,715	794
Net cash flows from operating activities	493	438	55	2,349	2,070	279
Free cash flow (1)	324	315	9	1,099	(270)	1,369
Adjusted net debt (1)	5,939	6,819	(880)	5,939	6,819	(880)
Return on invested capital (“ROIC”) % (1)	14.1%	18.7%	(4.6) pp	14.1%	18.7%	(4.6) pp
Leverage ratio (1)	2.1	2.5	(0.4)	2.1	2.5	(0.4)
Diluted earnings per share	$ 6.44	$ 2.74	$ 3.70	$ 7.39	$ 3.72	$ 3.67
Adjusted earnings per share – diluted (1)	$ 3.43	$ 2.93	$ 0.50	$ 3.90	$ 3.92	$ (0.02)
Operating Statistics (3)			**% Change**			**% Change**
Revenue passenger miles (“RPM”) (millions)	26,472	24,328	8.8	65,741	58,838	11.7
Available seat miles (“ASM”) (millions)	31,050	28,458	9.1	79,301	70,635	12.3
Passenger load factor %	85.3%	85.5%	(0.2) pp	82.9%	83.3%	(0.4) pp
Passenger revenue per RPM ("Yield") (cents)	16.6	16.6	0.4	16.6	16.8	(1.7)
Passenger revenue per ASM ("PRASM") (cents)	14.2	14.2	0.1	13.7	14.0	(2.2)
Operating revenue per ASM (cents)	15.7	15.6	0.5	15.7	15.9	(1.6)
Operating expense per ASM ("CASM") (cents)	12.5	12.5	(0.1)	14.1	14.1	0.5
Adjusted CASM (cents) (1)	9.2	9.4	(2.1)	10.4	10.8	(3.6)
Average number of full-time equivalent (“FTE”) employees (thousands) (4)	28.3	26.5	6.5	27.7	26.0	6.3
Aircraft in operating fleet at period-end	392	382	2.6	392	382	2.6
Average fleet utilization (hours per day)	11.6	11.4	1.4	10.6	10.4	1.6
Seats dispatched (thousands)	17,056	16,245	5.0	46,298	43,262	7.0
Aircraft frequencies (thousands)	155.7	155.5	0.1	431.2	428.9	0.5
Average stage length (miles) (5)	1,820	1,752	3.9	1,713	1,633	4.9
Fuel cost per litre (cents)	59.4	55.2	7.5	61.1	52.2	17.0
Fuel litres (thousands)	1,583,984	1,457,725	8.7	4,077,777	3,676,755	10.9
Revenue passengers carried (thousands) (6)	13,993	13,327	5.0	36,812	34,130	7.9

(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 Third 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 Third 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 September 30, 2017, unrestricted liquidity was comprised of cash and short-term investments of $4,135 million and undrawn lines of credit of $374 million. 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.

(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.