AIR CANADA

THIRD QUARTER 2015

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

November 5, 2015

A STAR ALLIANCE MEMBER

TABLE OF CONTENTS

1. 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		
	2015	2014	$ Change	2015	2014	$ Change
Financial Performance Metrics						
Operating revenues	4,023	3,798	225	10,686	10,168	518
Operating income	815	526	289	1,338	709	629
Non-operating expense	(378)	(203)	(175)	(914)	(504)	(410)
Net income	437	323	114	424	205	219
Adjusted net income (1)	734	457	277	1,106	464	642
Operating margin %	20.3%	13.8%	6.5 pp	12.5%	7.0%	5.5 pp
EBITDAR (2)	1,076	749	327	2,109	1,352	757
EBITDAR margin % (2)	26.7%	19.7%	7.0 pp	19.7%	13.3%	6.4 pp
Unrestricted liquidity (3)	3,399	2,802	597	3,399	2,802	597
Net cash flows from operating activities	476	191	285	1,793	921	872
Free cash flow (4)	(90)	(192)	102	592	(194)	786
Adjusted net debt (5)	5,423	4,623	800	5,423	4,623	800
Return on invested capital ("ROIC") % (6)	18.0%	11.4%	6.6 pp	18.0%	11.4%	6.6 pp
Diluted earnings per share	$ 1.48	$ 1.10	$ 0.38	$ 1.43	$ 0.69	$ 0.74
Adjusted earnings per share – diluted (1)	$ 2.50	$ 1.55	$ 0.95	$ 3.77	$ 1.58	$ 2.19
Operating Statistics (7)			**% Change**			**% Change**
Revenue passenger miles ("RPM") (millions)	20,462	18,565	10.2	52,244	47,526	9.9
Available seat miles ("ASM") (millions)	23,535	21,299	10.5	62,002	56,486	9.8
Passenger load factor %	86.9%	87.2%	(0.2) pp	84.3%	84.1%	0.1 pp
Passenger revenue per RPM ("Yield") (cents)	17.8	18.5	(3.8)	18.0	18.8	(4.3)
Passenger revenue per ASM ("PRASM") (cents)	15.5	16.1	(4.0)	15.2	15.8	(4.1)
Operating revenue per ASM (cents)	17.1	17.8	(3.9)	17.2	18.0	(4.3)
Operating expense per ASM ("CASM") (cents)	13.6	15.4	(11.3)	15.1	16.7	(10.0)
Adjusted CASM (cents) (8)	10.0	10.1	(0.5)	11.0	11.1	(0.5)
Average number of full-time equivalent ("FTE") employees (thousands) (9)	25.0	24.6	1.6	24.8	24.5	1.2
Aircraft in operating fleet at period-end	372	362	2.8	372	362	2.8
Average fleet utilization (hours per day)	11.0	10.8	2.4	10.3	10.2	0.9
Seats dispatched (thousands)	14,408	13,518	6.6	39,737	37,403	6.2
Aircraft frequencies (thousands)	154	150	3.1	431	420	2.5
Average stage length (miles) (10)	1,634	1,576	3.7	1,560	1,510	3.3
Fuel cost per litre (cents)	61.4	89.7	(31.5)	64.3	91.8	(29.9)
Fuel litres (millions)	1,290	1,200	7.5	3,443	3,221	6.9
Revenue passengers carried (thousands) (11)	11,723	10,979	6.8	31,439	29,337	7.2

(1) Adjusted net income (loss) and adjusted earnings (loss) per share – diluted are non-GAAP financial measures. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

(2) EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent) is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

(3) 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, 2015, unrestricted liquidity was comprised of cash and short-term investments of $3,116 million and undrawn lines of credit of $283 million. At September 30, 2014, unrestricted liquidity was comprised of cash and short-term investments of $2,528 million and undrawn lines of credit of $274 million.

(4) Free cash flow (cash flows from operating activities less additions to property, equipment and intangible assets) is a non-GAAP financial measure. Refer to section 7.5 "Consolidated Cash Flow Movements" of this MD&A for additional information.

(5) Adjusted net debt (total debt less cash, cash equivalents and short-term investments plus capitalized operating leases) is an additional GAAP financial measure. Refer to section 7.3 "Adjusted Net Debt" of this MD&A for additional information.

(6) Return on invested capital ("ROIC") is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

(7) 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") and Sky Regional Airlines Inc. ("Sky Regional")) operating under capacity purchase agreements with Air Canada.

(8) Adjusted CASM is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

(9) Reflects FTE employees at Air Canada. Excludes FTE employees at third party carriers (such as Jazz and Sky Regional) operating under capacity purchase agreements with Air Canada.

(10) Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.

(11) Revenue passengers are counted on a flight number basis which is consistent with the IATA definition of revenue passengers carried.

2. INTRODUCTION AND KEY ASSUMPTIONS

In this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A"), the "Corporation" refers, as the context may require, to Air Canada and/or one or more of Air Canada's subsidiaries, including its wholly-owned operating subsidiaries, Touram Limited Partnership, doing business as Air Canada Vacations® ("Air Canada Vacations") and Air Canada *rouge* LP, doing business as Air Canada *rouge*® ("Air Canada *rouge*"). This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the third quarter of 2015. This MD&A should be read in conjunction with Air Canada's interim unaudited condensed consolidated financial statements and notes for the third quarter of 2015, Air Canada's 2014 annual audited consolidated financial statements and notes and Air Canada's 2014 MD&A dated February 11, 2015 ("Air Canada's 2014 MD&A"). All financial information has been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), except for any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 17 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of November 4, 2015.

Air Canada has capacity purchase agreements with Jazz, Sky Regional, Air Georgian Limited ("Air Georgian") and Exploits Valley Air Services Ltd. ("EVAS"). As of 2015, Air Canada changed the presentation of the expenses related to capacity purchase agreements on its consolidated statement of operations. This change in presentation was adopted to provide an improved presentation of the economic costs associated with regional carrier operations. Prior period amounts were reclassified to conform to the current period presentation. For additional information, refer to Note 2 of Air Canada's interim unaudited consolidated financial statements for the third quarter of 2015.

Effective January 1, 2015, Air Canada and Jazz amended the terms of their capacity purchase agreement and extended its term through to December 31, 2025. As a result of the amendments, certain costs that were previously capacity purchase agreement fees are now pass-through costs. Other costs that were pass-through costs are now costs directly incurred by Air Canada.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of risks relating to Air Canada, refer to section 18 "Risk factors" of Air Canada's 2014 MD&A dated February 11, 2015. Air Canada issued a news release dated November 5, 2015 reporting on its results for the third quarter of 2015. This news release is available on Air Canada's website at **www.aircanada.com** and on SEDAR's website at **www.sedar.com**. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR at **www.sedar.com**.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Air Canada's public communications may include written or oral forward-looking statements within the meaning of applicable securities laws. Such statements are included in this MD&A and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements may be 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 strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "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, industry, market, credit, economic and geopolitical conditions, currency exchange, the ability to reduce operating costs and secure financing, energy prices, interest rates, competition, employee and labour relations, pension issues, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this MD&A and, in particular, those identified in section 18 "Risk Factors" of Air Canada's 2014 MD&A. The forward-looking statements contained in this MD&A represent Air Canada's expectations as of November 4, 2015 (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.

KEY ASSUMPTIONS

Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its assumptions, Air Canada assumes relatively low Canadian GDP growth for 2015. Air Canada also expects that the Canadian dollar will trade, on average, at C$1.32 per U.S. dollar in the fourth quarter of 2015 and at C$1.28 for the full year 2015 and that the price of jet fuel will average 60 cents per litre for the fourth quarter of 2015 and 63 cents per litre for the full year 2015.

INTELLECTUAL PROPERTY

Air Canada owns or has rights to trademarks, service marks or trade names used in connection with the operation of its business. In addition, Air Canada's names, logos and website names and addresses are owned or licensed by Air Canada. Air Canada also owns or has the rights to copyrights that protect the content of its products and/or services. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this MD&A may be listed without the ©, ® and ™ symbols, but Air Canada will assert, to the fullest extent under applicable law, its rights or the rights of the applicable licensors to these trademarks, service marks, trade names and copyrights.

This MD&A may include trademarks, service marks or trade names of other parties. Air Canada's use or display of other parties' trademarks, service marks, trade names or products is not intended to, and does not imply a relationship with, or endorsement or sponsorship of Air Canada by, the trademark, service mark or trade name owners or licensees.

3. OVERVIEW

In the third quarter of 2015, Air Canada generated adjusted net income of $734 million, an improvement of $277 million from the third quarter of 2014. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information. On a GAAP basis, Air Canada reported operating income of $815 million compared to operating income of $526 million in the third quarter of 2014, an improvement of $289 million. Net income of $437 million in the third quarter of 2015 increased $114 million from the same quarter in 2014.

Strategy

Air Canada's goal is to fully develop as a leading global airline, to be among those with the highest levels of customer experience, employee engagement and value creation for shareholders and other stakeholders. This is being pursued through the following four key strategies, which are further discussed in Air Canada's 2014 MD&A:

- Continually identifying and implementing cost reduction and revenue generating initiatives;
- Expanding internationally and increasing connecting traffic through international gateways, on a sustainable and profitable basis, and competing effectively in the leisure market to and from Canada;
- Engaging customers by continually enhancing the travel experience and providing a consistently high level of customer experience, with additional emphasis on premium and business passengers and products; and
- Fostering positive culture change through employee engagement programs designed to promote an understanding of how the airline and its employees can work together to deliver on the customer promise and investing in the tools and training required to provide a culture of top customer care.

Pension Update

On May 26, 2015, Air Canada elected to opt out of the *Air Canada Pension Plan Funding Regulations, 2014* (the "2014 Regulations"). The 2014 Regulations became effective on January 1, 2014 and under their terms, Air Canada was required to make solvency deficit payments of $200 million per year, on average, over a seven-year period. An agreement with the Government of Canada entered into in connection with these regulations contained several restrictions, including a prohibition on dividends and share repurchases, however, the agreement allowed Air Canada to opt out at any time. Refer to section 7.7 of this MD&A for additional information on Air Canada's pension funding obligations.

Labour Update

On October 20, 2015, Air Canada announced that a 10-year agreement on collective agreement terms was reached with the Canadian Union of Public Employees (CUPE) which represents flight attendants at Air Canada and Air Canada *rouge*. The agreement is subject to ratification by CUPE represented flight attendants as well as to certain openers over the 10-year period.

In June 2015, Air Canada concluded a collective agreement with Unifor, the union representing the airline's approximately 4,000 customer service and sales agents. The new agreement is in effect until February 28, 2020.

In April 2015, Air Canada concluded a collective agreement with the International Brotherhood of Teamsters ("IBT") representing the airline's U.S.-based unionized workforce. The new agreement is in effect until June 30, 2019.

In February 2015, Air Canada concluded a collective agreement with Unite representing Air Canada's U.K.-based unionized workforce. The new agreement is in effect until December 31, 2019.

Third Quarter 2015 Financial Summary

The following is an overview of Air Canada's results of operations and financial position for the third quarter of 2015 compared to the third quarter of 2014.

- Operating revenues of $4,023 million, an increase of $225 million or 6% from the third quarter of 2014.

- An ASM capacity increase of 10.5% from the third quarter of 2014, in line with the 9.5% to 10.5% capacity increase projected in Air Canada's news release dated August 12, 2015. The capacity increase in the third quarter of 2015 was primarily in international markets and driven by the growth of Air Canada *rouge* and through the introduction of Boeing 787 aircraft into the mainline fleet. The Boeing 787 Dreamliner is providing new opportunities for profitable growth at Air Canada. In addition to replacing Boeing 767 aircraft on existing routes, these aircraft are also serving new international destinations made viable by the Boeing 787 aircraft's lower operating costs, mid-size capacity and longer range. As new Boeing 787 aircraft are introduced in the mainline fleet, Boeing 767 aircraft are being transferred to Air Canada *rouge* to pursue opportunities in international leisure markets made viable by Air Canada *rouge*'s lower cost structure.

- Passenger revenues of $3,716 million, an increase of $240 million or 6.9% from the third quarter of 2014. PRASM declined 4.0% from the third quarter of 2014 mainly on a 3.8% decline in yield (which is consistent with the anticipated yield impact stemming from the implementation of the airline's strategic plan). An increase in average stage length of 3.7% had the effect of reducing system yield by 2.1 percentage points. The favourable impact of a weaker Canadian dollar on foreign currency denominated passenger revenues increased passenger revenues by approximately $119 million in the third quarter of 2015.

- Operating expenses of $3,208 million, a decrease of $64 million or 2% from the third quarter of 2014. This decrease was mainly due to the impact of lower base fuel prices (before the impact of foreign exchange but taking into account fuel expense related to regional airline operations) which decreased operating expenses by $477 million in the third quarter of 2015. This decrease was largely offset by the impact of the 10.5% capacity growth and the unfavourable impact of a weaker Canadian dollar on foreign currency denominated operating expenses which increased operating expenses by approximately $215 million in the third quarter of 2015 (comprised of $111 million in aircraft fuel expense and an aggregate of $104 million in non-fuel operating expenses).

- A CASM reduction of 11.3% from the third quarter of 2014. On an adjusted basis, CASM decreased 0.5% from the third quarter of 2014, in line with the 0.5% to 1.5% decrease projected in Air Canada's news release dated August 12, 2015. Adjusted CASM is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

- An operating margin of 20.3%, an improvement of 6.5 percentage points from the same quarter in 2014.

- EBITDAR of $1,076 million compared to EBITDAR of $749 million in the third quarter of 2014, an increase of $327 million. Air Canada recorded an EBITDAR margin of 26.7% compared to an EBITDAR margin of 19.7% in the third quarter of 2014, an improvement of 700 basis points. In its news release dated August 12, 2015, Air Canada disclosed that, for the third quarter of 2015, it expected to deliver record results, with EBITDAR margin expansion versus the prior year higher than the 350 basis point expansion recorded in the second quarter of 2015. The significantly greater EBITDAR margin expansion in the third quarter of 2015 versus prior year was the result of a strong overall revenue performance and lower costs. EBITDAR is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

- Net income of $437 million or $1.48 per diluted share compared to net income of $323 million or $1.10 per diluted share in the third quarter of 2014, an increase of $114 million or $0.38 per diluted share.

- Adjusted net income of $734 million or $2.50 per diluted share compared to adjusted net income of $457 million or $1.55 per diluted share in the third quarter of 2014, an increase of $277 million or $0.95 per diluted share. Adjusted net income is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

- Net cash flows from operating activities of $476 million, an improvement of $285 million, largely due to the improvement in operating income. Negative free cash flow of $90 million improved $102 million from the third quarter of 2014, reflecting the impact of higher operating income partly offset by higher capital expenditures when compared to the third quarter of 2014. Air Canada took delivery of two Boeing 787 aircraft in the third quarter of 2015. Free cash flow (net cash flows from operating activities less additions to property, equipment and intangible assets) is a non-GAAP financial measure. Refer to section 7.5 "Consolidated Cash Flow Movements" of this MD&A for additional information.

- Adjusted net debt amounted to $5,423 million at September 30, 2015, an increase of $291 million from December 31, 2014 due to higher long-term debt and finance lease balances (including current portion) partly offset by higher cash balances. An increase of $922 million in long-term debt and finance lease balances (including current portion) was largely due to the unfavourable impact of a weaker Canadian dollar as at September 30, 2015 compared to December 31, 2014 on Air Canada's foreign currency denominated debt (mainly U.S. dollars) which accounted for an increase of $681 million. The airline's adjusted net debt to EBITDAR ratio was 2.2 at September 30, 2015 versus a ratio of 3.1 at December 31, 2014. Adjusted net debt (total debt less cash, cash equivalents and short-term investments plus capitalized operating leases) is an additional GAAP financial measure. Refer to section 7.3 "Adjusted Net Debt" of this MD&A for additional information.

- Unrestricted liquidity (cash, short-term investments and undrawn lines of credit) of $3,399 million at September 30, 2015 (September 30, 2014 – $2,802 million). 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, 2015, cash and short-term investments amounted to $3,116 million and undrawn lines of credit amounted to $283 million. At September 30, 2014, cash and short-term investments amounted to $2,528 million and undrawn lines of credit amounted to $274 million.

- Return on invested capital ("ROIC") for the 12 months ended September 30, 2015 of 18.0% versus 11.4% for the 12 months ended September 30, 2014. ROIC is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

4. RESULTS OF OPERATIONS – THIRD QUARTER 2015 VERSUS THIRD QUARTER 2014

The following table and discussion compares results of Air Canada for the third quarter 2015 versus the third quarter of 2014.

(Canadian dollars in millions, except per share figures)	Third Quarter 2015	Third Quarter 2014	Change $	Change %
Operating revenues				
Passenger	$ 3,716	$ 3,476	$ 240	7
Cargo	119	128	(9)	(7)
Other	188	194	(6)	(3)
Total revenues	**4,023**	**3,798**	**225**	**6**
Operating expenses				
Aircraft fuel	697	939	(242)	(26)
Regional airlines expense				
Aircraft fuel	95	137	(42)	(31)
Other	489	471	18	4
Wages, salaries and benefits	598	549	49	9
Airport and navigation fees	223	208	15	7
Aircraft maintenance	192	158	34	22
Depreciation, amortization and impairment	165	142	23	16
Sales and distribution costs	157	146	11	8
Ground package costs	63	56	7	13
Aircraft rent	89	74	15	20
Food, beverages and supplies	91	84	7	8
Communications and information technology	52	49	3	6
Other	297	259	38	15
Total operating expenses	**3,208**	**3,272**	**(64)**	**(2)**
Operating income	**815**	**526**	**289**	
Non-operating income (expense)				
Foreign exchange loss	(251)	(71)	(180)	
Interest income	12	11	1	
Interest expense	(106)	(81)	(25)	
Interest capitalized	20	6	14	
Net financing expense relating to employee benefits	(28)	(34)	6	
Fuel and other derivatives	(20)	(31)	11	
Other	(5)	(3)	(2)	
Total non-operating expense	**(378)**	**(203)**	**(175)**	
Income before income taxes	**437**	**323**	**114**	
Income taxes	-	-	-	
Net income	**$ 437**	**$ 323**	**$ 114**	
Basic earnings per share	**$ 1.52**	**$ 1.13**	**$ 0.39**	
Diluted earnings per share	**$ 1.48**	**$ 1.10**	**$ 0.38**	
EBITDAR (1)	**$ 1,076**	**$ 749**	**$ 327**	
Adjusted net income (1)	**$ 734**	**$ 457**	**$ 277**	
Adjusted earnings per share – diluted (1)	**$ 2.50**	**$ 1.55**	**$ 0.95**	

(1) *EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent), adjusted net income (loss) and adjusted earnings (loss) per share – diluted are non-GAAP financial measures. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.*

System passenger revenues increased 6.9% from the third quarter of 2014

In the third quarter of 2015, on capacity growth of 10.5%, system passenger revenues of $3,716 million increased $240 million or 6.9% from the third quarter of 2014.

In the third quarter of 2015, system business cabin revenues increased $9 million or 1.6% from the third quarter of 2014 on yield growth of 1.6%.

The table below provides passenger revenue by geographic region for the third quarter of 2015 and the third quarter of 2014.

Passenger Revenue	Third Quarter 2015 $ Million	Third Quarter 2014 $ Million	Change $ Million	% Change
Canada	1,253	1,246	7	0.6
U.S. transborder	694	591	103	17.3
Atlantic	1,027	941	86	9.1
Pacific	568	537	31	5.6
Other	174	161	13	8.5
System	**3,716**	**3,476**	**240**	**6.9**

The table below provides year-over-year percentage changes in passenger revenues and operating statistics for the third quarter of 2015 versus the third quarter of 2014.

Third Quarter 2015 versus Third Quarter 2014	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	0.6	4.8	3.5	(1.1)	(4.8)	(6.0)
U.S. transborder	17.3	15.2	15.6	0.3	1.4	1.8
Atlantic	9.1	12.7	12.7	-	(3.2)	(3.2)
Pacific	5.6	11.8	12.1	0.2	(5.7)	(5.5)
Other	8.5	12.2	11.5	(0.5)	(3.1)	(3.6)
System	**6.9**	**10.5**	**10.2**	**(0.2)**	**(3.8)**	**(4.0)**

The table below provides year-over-year percentage changes in system passenger revenues and operating statistics for the third quarter of 2015 and each of the previous four quarters.

System	Year-over-Year by Quarter (% Change)				
	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
Passenger revenues	9.4	7.6	6.9	3.9	6.9
Capacity (ASMs)	9.8	8.5	9.3	9.3	10.5
Traffic (RPMs)	11.0	9.4	10.9	8.7	10.2
Passenger load factor (pp change)	1.0	0.6	1.2	(0.5)	(0.2)
Yield	(1.3)	(1.9)	(4.2)	(5.0)	(3.8)
PRASM	(0.2)	(1.2)	(2.7)	(5.5)	(4.0)

In the third quarter of 2015, Air Canada's system capacity was 10.5% higher than in the third quarter of 2014, with capacity growth reflected in all markets.

Components of the year-over-year change in system passenger revenues included:

- The 10.2% traffic increase which reflected traffic growth in all markets. Consistent with the airline's objective of increasing global international-to-international connecting traffic through its major Canadian hubs, the traffic growth in the third quarter of 2015 also reflected lower-yielding incremental connecting traffic to international destinations.

- The 3.8% yield decrease which is consistent with the anticipated yield impact stemming from the implementation of the airline's strategic plan and which reflected:

    - an increase in average stage length of 3.7%, which had the effect of reducing system yield by 2.1 percentage points;

    - a higher proportional growth of lower-yielding international-to-international passenger flows in support of the airline's international expansion strategy;

    - a higher proportion of seats into long-haul leisure markets led by an increase in lower-cost flights operated by Air Canada *rouge*; and

    - a reduction in carrier surcharges relating to lower fuel prices, particularly where carrier surcharges are regulated such as Japan, Hong Kong, Korea and Brazil.

  A favourable currency impact of $119 million was a partly offsetting factor.

System PRASM decreased 4.0% mainly due to the lower yield.

Domestic passenger revenues increased 0.6% from the third quarter of 2014

In the third quarter of 2015, on capacity growth of 4.8%, domestic passenger revenues of $1,253 million increased $7 million or 0.6% from the third quarter of 2014.

The table below provides year-over-year percentage changes in domestic passenger revenues and operating statistics for the third quarter of 2015 and each of the previous four quarters.

Canada	Year-over-Year by Quarter (% Change)				
	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
Passenger revenues	6.5	5.7	3.4	0.4	0.6
Capacity (ASMs)	5.3	6.1	2.1	2.6	4.8
Traffic (RPMs)	6.9	6.6	3.9	3.1	3.5
Passenger load factor (pp change)	1.2	0.4	1.4	0.3	(1.1)
Yield	(0.7)	(1.8)	(1.8)	(4.1)	(4.8)
PRASM	0.8	(1.3)	-	(3.7)	(6.0)

In the third quarter of 2015, the 4.8% domestic capacity growth reflected capacity increases on all major domestic services with the exception of services to the Maritimes and, to a lesser extent, on regional routes within Ontario and Quebec.

Components of the year-over-year change in third quarter domestic passenger revenues included:

- The 3.5% traffic increase which reflected traffic growth on all domestic services with the exception of services to the Maritimes where capacity was reduced year-over-year. Despite a capacity reduction on regional routes within Ontario and Quebec, traffic increased on these routes when compared to the same quarter in 2014. The domestic traffic growth in the third quarter of 2015 reflected increases on services within Canada, as well as incremental connecting traffic to U.S. and international destinations. Partly offsetting the traffic growth in the third quarter of 2015 was the impact of lower passenger demand in oil-related markets.

- An increase in baggage fee revenues following an adjustment to the airline's first checked bag policy which became effective for travel as of November 2, 2014. Baggage fee revenues are not included in Air Canada's yield and PRASM results.

- The 4.8% yield decrease which reflected:

  - the impact of increased industry capacity and competitive pricing activities;

  - higher proportional growth of lower-yielding international and U.S. transborder passenger flows in support of the airline's international expansion strategy connecting to Air Canada's routes in the domestic market;

  - a 2.2% longer average stage length which had the effect of reducing domestic yield by 1.2 percentage points in the third quarter of 2015; and

  - a decline in higher-yielding oil-related market traffic.

  A favourable currency impact of $17 million was a partly offsetting factor.

Domestic PRASM decreased 6.0% on the lower yield and a passenger load factor decline of 1.1 percentage points.

U.S. transborder passenger revenues increased 17.3% from the third quarter of 2014

In the third quarter of 2015, on a capacity growth of 15.2%, U.S. transborder passenger revenues of $694 million increased $103 million or 17.3% from the third quarter of 2014.

The table below provides year-over-year percentage changes in U.S. transborder passenger revenues and operating statistics for the third quarter of 2015 and each of the previous four quarters.

U.S. transborder	Year-over-Year by Quarter (% Change)				
	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
Passenger revenues	11.2	9.5	12.6	10.9	17.3
Capacity (ASMs)	12.7	14.0	17.3	12.4	15.2
Traffic (RPMs)	16.2	15.5	17.7	12.9	15.6
Passenger load factor (pp change)	2.5	1.1	0.3	0.4	0.3
Yield	(3.7)	(5.0)	(4.3)	(1.9)	1.4
PRASM	(0.7)	(3.7)	(4.0)	(1.5)	1.8

In the third quarter of 2015, the 15.2% U.S. transborder capacity growth reflected capacity increases on all major U.S. transborder services.

Components of the year-over-year change in third quarter U.S. transborder passenger revenues included:

- The 15.6% traffic increase which reflected traffic growth on all major U.S. transborder services. This meaningful year-over-year increase in traffic was largely due to strong passenger demand between Canada and the U.S. as well as growth of international-to-international passenger flows from the U.S. in support of Air Canada's international expansion strategy.

- The 1.4% yield growth which reflected yield increases on most major U.S. transborder services. The yield improvement was mainly due to a strong performance on U.S. short-haul routes, an improved premium cabin mix and a favourable currency impact of $36 million. A 2.9% longer average stage length, which had the effect of reducing U.S. transborder yield by 1.6 percentage points, and an increase in long-haul leisure flying led by lower-cost Air Canada *rouge*, which is allowing Air Canada to effectively compete on lower-yielding leisure routes, were partly offsetting factors.

U.S. transborder PRASM increased 1.8% mainly on the higher yield.

Atlantic passenger revenues increased 9.1% from the third quarter of 2014

In the third quarter of 2015, on capacity growth of 12.7%, Atlantic passenger revenues of $1,027 million increased $86 million or 9.1% from the third quarter of 2014.

The table below provides year-over-year percentage changes in Atlantic passenger revenues and operating statistics for the third quarter of 2015 and each of the previous four quarters.

Atlantic	Year-over-Year by Quarter (% Change)				
	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
Passenger revenues	14.9	13.6	11.0	6.5	9.1
Capacity (ASMs)	20.2	8.7	10.7	11.2	12.7
Traffic (RPMs)	19.2	12.8	17.2	11.0	12.7
Passenger load factor (pp change)	(0.8)	2.9	4.2	(0.2)	-
Yield	(3.5)	0.8	(5.1)	(4.0)	(3.2)
PRASM	(4.4)	4.7	0.4	(4.2)	(3.2)

In the third quarter of 2015, the 12.7% Atlantic capacity growth reflected capacity increases on all major Atlantic services with the exception of services to Germany.

Components of the year-over-year change in third quarter Atlantic passenger revenues included:

- The 12.7% traffic increase which reflected traffic growth on most major Atlantic services. The traffic growth in the third quarter of 2015 reflected incremental traffic between the U.S. and Europe via the airline's major Canadian hubs, in line with Air Canada's international growth strategy, as well as incremental traffic resulting from the growth of Air Canada *rouge*.

- The 3.2% yield decline which reflected increased industry capacity and competitive pricing activities and the impact of having a higher proportion of seats in long-haul (lower-yielding) leisure markets. A favourable currency impact of $29 million was a partly offsetting factor.

Atlantic PRASM decreased 3.2% on the lower yield.

Pacific passenger revenues increased 5.6% from the third quarter of 2014

In the third quarter of 2015, on capacity growth of 11.8%, Pacific passenger revenues of $568 million increased $31 million or 5.6% from the third quarter of 2014.

The table below provides year-over-year percentage changes in Pacific passenger revenues and operating statistics for the third quarter of 2015 and each of the previous four quarters.

Pacific	Year-over-Year by Quarter (% Change)				
	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
Passenger revenues	8.3	6.5	(0.5)	1.4	5.6
Capacity (ASMs)	1.6	9.5	7.6	13.6	11.8
Traffic (RPMs)	3.6	7.6	6.5	10.4	12.1
Passenger load factor (pp change)	1.7	(1.4)	(0.8)	(2.5)	0.2
Yield	4.9	(0.8)	(6.5)	(8.1)	(5.7)
PRASM	7.0	(2.5)	(7.4)	(10.7)	(5.5)

In the third quarter of 2015, the 11.8% Pacific capacity growth reflected capacity increases on all major Pacific services with the exception of services to Australia where capacity remained at 2014 levels.

Components of the year-over-year change in third quarter Pacific passenger revenues included:

- The 12.1% traffic increase which reflected traffic growth on most major Pacific services.
- The 5.7% yield decline which mainly reflected a significant reduction in carrier surcharges relating to lower fuel prices, particularly where carrier surcharges are regulated, such as Japan, Hong Kong and Korea, as well as competitive pressures to and from Canada-Asia and to and from U.S.-Asia, both in terms of added capacity and pricing. The competitive pressures impacted local, U.S. sixth freedom and beyond traffic. A favourable currency impact of $28 million was a partly offsetting factor.

Pacific PRASM decreased 5.5% on the lower yield.

Other passenger revenues increased 8.5% from the third quarter of 2014

In the third quarter of 2015, on capacity growth of 12.2%, Other passenger revenues (from routes to and from the Caribbean, Mexico and Central and South America) of $174 million increased $13 million or 8.5% from the third quarter of 2014.

The table below provides year-over-year percentage changes in Other passenger revenues and operating statistics for the third quarter of 2015 and each of the previous four quarters.

Other	Year-over-Year by Quarter (% Change)				
	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
Passenger revenues	0.5	0.4	9.5	(1.3)	8.5
Capacity (ASMs)	2.2	3.9	12.9	10.3	12.2
Traffic (RPMs)	3.6	3.0	13.4	7.9	11.5
Passenger load factor (pp change)	1.1	(0.6)	0.3	(1.9)	(0.5)
Yield	(2.4)	(2.7)	(3.7)	(9.0)	(3.1)
PRASM	(1.1)	(3.4)	(3.3)	(11.0)	(3.6)

In the third quarter of 2015, the 12.2% capacity growth reflected higher seat density on capacity to Lima, the introduction of services to Rio de Janeiro in December 2014 and, to a much lesser extent, capacity increases on services to Mexico and Columbia.

Components of the year-over-year change in third quarter Other passenger revenues included:

- The overall 11.5% traffic increase which reflected traffic growth on all major services. Consistent with Air Canada's strategy of increasing international-to-international traffic through its Canadian hubs, the traffic growth on services to South America in the third quarter of 2015 also reflected incremental lower-yielding connecting traffic from the U.S. in support of Air Canada's international expansion strategy.

- The overall 3.1% yield decrease which reflected a 5.7% increase in average stage length, had the effect of reducing yield by 3.2 percentage points. The impact of competitive pricing activities, which was driven by increased industry capacity, was partly offset by a favourable currency impact of $9 million.

Overall PRASM decreased 3.6% on the lower yield and, to a lesser extent, a passenger load factor decline of 0.5 percentage points.

Cargo revenues decreased 7.0% from the third quarter of 2014

In the third quarter of 2015, cargo revenues of $119 million decreased $9 million or 7.0% from the third quarter of 2014.

The table below provides cargo revenue by geographic region for the third quarter of 2015 and the third quarter of 2014.

Cargo Revenue	Third Quarter 2015 $ Million	Third Quarter 2014 $ Million	Change $ Million
Canada	16	18	(2)
U.S. transborder	5	5	-
Atlantic	45	49	(4)
Pacific	46	50	(4)
Other	7	6	1
System	**119**	**128**	**(9)**

The table below provides year-over-year percentage changes in system cargo revenues and operating statistics for the third quarter of 2015 and each of the previous four quarters.

System	Year-over-Year by Quarter (% Change)				
	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
Cargo revenues	6.5	3.9	7.9	1.3	(7.0)
Capacity (ETMs)	9.6	11.6	12.9	11.9	12.6
Revenue per ETM	(3.0)	(6.9)	(4.5)	(9.5)	(16.8)
Traffic (RTMs)	6.9	7.5	3.5	(1.9)	(5.6)
Yield per RTM	(0.5)	(3.3)	4.2	3.2	(0.8)

The table below provides year-over-year percentage changes in cargo revenues and operating statistics for the third quarter of 2015 versus the third quarter of 2014.

Third Quarter 2015 versus Third Quarter 2014	Cargo Revenue % Change	Capacity (ETMs) % Change	Rev / ETM % Change	Traffic (RTMs) % Change	Yield / RTM % Change
Canada	(9.2)	4.3	(12.9)	(9.1)	-
U.S. transborder	10.8	38.2	(19.8)	32.0	(16.0)
Atlantic	(9.7)	11.6	(19.1)	(6.1)	(3.8)
Pacific	(8.5)	9.3	(16.3)	(10.4)	2.1
Other	32.0	38.9	(5.0)	37.8	(4.2)
System	**(7.0)**	**12.6**	**(16.8)**	**(5.6)**	**(0.8)**

Components of the year-over-year change in third quarter cargo revenues included:

- The 5.6% traffic decrease which reflected traffic declines in the domestic, Atlantic and Pacific markets, the result of a reduction in cargo demand and the impact of increased industry capacity. These decreases were partly offset by traffic increases in the U.S. transborder and Other markets, mainly driven by the airline's use of larger aircraft on certain services within these markets.

- The 0.8% yield decrease which reflected yield declines in the U.S. transborder, Atlantic and Other markets, driven by increased industry capacity and competitive pricing activities. These yield declines were partly offset by yield growth in the Pacific market, the result of a favourable currency impact of $4 million.

Other revenues decreased 3% from the third quarter of 2014

In the third quarter of 2015, other revenues of $188 million decreased $6 million or 3% from the third quarter of 2014, mainly due to the impact of the new Jazz CPA, effective January 1, 2015, whereby certain costs, such as ground handling services performed by Air Canada, are no longer recovered from Jazz and passed through to Air Canada under the Jazz CPA as capacity purchase fees, thereby reducing both other revenues and capacity purchase fees. A reduction in aircraft sublease revenues was also a contributing factor to the decrease in other revenues year-over-year. These decreases were largely offset by higher ground package revenues at Air Canada Vacations and an increase in passenger-related fee revenues.

CASM decreased 11.3% from the third quarter of 2014. Adjusted CASM decreased 0.5% from the third quarter of 2014

The following table compares Air Canada's CASM and Adjusted CASM for the third quarter of 2015 to the third quarter 2014.

	Third Quarter		Change	
(cents per ASM)	**2015**	**2014**	**cents**	**%**
Aircraft fuel	2.96	4.41	(1.45)	(32.9)
Regional airlines expense				
Aircraft fuel	0.40	0.64	(0.24)	(37.5)
Other	2.08	2.22	(0.14)	(6.3)
Wages and salaries	1.97	2.08	(0.11)	(5.3)
Benefits	0.57	0.50	0.07	14.0
Airport and navigation fees	0.95	0.97	(0.02)	(2.1)
Aircraft maintenance	0.81	0.74	0.07	9.5
Depreciation, amortization and impairment	0.70	0.66	0.04	6.1
Sales and distribution costs	0.67	0.69	(0.02)	(2.9)
Ground package costs	0.27	0.26	0.01	3.8
Aircraft rent	0.38	0.35	0.03	8.6
Food, beverages and supplies	0.39	0.40	(0.01)	(2.5)
Communications and information technology	0.22	0.23	(0.01)	(4.3)
Other	1.26	1.22	0.04	3.3
CASM	**13.63**	**15.37**	**(1.74)**	**(11.3)**
Remove:				
Aircraft fuel expense (1), ground package costs at Air Canada Vacations, and unusual items	(3.63)	(5.32)	1.69	31.8
Adjusted CASM (2)	**10.00**	**10.05**	**(0.05)**	**(0.5)**

(1) Includes aircraft fuel expense related to regional airline operations.
(2) Adjusted CASM is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Operating expenses decreased 2% from the third quarter of 2014

In the third quarter of 2015, on capacity growth of 10.5%, operating expenses of $3,208 million decreased $64 million or 2% from the third quarter of 2014.

The more notable components of the year-over-year change in third quarter operating expenses included:

- The impact of lower base fuel prices (before the impact of foreign exchange) which accounted for a decrease of $477 million to aircraft fuel expense.

Largely offsetting this decline were:

- The impact of the 10.5% capacity growth.
- The unfavourable impact of a weaker Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars) which increased operating expenses by approximately $215 million (comprised of $111 million in aircraft fuel expense and an aggregate of $104 million in non-fuel operating expenses). Refer to section 9 "Financial Instruments and Risk Management" of this MD&A for information on Air Canada's foreign exchange risk management strategy.

Aircraft fuel expense decreased 26% from the third quarter of 2014

In the third quarter of 2015, aircraft fuel expense of $697 million decreased $242 million or 26% from the third quarter of 2014.

Aircraft fuel expense, including fuel expense related to regional airline operations, amounted to $792 million in the third quarter of 2015, a decrease of $284 million or 26% from the third quarter of 2014. The decrease in aircraft fuel expense in the third quarter of 2015 was due to a significant decline in jet fuel prices year-over-year, which accounted for a decrease of $477 million. These decreases were partly offset by the unfavourable impact of a weaker Canadian dollar versus the U.S. dollar when compared to the third quarter of 2014, which accounted for an increase of $111 million, as well as a higher volume of fuel litres consumed, which accounted for an increase of $82 million.

The table below provides Air Canada's fuel cost per litre and economic fuel cost per litre (including aircraft fuel expense related to regional airline operations) for the periods indicated.

(Canadian dollars in millions, except where indicated)	Third Quarter 2015	Third Quarter 2014	Change $	Change %
Aircraft fuel expense – GAAP	**$ 697**	**$ 939**	**$ (242)**	**(26)**
Add: Aircraft fuel expense related to regional airline operations	95	137	(42)	(31)
Total Aircraft fuel expense	**$ 792**	**$ 1,076**	**$ (284)**	**(26)**
Add: Net cash payments on fuel derivatives (1)	14	4	10	250
Economic cost of fuel – Non-GAAP (2)	**$ 806**	**$ 1,080**	**$ (274)**	**(25)**
Fuel consumption (thousands of litres)	**1,289,911**	**1,200,017**	**89,894**	**7.5**
Fuel cost per litre (cents) – GAAP	**61.4**	**89.7**	**(28.3)**	**(31.5)**
Economic fuel cost per litre (cents) – Non-GAAP (2)	**62.5**	**90.0**	**(27.5)**	**(30.6)**

(1) *Includes net cash settlements on maturing fuel derivatives and premium costs associated with those derivatives.*

(2) *The economic cost of fuel is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, and may not be comparable to similar measures presented by other public companies. Air Canada uses this measure to calculate its cash cost of fuel. It includes the actual net cash settlements from maturing fuel derivative contracts during the period and premium costs associated with those derivatives.*

Regional airlines expense decreased 4% from the third quarter of 2014

Air Canada has capacity purchase agreements with Jazz, Sky Regional, Air Georgian and EVAS. Under these arrangements, Air Canada markets, tickets and enters into other commercial arrangements relating to these flights and records the revenue it earns under Passenger revenues. As of 2015, expenses incurred related to capacity purchase agreements are presented in a separate line item on Air Canada's consolidated statement of operations titled Regional airlines expense which reflects the inclusion of all expenses related to the third-party contract carrier arrangements, including capacity purchase fees, pass-through costs and other costs.

Effective January 1, 2015, Air Canada and Jazz amended the terms of their capacity purchase agreement ("Jazz CPA"). Following such amendments and in order to better reflect costs under the Jazz CPA and Air Canada's other regional capacity purchase agreements, certain costs that were previously capacity purchase fees are now pass-through costs. Other costs that were pass-through costs are now costs directly incurred by Air Canada. As a result, the line categories within regional airlines expense are not directly comparable year-over-year.

In the third quarter of 2015, regional airlines expense of $584 million decreased $24 million or 4% from the third quarter of 2014, mainly due to a decrease in aircraft fuel expense partly offset by higher rates year-over-year, an unfavourable currency impact and an increase in pass-through costs.

The following table provides a breakdown of Regional airlines expense for the periods indicated:

(Canadian dollars in millions)	Third Quarter		Change	
	2015	2014	$	%
Capacity purchase fees	$ 298	$ 312	$ (14)	(4)
Aircraft fuel	95	137	(42)	(31)
Airport and navigation	74	73	1	1
Sales and distribution costs	32	27	5	19
Other operating expenses	85	59	26	44
Total regional airlines expense	**$ 584**	**608**	**$ (24)**	**(4)**

Wages, salaries and benefits expense amounted to $598 million in the third quarter of 2015, an increase of $49 million or 9% from the third quarter of 2014

In the third quarter of 2015, wages and salaries expense of $463 million increased $21 million or 5% from the third quarter of 2014, mainly due to higher average salaries and an increase in expense accruals related to the annual employee profit sharing programs. In addition, on capacity growth of 10.5%, the average number of full-time equivalent (FTE) employees increased 1.6% year-over-year.

In the third quarter of 2015, employee benefits expense of $135 million increased $28 million or 26% from the third quarter of 2014, mainly due to the impact of lower discount rates which increased the current service cost of defined benefit pension plans.

Airport and navigation fees increased 7% from the third quarter of 2014

In the third quarter of 2015, airport and navigation fees of $223 million increased $15 million or 7% from the third quarter of 2014, mainly due to an increase in aircraft departures of 3.1% and an unfavourable currency impact. These increases were partly offset by the impact of the terms of an agreement with the Greater Toronto Airports Authority which is allowing Air Canada to grow its share of international passengers connecting at Toronto Pearson International Airport on a more cost effective basis.

Aircraft maintenance expense increased 22% from the third quarter of 2014

In the third quarter of 2015, aircraft maintenance expense of $192 million increased $34 million or 22% from the third quarter of 2014, mainly due to an unfavourable currency impact of $35 million.

Depreciation, amortization and impairment expense increased 16% from the third quarter of 2014

In the third quarter of 2015, depreciation, amortization and impairment expense of $165 million increased $23 million or 16% from the third quarter of 2014, largely due to the introduction of new Boeing 787 aircraft to Air Canada's mainline fleet and an increase in expenses related to the airline's aircraft refurbishment programs.

Sales and distribution costs increased 8% from the third quarter of 2014

In the third quarter of 2015, sales and distribution costs of $157 million increased $11 million or 8% from the third quarter of 2014 on passenger revenue growth of 6.9%. This growth in sales and distribution costs was mainly due to an unfavourable currency impact, a higher volume of ticket sales generated through Global Distribution System ("GDS") providers, and higher credit card fees, in line with sales and revenue growth. These increases were partly offset by the impact of more favourable distribution rates negotiated in 2015.

Ground package costs increased 13% from the third quarter of 2014

In the third quarter of 2015, the cost of ground packages at Air Canada Vacations amounted to $63 million, an increase of $7 million or 13% from the third quarter of 2014, mainly due to an unfavourable currency impact and, to a lesser extent, a higher cost of ground packages (before the impact of foreign exchange).

Aircraft rent increased 20% from the third quarter of 2014

In the third quarter of 2015, aircraft rent expense amounted to $89 million, an increase of $15 million or 20% from the third quarter of 2014, mainly due to an unfavourable currency impact and an increase in the number of leased aircraft in anticipation of the replacement of 20 of the airline's Embraer 190 aircraft in late 2015 and the first half of 2016. These increases were partly offset by the favourable impact of lower rates on lease renewals.

Other expenses increased 15% from the third quarter of 2014

In the third quarter of 2015, other expenses of $297 million increased $38 million or 15% from the third quarter of 2014. This increase in other expenses included:

- the 10.5% capacity growth;
- an increase in terminal handling expense, mainly driven by Air Canada's international expansion strategy;
- an increase in customer inconvenience costs, proportional to the higher passenger volumes;
- an increase in advertising and promotion expense, largely driven by the airline's international expansion strategy; and
- an unfavourable currency impact.

The following table provides a breakdown of the more significant items included in other expenses:

	Third Quarter		Change	
(Canadian dollars in millions)	**2015**	**2014**	**$**	**%**
Terminal handling	$ 65	$ 54	$ 11	20
Crew cycle	43	38	5	13
Building rent and maintenance	36	35	1	3
Miscellaneous fees and services	32	31	1	3
Remaining other expenses	121	101	20	20
Total other expenses	**$ 297**	**$ 259**	**$ 38**	**15**

Non-operating expense amounted to $378 million in the third quarter of 2015 compared to non-operating expense of $203 million in the third quarter of 2014

The following table provides a breakdown of non-operating expense for the periods indicated:

	Third Quarter		Change
(Canadian dollars in millions)	**2015**	**2014**	**$**
Foreign exchange loss	$ (251)	$ (71)	$ (180)
Interest income	12	11	1
Interest expense	(106)	(81)	(25)
Interest capitalized	20	6	14
Net financing expense relating to employee benefits	(28)	(34)	6
Fuel and other derivatives	(20)	(31)	11
Other	(5)	(3)	(2)
Total non-operating expense	**$ (378)**	**$ (203)**	**$ (175)**

Factors contributing to the year-over-year change in third quarter non-operating expense included:

- Losses on foreign exchange, mainly related to U.S. denominated long-term debt which amounted to $251 million in the third quarter of 2015 compared to losses on foreign exchange of $71 million in the third quarter of 2014. The losses in the third quarter of 2015 were mostly attributable to a weaker Canadian dollar at September 30, 2015 when compared to June 30, 2015. The September 30, 2015 closing exchange rate was US$1 = C$1.3345 while the June 30, 2015 closing exchange rate was US$1 = C$1.2490. Partially offsetting these losses were gains of $77 million on foreign currency derivatives and $53 million on cash and short-term investment balances.

- An increase in interest expense of $25 million which was mainly due to new borrowings, a standby charge related to the financing (by way of Enhanced Equipment Trust Certificates ("EETCs")) of aircraft which remain to be delivered, and to the impact of a weaker Canadian dollar on U.S. denominated borrowings. These increases were largely offset by an increase in capitalized interest of $14 million which largely reflected the above-noted standby charge.

- A decrease in net financing expense relating to employee benefits of $6 million which was mainly due to the impact of the lower net defined pension benefit obligation.

- Losses on fuel and other derivatives which amounted to $20 million in the third quarter of 2015 versus losses on fuel and other derivatives of $31 million in the third quarter of 2014. Refer to section 9 "Financial Instruments and Risk Management" of this MD&A for additional information.

5. RESULTS OF OPERATIONS – FIRST NINE MONTHS 2015 VERSUS FIRST NINE MONTHS 2014

The following table and discussion compares results of Air Canada for the first nine months of 2015 versus the first nine months of 2014.

(Canadian dollars in millions, except per share figures)	First Nine Months 2015	First Nine Months 2014	Change $	Change %
Operating revenues				
Passenger	$ 9,584	$ 9,049	$ 535	6
Cargo	371	369	2	1
Other	731	750	(19)	(3)
Total revenues	**10,686**	**10,168**	**518**	**5**
Operating expenses				
Aircraft fuel	1,937	2,567	(630)	(25)
Regional airlines expense				
Aircraft fuel	278	389	(111)	(29)
Other	1,452	1,364	88	6
Wages, salaries and benefits	1,734	1,641	93	6
Airport and navigation fees	609	577	32	6
Aircraft maintenance	570	491	79	16
Depreciation, amortization and impairment	495	396	99	25
Sales and distribution costs	463	437	26	6
Ground package costs	328	303	25	8
Aircraft rent	255	226	29	13
Food, beverages and supplies	233	224	9	4
Communications and information technology	161	148	13	9
Other	833	696	137	20
Total operating expenses	**9,348**	**9,459**	**(111)**	**(1)**
Operating income	**1,338**	**709**	**629**	
Non-operating income (expense)				
Foreign exchange loss	(603)	(192)	(411)	
Interest income	33	29	4	
Interest expense	(290)	(239)	(51)	
Interest capitalized	50	21	29	
Net financing expense relating to employee benefits	(78)	(102)	24	
Fuel and other derivatives	(14)	(10)	(4)	
Other	(12)	(11)	(1)	
Total non-operating expense	**(914)**	**(504)**	**(410)**	
Income before income taxes	**424**	**205**	**219**	
Income taxes	-	-	-	
Net income	**$ 424**	**$ 205**	**$ 219**	
Basic earnings per share	**$ 1.47**	**$ 0.70**	**$ 0.77**	
Diluted earnings per share	**$ 1.43**	**$ 0.69**	**$ 0.74**	
EBITDAR (1)	**$ 2,109**	**$ 1,352**	**$ 757**	
Adjusted net income (1)	**$ 1,106**	**$ 464**	**$ 642**	
Adjusted earnings per share – diluted (1)	**$ 3.77**	**$ 1.58**	**$ 2.19**	

(1) EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent), adjusted net income (loss) and adjusted earnings (loss) per share – diluted are non-GAAP financial measures. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

System passenger revenues increased 5.9% from the first nine months of 2014

In the first nine months of 2015, on capacity growth of 9.8%, system passenger revenues of $9,584 million increased $535 million or 5.9% from the first nine months of 2014.

In the first nine months of 2015, system business cabin revenues increased $17 million or 0.9% from the first nine months of 2014 due to a yield improvement of 1.4% partly offset by a traffic decrease of 0.5%.

The table below provides passenger revenue by geographic region for the first nine months of 2015 and the first nine months of 2014.

Passenger Revenue	First Nine Months 2015 $ Million	First Nine Months 2014 $ Million	Change $ Million	% Change
Canada	3,326	3,282	44	1.3
U.S. transborder	2,053	1,807	246	13.6
Atlantic	2,203	2,029	174	8.6
Pacific	1,368	1,333	35	2.6
Other	634	598	36	6.2
System	**9,584**	**9,049**	**535**	**5.9**

The table below provides year-over-year percentage changes in passenger revenues and operating statistics for the first nine months of 2015 versus the first nine months of 2014.

First Nine Months 2015 versus First Nine Months 2014	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	1.3	3.3	3.5	0.1	(3.7)	(3.6)
U.S. transborder	13.6	15.0	15.5	0.3	(1.7)	(1.3)
Atlantic	8.6	11.8	13.0	0.9	(3.8)	(2.8)
Pacific	2.6	11.1	9.8	(1.0)	(6.6)	(7.6)
Other	6.2	12.0	11.3	(0.5)	(5.0)	(5.6)
System	**5.9**	**9.8**	**9.9**	**0.1**	**(4.3)**	**(4.1)**

In the first nine months of 2015, Air Canada's system capacity was 9.8% higher than in the first nine months of 2014, with capacity growth reflected in all markets.

Components of the year-over-year change in system passenger revenues included:

- The 9.9% traffic increase which reflected traffic growth in all markets. Consistent with the airline's objective of increasing global international-to-international connecting traffic through its major Canadian hubs, the traffic growth in the first nine months of 2015 also reflected lower-yielding incremental connecting traffic to international destinations.

- The 4.3% yield decrease which reflected:

  - an increase in average stage length of 3.3%, which had the effect of reducing system yield by 1.9 percentage points;

- a higher proportional growth of lower-yielding international-to-international passenger flows in support of the airline's international expansion strategy;
- a higher proportion of seats into long-haul leisure markets led by an increase in lower-cost flights operated by Air Canada rouge; and
- a reduction in carrier surcharges relating to lower fuel prices, particularly where carrier surcharges are regulated such as Japan, Hong Kong, Korea and Brazil.

A favourable currency impact of $218 million was a partly offsetting factor.

System PRASM decreased 4.1% on the lower yield.

Domestic passenger revenues increased 1.3% from the first nine months of 2014

In the first nine months of 2015, on capacity growth of 3.3%, domestic passenger revenues of $3,326 million increased $44 million or 1.3% from the first nine months of 2014.

The 3.3% domestic capacity growth reflected capacity increases on all major domestic services with the exception of services to the Maritimes and, to a lesser extent, on regional routes within Ontario and Quebec.

Components of the year-over-year change in domestic passenger revenues in the first nine months included:

- The 3.5% traffic increase which reflected traffic growth on all domestic services with the exception of services to the Maritimes where capacity was reduced year-over-year. Despite a capacity reduction on regional routes within Ontario and Quebec, traffic increased on these routes when compared to the same period in 2014. The first nine months of 2015 also reflected incremental connecting traffic to U.S. and international destinations. Partly offsetting the traffic growth was a traffic decline in oil-related markets.
- An increase in baggage fee revenues following an adjustment to the airline's first checked bag policy which became effective for travel as of November 2, 2014. Baggage fee revenues are not included in Air Canada's yield and PRASM results.
- The 3.7% yield decrease which reflected:
  - the impact of increased industry capacity and competitive pricing activities;
  - higher proportional growth of lower-yielding international and U.S. transborder passenger flows in support of the airline's international expansion strategy connecting to Air Canada's routes in the domestic market;
  - a 1.2% longer average stage length which had the effect of reducing domestic yield by 0.7 percentage points in the first nine months of 2015; and
  - a decline in higher-yielding oil-related market traffic.

  A favourable currency impact of $31 million was a partly offsetting factor.

Domestic PRASM decreased 3.6% on the lower yield.

U.S. transborder passenger revenues increased 13.6% from the first nine months of 2014

In the first nine months of 2015, on a capacity growth of 15.0%, U.S. transborder passenger revenues of $2,053 million increased $246 million or 13.6% from the first nine months of 2014.

The 15.0% U.S. transborder capacity growth reflected capacity increases on all major U.S. transborder services.

Components of the year-over-year change in U.S. transborder passenger revenues in the first nine months included:

- The 15.5% traffic increase which reflected traffic growth on all major U.S. transborder services. The year-over-year increase in traffic was due to strong passenger demand between Canada and the U.S. as well as growth of international-to-international passenger flows from the U.S. in support of Air Canada's international expansion strategy.

- The 1.7% yield decline which reflected a 2.9% longer average stage length, which had the effect of reducing U.S. transborder yield by 1.7 percentage points, and an increase in long-haul leisure flying led by lower-cost Air Canada *rouge*, which is allowing Air Canada to effectively compete on lower-yielding leisure routes. A favourable currency impact of $73 million and a strong performance on U.S. short-haul routes were partly offsetting factors.

U.S. transborder PRASM decreased 1.3% on the lower yield.

Atlantic passenger revenues increased 8.6% from the first nine months of 2014

In the first nine months of 2015, on capacity growth of 11.8%, Atlantic passenger revenues of $2,203 million increased $174 million or 8.6% from the first nine months of 2014.

The 11.8% Atlantic capacity growth reflected capacity increases on all major Atlantic services with the exception of services to Germany.

Components of the year-over-year change in Atlantic passenger revenues in the first nine months included:

- The 13.0% traffic increase which reflected traffic growth on most major Atlantic services. The traffic increase in the first nine months of 2015 included traffic growth between the U.S. and Europe via the airline's major Canadian hubs, in line with Air Canada's international growth strategy, as well as incremental traffic resulting from the growth of Air Canada *rouge*.

- The 3.8% yield decline which reflected the impact of increased industry capacity and competitive pricing activities on all major Atlantic services and the impact of having a higher proportion of seats in long-haul (lower-yielding) leisure markets. A favourable currency impact of $46 million was a partly offsetting factor.

Atlantic PRASM decreased 2.8% on the lower yield as passenger load factor improved 0.9 percentage points.

Pacific passenger revenues increased 2.6% from the first nine months of 2014

In the first nine months of 2015, on capacity growth of 11.1%, Pacific passenger revenues of $1,368 million increased $35 million or 2.6% from the first nine months of 2014.

The 11.1% Pacific capacity growth reflected capacity increases on all major Pacific services.

Components of the year-over-year change in Pacific passenger revenues in the first nine months included:

- The 9.8% traffic increase which reflected traffic growth on all major Pacific services.
- The 6.6% yield decline which reflected a significant reduction in carrier surcharges relating to lower fuel prices, particularly where carrier surcharges are regulated such as Japan, Hong Kong and Korea, and competitive pressures to and from Canada-Asia and to and from U.S.-Asia both in terms of added capacity and pricing. The competitive pressures impacted local, U.S. sixth freedom and beyond traffic. A favourable currency impact of $50 million was a partly offsetting factor.

Pacific PRASM decreased 7.6% due to the lower yield and, to a lesser extent, a passenger load factor decline of 1.0 percentage points.

Other passenger revenues increased 6.2% from the first nine months of 2014

In the first nine months of 2015, on capacity growth of 12.0%, Other passenger revenues (from routes to and from the Caribbean, Mexico and Central and South America) of $634 million increased $36 million or 6.2% from the first nine months of 2014.

The 12.0% capacity growth reflected capacity increases on all major services in the Other markets.

Components of the year-over-year change in Other passenger revenues in the first nine months included:

- The overall 11.3% traffic increase which reflected traffic growth on all major services. Consistent with Air Canada's strategy of increasing international-to-international traffic through its Canadian hubs, the traffic growth on services to South America in the first nine months of 2015 also reflected incremental lower-yielding connecting traffic from the U.S. in support of Air Canada's international expansion strategy.
- The overall 5.0% yield decrease which reflected a 2.4% longer average stage length, which had the effect of reducing yield by 1.4 percentage points, competitive pricing activities, and a higher proportional growth of lower-yielding international passenger flows to South America. A favourable currency impact of $18 million was a partly offsetting factor.

Overall PRASM decreased 5.6% on the lower yield and, to a much lesser extent, a passenger load factor decline of 0.5 percentage points.

Cargo revenues increased 0.8% from the first nine months of 2014

In the first nine months of 2015, cargo revenues of $371 million increased $2 million or 0.8% from the first nine months of 2014.

The table below provides cargo revenue by geographic region for the first nine months of 2015 and the first nine months of 2014.

Cargo Revenue	First Nine Months 2015 $ Million	First Nine Months 2014 $ Million	Change $ Million
Canada	50	49	1
U.S. transborder	17	15	2
Atlantic	140	143	(3)
Pacific	139	139	-
Other	25	23	2
System	**371**	**369**	**2**

The table below provides year-over-year percentage changes in cargo revenues and operating statistics for the first nine months of 2015 versus the first nine months of 2014.

First Nine Months 2015 versus First Nine Months 2014	Cargo Revenue % Change	Capacity (ETMs) % Change	Rev / ETM % Change	Traffic (RTMs) % Change	Yield / RTM % Change
Canada	3.1	5.6	(2.4)	10.8	(6.9)
U.S. transborder	16.1	37.9	(15.8)	37.9	(15.8)
Atlantic	(2.1)	10.5	(11.4)	1.5	(3.6)
Pacific	(0.4)	9.4	(9.0)	(9.6)	10.2
Other	11.0	27.7	(13.1)	7.3	3.5
System	**0.8**	**12.5**	**(10.4)**	**(1.5)**	**2.3**

Components of the year-over-year change in cargo revenues in the first nine months included:

- The 2.3% yield increase which reflected yield growth in the Pacific and Other markets partly offset by yield declines in the domestic, U.S. transborder and Atlantic markets. A favourable currency impact and strong demand out of Asia, particularly in the first four months of 2015, were the main factors to the yield growth year-over-year. This yield growth was largely offset by the impact of increased industry capacity and competitive pricing activities in the domestic, U.S. transborder and Atlantic markets.

- The 1.5% traffic decrease which reflected a traffic decline in the Pacific market on lower cargo demand, largely offset by traffic growth in the domestic, U.S. transborder, Atlantic and Other markets. The growth in traffic in these markets was mainly due to increased cargo capacity and market share gains within North America and between North America and Europe.

Other revenues decreased 3% from the first nine months of 2014

In the first nine months of 2015, other revenues of $731 million decreased $19 million or 3% from the first nine months of 2014, mainly due to the impact of the new Jazz CPA, effective January 1, 2015, whereby certain costs, such as ground handling services performed by Air Canada, are no longer recovered from Jazz and passed through to Air Canada under the Jazz CPA as capacity purchase fees, thereby reducing both other revenues and capacity purchase fees. A reduction in aircraft sublease revenues was also a contributing factor to the decrease in other revenues year-over-year. These decreases were largely offset by higher ground package revenues at Air Canada Vacations and an increase in passenger-related fee revenues.

CASM decreased 10.0% from the first nine months of 2014. Adjusted CASM decreased 0.5% from the first nine months of 2014

The following table compares Air Canada's CASM and Adjusted CASM for the first nine months of 2015 to the first nine months of 2014.

(cents per ASM)	First Nine Months 2015	First Nine Months 2014	Change cents	Change %
Aircraft fuel	3.12	4.54	(1.42)	(31.3)
Regional airlines expense				
Aircraft fuel	0.45	0.69	(0.24)	(34.8)
Other	2.34	2.41	(0.07)	(2.9)
Wages and salaries	2.14	2.25	(0.11)	(4.9)
Benefits	0.66	0.65	0.01	1.5
Airport and navigation fees	0.98	1.02	(0.04)	(3.9)
Aircraft maintenance	0.92	0.87	0.05	5.7
Depreciation, amortization and impairment	0.80	0.70	0.10	14.3
Sales and distribution costs	0.75	0.77	(0.02)	(2.6)
Ground package costs	0.53	0.54	(0.01)	(1.9)
Aircraft rent	0.41	0.40	0.01	2.5
Food, beverages and supplies	0.38	0.40	(0.02)	(5.0)
Communications and information technology	0.26	0.26	-	-
Other	1.34	1.25	0.09	7.2
CASM	**15.08**	**16.75**	**(1.67)**	**(10.0)**
Remove:				
Aircraft fuel expense (1), ground package costs at Air Canada Vacations, and unusual items	(4.09)	(5.70)	1.61	28.2
Adjusted CASM (2)	**10.99**	**11.05**	**(0.06)**	**(0.5)**

(1) Includes aircraft fuel expense related to regional airline operations.
(2) Adjusted CASM is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Operating expenses decreased 1% from the first nine months of 2014

In the first nine months of 2015, on capacity growth of 9.8%, operating expenses of $9,348 million decreased $111 million or 1% from the first nine months of 2014.

The more notable components of the year-over-year change in operating expenses in the first nine months included:

- The impact of lower base fuel prices (before the impact of foreign exchange) which accounted for a decrease of $1,203 million to aircraft fuel expense.

Largely offsetting this decline were:

- The impact of the 9.8% capacity growth.
- The unfavourable impact of a weaker Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars) which increased operating expenses by approximately $484 million (comprised of $256 million in aircraft fuel expense and an aggregate of $228 million in non-fuel operating expenses).

Aircraft fuel expense decreased 25% from the first nine months of 2014

In the first nine months of 2015, aircraft fuel expense of $1,937 million decreased $630 million or 25% from the first nine months of 2014.

Aircraft fuel expense, including fuel expense related to regional airline operations, amounted to $2,215 million in the first nine months of 2015, a decrease of $741 million or 25% from the first nine months of 2014. The decrease in aircraft fuel expense in the first nine months of 2015 was due to a significant decline in base jet fuel prices year-over-year, which accounted for a decrease of $1,203 million to aircraft fuel expense. These decreases were partly offset by the unfavourable impact of a weaker Canadian dollar versus the U.S. dollar when compared to the first nine months of 2014, which accounted for an increase of $256 million, as well as a higher volume of fuel litres consumed, which accounted for an increase of $206 million.

The table below provides Air Canada's fuel cost per litre and economic fuel cost per litre (including aircraft fuel expense related to regional airline operations) for the periods indicated.

	First Nine Months		Change	
(Canadian dollars in millions, except where indicated)	**2015**	**2014**	**$**	**%**
Aircraft fuel expense – GAAP	**$ 1,937**	**$ 2,567**	**$ (630)**	**(25)**
Add: Aircraft fuel expense related to regional airline operations	278	389	(111)	(29)
Total Aircraft fuel expense	**$ 2,215**	**$ 2,956**	**$ (741)**	**(25)**
Add: Net cash payments on fuel derivatives (1)	36	6	30	500
Economic cost of fuel – Non-GAAP (2)	**$ 2,251**	**$ 2,962**	**$ (711)**	**(24)**
Fuel consumption (thousands of litres)	**3,442,909**	**3,220,893**	**222,016**	**6.9**
Fuel cost per litre (cents) – GAAP	**64.3**	**91.8**	**(27.4)**	**(29.9)**
Economic fuel cost per litre (cents) – Non-GAAP (2)	**65.4**	**91.9**	**(26.6)**	**(28.9)**

(1) *Includes net cash settlements on maturing fuel derivatives and premium costs associated with those derivatives.*

(2) *The economic cost of fuel is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, and may not be comparable to similar measures presented by other public companies. Air Canada uses this measure to calculate its cash cost of fuel. It includes the actual net cash settlements from maturing fuel derivative contracts during the period and premium costs associated with those derivatives.*

Regional airlines expense decreased 1% from the first nine months of 2014

In the first nine months of 2015, regional airlines expense of $1,730 million decreased $23 million or 1% from the first nine months of 2014. This decrease was mainly due to lower aircraft fuel expense largely offset by higher rates year-over-year, unfavourable currency impact and an increase in pass-through costs.

The following table provides a breakdown of Regional airlines expense for the periods indicated:

(Canadian dollars in millions)	First Nine Months 2015	First Nine Months 2014	Change $	Change %
Capacity purchase fees	$ 874	$ 887	$ (13)	(1)
Aircraft fuel	278	389	(111)	(29)
Airport and navigation	209	207	2	1
Sales and distribution costs	98	82	16	20
Other operating expenses	271	188	83	44
Total regional airlines expense	**$ 1,730**	**$ 1,753**	**$ (23)**	**(1)**

Wages, salaries and benefits expense amounted to $1,734 million in the first nine months of 2015, an increase of $93 million or 6% from the first nine months of 2014

In the first nine months of 2015, wages and salaries expense of $1,327 million increased $55 million or 4% from the first nine months of 2014, mainly due to higher average salaries, an increase in expense accruals related to the annual employee profit sharing programs and a 1.2% increase in the average number of FTE employees year-over-year. In addition, in the first nine months of 2015, Air Canada made a lump sum payment of $9 million to the airline's approximately 4,000 customer service and sales agents, represented by Unifor, reflecting their annual wage increase. In the first nine months of 2014, Air Canada recorded a provision of $12 million related to the outsourcing of its London-Heathrow operations to a third party provider, which partly offset this increase. No such provision was recorded in the first nine months of 2015.

In the first nine months of 2015, employee benefits expense of $407 million increased $38 million or 10% from the first nine months of 2014, mainly due to the impact of lower discount rates which increased the current service cost of defined benefit pension plans, partly offset by a favourable impact of benefit plan amendments of $19 million relating to U.S. post-retirement health plans.

Airport and navigation fees increased 6% from the first nine months of 2014

In the first nine months of 2015, airport and navigation fees of $609 million increased $32 million or 6% from the first nine months of 2014, mainly due to an increase in aircraft departures of 2.5% and an unfavourable currency impact. These increases were partly offset by the impact of the terms of an agreement with the Greater Toronto Airports Authority which is allowing Air Canada to grow its share of international passengers connecting at Toronto Pearson International Airport on a more cost effective basis.

Aircraft maintenance expense increased 16% from the first nine months of 2014

In the first nine months of 2015, aircraft maintenance expense of $570 million increased $79 million or 16% from the first nine months of 2014, mainly due to an unfavourable currency impact of $80 million.

Depreciation, amortization and impairment expense increased 25% from the first nine months of 2014

In the first nine months of 2015, depreciation, amortization and impairment expense of $495 million increased $99 million or 25% from the first nine months of 2014, largely due to the introduction of new Boeing 787 aircraft to Air Canada's mainline fleet and, to a much lesser extent, an increase in expenses related to the airline's aircraft refurbishment programs. In addition, in the first nine months of 2015, Air Canada recorded impairment charges of $14 million related to the planned disposal of two Airbus A340-300 aircraft in the second half of 2015 (neither of which was operated by Air Canada). No such charges were recorded in the first nine months of 2014.

Sales and distribution costs increased 6% from the first nine months of 2014

In the first nine months of 2015, sales and distribution costs of $463 million increased $26 million or 6% from the first nine months of 2014 on passenger revenue growth of 5.9%. This growth in sales and distribution costs was mainly due to an unfavourable currency impact, a higher volume of ticket sales generated through GDS providers and higher credit card fees, in line with sales and revenue growth. These increases were partly offset by the impact of more favourable distribution rates negotiated in 2015.

Ground package costs increased 8% from the first nine months of 2014

In the first nine months of 2015, the cost of ground packages at Air Canada Vacations amounted to $328 million, an increase of $25 million or 8% from the first nine months of 2014, mainly due to an unfavourable currency impact and, to a lesser extent, a higher cost of ground packages (before the impact of foreign exchange) and the impact of higher passenger volumes.

Aircraft rent increased 13% from the first nine months of 2014

In the first nine months of 2015, aircraft rent expense amounted to $255 million, an increase of $29 million or 13% from the first nine months of 2014, largely due to a unfavourable currency impact and to a higher number of aircraft leases in anticipation of the replacement of 20 of the airline's Embraer 190 aircraft in late 2015 and the first half of 2016. These increases were partly offset by the favourable impact of lower rates on lease renewals.

Other expenses increased 20% from the first nine months of 2014

In the first nine months of 2015, other expenses of $833 million increased $137 million or 20% from the first nine months of 2014. This increase in other expenses included:

- the 9.8% capacity growth;
- an increase in terminal handling expense, mainly driven by Air Canada's international expansion strategy;
- favourable tax-related provision adjustments of $23 million in the first nine months of 2015 versus favourable tax-related provision adjustments of $41 million in the same period in 2014;
- an increase in advertising and promotion expense, largely driven by the airline's international expansion strategy;
- an increase in customer inconvenience costs, proportional to the higher passenger volumes;
- the outsourcing of London-Heathrow ground handling operations, in the first half of 2014, to a third party provider (the savings associated with this initiative are included in other expense categories, such as wages and salaries expense, for a net reduction overall); and
- an unfavourable currency impact.

The following table provides a breakdown of the more significant items included in other expenses:

(Canadian dollars in millions)	First Nine Months				Change		
	2015		2014		$		%
Terminal handling	$	174	$	143	$	31	22
Crew cycle		114		105		9	9
Building rent and maintenance		108		107		1	1
Miscellaneous fees and services		98		89		9	10
Remaining other expenses		339		252		87	35
Total other expenses	**$**	**833**	**$**	**696**	**$**	**137**	**20**

Non-operating expense amounted to $914 million in the first nine months of 2015 compared to non-operating expense of $504 million in the first nine months of 2014

The following table provides a breakdown of non-operating expense for the periods indicated:

(Canadian dollars in millions)	First Nine Months				Change	
	2015		2014		$	
Foreign exchange loss	$	(603)	$	(192)	$	(411)
Interest income		33		29		4
Interest expense		(290)		(239)		(51)
Interest capitalized		50		21		29
Net financing expense relating to employee benefits		(78)		(102)		24
Fuel and other derivatives		(14)		(10)		(4)
Other		(12)		(11)		(1)
Total non-operating expense	**$**	**(914)**	**$**	**(504)**	**$**	**(410)**

Factors contributing to the year-over-year change in non-operating expense in the first nine months included:

- Losses on foreign exchange, mainly related to U.S. denominated long-term debt which amounted to $603 million in the first nine months of 2015 compared to losses on foreign exchange of $192 million in the first nine months of 2014. The losses in the first nine months of 2015 were mostly attributable to a weaker Canadian dollar at September 30, 2015 when compared to December 31, 2014. The September 30, 2015 closing exchange rate was US$1 = C$1.3345 while the December 31, 2014 closing exchange rate was US$1 = C$1.1601. Partially offsetting these losses were gains of $118 million on foreign currency derivatives and $112 million on cash and short-term investments balances. The losses on foreign exchange in the first nine months of 2015 included a loss of $24 million related to funds held in Venezuela due to the impact of a new foreign exchange mechanism announced in the first quarter of 2015. As at September 30, 2015, the Canadian equivalent of funds held in Venezuela was nominal.

- An increase in interest expense of $51 million which was mainly due to new borrowings, a standby charge related to the financing (by way of EETCs) of aircraft which remain to be delivered, and to the impact of a weaker Canadian dollar on U.S. denominated borrowings. These increases were largely offset by an increase in capitalized interest of $29 million which largely reflected the above-noted standby charge.

- A decrease in net financing expense relating to employee benefits of $24 million which was mainly due to the impact of the lower net defined benefit obligation for pension.

- Losses on fuel and other derivatives which amounted to $14 million in the first nine months of 2015 versus losses on fuel and other derivatives of $10 million in the first nine months of 2014. Refer to section 9 "Financial Instruments and Risk Management" of this MD&A for additional information.

6. FLEET

Mainline and Air Canada *rouge*

The following table provides the number of aircraft in Air Canada's operating fleet as at September 30, 2015 and December 31, 2014, as well as Air Canada's planned operating fleet, including aircraft currently operating and expected to be operated by Air Canada *rouge*, as at December 31, 2015, December 31, 2016 and December 31, 2017.

	Actual			Planned					
Mainline	December 31, 2014	First Nine Months 2015 Fleet Changes	September 30, 2015	Remainder of 2015 Fleet Changes	December 31, 2015	2016 Fleet Changes	December 31, 2016	2017 Fleet Changes	December 31, 2017
Wide-body Aircraft									
Boeing 787-8	6	2	8	-	8	-	8	-	8
Boeing 787-9	-	2	2	1	3	10	13	9	22
Boeing 777-300ER	17	-	17	-	17	2	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6	-	6
Boeing 767-300ER	21	(4)	17	-	17	(2)	15	(5)	10
Airbus A330-300	8	-	8	-	8	-	8	-	8
Narrow-body Aircraft									
Boeing 737 MAX	-	-	-	-	-	-	-	2	2
Airbus A321	10	3	13	1	14	1	15	-	15
Airbus A320	41	1	42	-	42	-	42	-	42
Airbus A319	18	-	18	-	18	-	18	-	18
Embraer 190	45	(1)	44	(12)	32	(7)	25	-	25
Total Mainline	172	3	175	(10)	165	4	169	6	175
Air Canada *rouge*									
Wide-body Aircraft									
Boeing 767-300ER	8	6	14	1	15	4	19	6	25
Narrow-body Aircraft									
Airbus A321	-	-	-	4	4	1	5	-	5
Airbus A319	20	-	20	-	20	-	20	-	20
Total Air Canada *rouge*	28	6	34	5	39	5	44	6	50
Total wide-body Aircraft	66	6	72	2	74	14	88	10	98
Total narrow-body Aircraft	134	3	137	(7)	130	(5)	125	2	127
Total Mainline and Air Canada *rouge*	200	9	209	(5)	204	9	213	12	225

Air Canada Express

The following table provides, as at September 30, 2015, the number of aircraft operated, on behalf of Air Canada, by Jazz, Sky Regional and other airlines operating flights under the Air Canada Express banner pursuant to capacity purchase agreements with Air Canada.

	As at September 30, 2015			
	Jazz	Sky Regional	Other	Total
Embraer 175	-	15	-	15
Bombardier CRJ-100/200	24	-	6	30
Bombardier CRJ-705	16	-	-	16
Bombardier Dash 8-100	33	-	-	33
Bombardier Dash 8-300	26	-	-	26
Bombardier Dash 8-Q400	21	5	-	26
Beech 1900	-	-	17	17
Total Air Canada Express	**120**	**20**	**23**	**163**

The following table provides the number of aircraft planned, as at December 31, 2015, to be operated, on behalf of Air Canada, by Jazz, Sky Regional and other airlines operating flights under the Air Canada Express banner pursuant to capacity purchase agreements with Air Canada.

	As at December 31, 2015			
	Jazz	Sky Regional	Other	Total
Embraer 175	-	15	-	15
Bombardier CRJ-100/200	20	-	7	27
Bombardier CRJ-705	16	-	-	16
Bombardier Dash 8-100	28	-	-	28
Bombardier Dash 8-300	26	-	-	26
Bombardier Dash 8-Q400	26	5	-	31
Beech 1900	-	-	17	17
Total Air Canada Express	**116**	**20**	**24**	**160**

In support of Air Canada's international expansion strategy, Air Canada entered into lease agreements for five Embraer 175 aircraft. The aircraft are expected to be introduced into the Air Canada Express operating fleet in the second quarter of 2016.

In the third quarter of 2015, Air Canada and Jazz agreed to add 10 incremental growth aircraft to the Jazz CPA fleet until 2025. Chorus Aviation Inc., the parent of Jazz, announced that these aircraft, comprised of five 78-seat Bombardier Dash 8-Q400 turboprops and five 75-seat Bombardier CRJ-705 regional jets are being planned for delivery in 2016 and early 2017, respectively.

7. FINANCIAL AND CAPITAL MANAGEMENT

7.1. Liquidity

Air Canada manages its liquidity needs through a variety of strategies including by seeking to sustain and improve cash from operations, sourcing committed financing for new and existing aircraft, and through other financing activities.

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations (including pension funding obligations), which are further discussed in sections 7.6, 7.7 and 7.8 of this MD&A, as well as covenants in credit card and other agreements, which are further discussed in section 9.8 of Air Canada's 2014 MD&A. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. As part of its liquidity risk management strategy, Air Canada seeks to maintain unrestricted liquidity of at least $1.7 billion. This minimum liquidity level was determined in conjunction with Air Canada's liquidity risk management strategy. At September 30, 2015, unrestricted liquidity amounted to $3,399 million (comprised of cash and short-term investments of $3,116 million and undrawn lines of credit of $283 million). This compared to unrestricted liquidity of $2,802 million (comprised of cash and short-term investments of $2,528 million and undrawn lines of credit of $274 million) at September 30, 2014.

7.2. Financial Position

The following table provides a condensed consolidated statement of financial position of Air Canada as at September 30, 2015 and as at December 31, 2014.

(Canadian dollars in millions)	September 30, 2015	December 31, 2014	$ Change
Assets			
Cash, cash equivalents and short-term investments	$ 3,116	$ 2,275	$ 841
Other current assets	1,270	1,203	67
Current assets	4,386	3,478	908
Property and equipment	6,648	5,998	650
Pension	543	-	543
Intangible assets	310	305	5
Goodwill	311	311	-
Deposits and other assets	557	556	1
Total assets	**$ 12,755**	**$ 10,648**	**$ 2,107**
Liabilities			
Current liabilities	$ 3,855	$ 3,537	$ 318
Long-term debt and finance leases	5,576	4,732	844
Pension and other benefit liabilities	2,193	2,403	(210)
Maintenance provisions	923	796	127
Other long-term liabilities	259	313	(54)
Total liabilities	**12,806**	**11,781**	**1,025**
Total equity	**(51)**	**(1,133)**	**1,082**
Total liabilities and equity	**$ 12,755**	**$ 10,648**	**$ 2,107**

Movements in current assets and current liabilities are described in section 7.4 "Working Capital" of this MD&A. Long-term debt and finance leases are discussed in sections 7.3 "Adjusted Net Debt" and 7.5 "Consolidated Cash Flow Movements" of this MD&A.

At September 30, 2015, property and equipment amounted to $6,648 million, an increase of $650 million from December 31, 2014. The increase in property and equipment was mainly due to additions to property and equipment of $1,134 million in the first nine months of 2015, offset by the impact of depreciation expense of $478 million. The additions to property and equipment included flight equipment purchases of $609 million, which included two Boeing 787-8 and two Boeing 787-9 aircraft delivered in the first nine months of 2015, progress payments on future aircraft deliveries of $272 million, and capitalized maintenance costs of $157 million.

Certain pension plans are now in net asset positions and, as a result, those plans are required to be reported as pension assets on Air Canada's consolidated statement of financial position. At September 30, 2015, the net pension and other benefit liabilities amounted to $1,650 million (comprised of pension and other benefit liabilities of $2,193 million net of pension assets of $543 million), a decrease of $753 million from December 31, 2014, mainly due to strong investment returns and the impact of higher prescribed pension plan discount rates as at September 30, 2015 versus December 31, 2014. Pension funding payments of $246 million were made in the first nine months of 2015. Refer to section 7.7 "Pension Funding Obligations" of this MD&A for additional information.

7.3. Adjusted Net Debt

The following table reflects Air Canada's adjusted net debt balances as at September 30, 2015 and as at December 31, 2014.

(Canadian dollars in millions, except where indicated)	**September 30, 2015**	**December 31, 2014**	**$ Change**
Total long-term debt and finance leases	$ 5,576	$ 4,732	$ 844
Current portion of long-term debt and finance leases	562	484	78
Total long-term debt and finance leases, including current portion	6,138	5,216	922
Less cash, cash equivalents and short-term investments	(3,116)	(2,275)	(841)
Net debt	**$ 3,022**	**$ 2,941**	**$ 81**
Capitalized operating leases (1)	2,401	2,191	210
Adjusted net debt	**$ 5,423**	**$ 5,132**	**$ 291**
EBITDAR (trailing 12 months)	**$ 2,428**	**$ 1,671**	**$ 757**
Adjusted net debt to EBITDAR ratio	**2.2**	**3.1**	**(0.9)**

(1) Adjusted net debt is an additional GAAP financial measure used by Air Canada and may not be comparable to measures presented by other public companies. Adjusted net debt is a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Air Canada includes capitalized operating leases which is a measure commonly used in the industry to ascribe a value to obligations under operating leases. Common industry practice is to multiply annualized aircraft rent expense by 7. This definition of capitalized operating leases is used by Air Canada and may not be comparable to similar measures presented by other public companies. Aircraft rent was $343 million for the twelve months ended September 30, 2015 and $313 million for the twelve months ended December 31, 2014 (includes aircraft rent expense related to regional airline operations).

At September 30, 2015, total long-term debt and finance leases, including current portion, amounted to $6,138 million, an increase of $922 million from December 31, 2014. This increase was largely due to the unfavourable impact of a weaker Canadian dollar as at September 30, 2015 compared to December 31, 2014 on Air Canada's foreign currency denominated debt (mainly U.S. dollars) which accounted for an increase of $681 million. In the first nine months of 2015, new borrowings amounted to $591 million and debt repayments amounted to $386 million. Air Canada took delivery of four Boeing 787 aircraft in the first nine months of 2015. Three of the aircraft were included in the enhanced equipment trust certificates financing transaction, as described in section 7.8 "Contractual Obligations" of this MD&A, and the other delivery was financed with Export-Import Bank of the United States ("EXIM") financing support.

Adjusted net debt amounted to $5,423 million at September 30, 2015, an increase of $291 million from December 31, 2014. This increase in adjusted net debt reflected higher long-term debt and finance lease balances as discussed above as well as an increase in capitalized operating leases, driven by higher aircraft rent in part due to an unfavourable currency impact. These increases were partly offset by higher cash and short-term investment balances.

At September 30, 2015, the adjusted net debt to EBITDAR ratio amounted to 2.2 versus a ratio of 3.1 at December 31, 2014. The ratio improvement of 0.9 was due to a $757 million increase in EBITDAR year-over-year partly offset by the increase in adjusted net debt of $291 million as discussed above.

At September 30, 2015, Air Canada's weighted average cost of capital ("WACC"), on a pre-tax basis, was approximately 9.2%. WACC is based on an estimate by management and consists of an estimated cost of equity of 20.2% and an average cost of debt and finance leases of 5.4%.

7.4. Working Capital

The following table provides information on Air Canada's working capital balances as at September 30, 2015 and as at December 31, 2014.

(Canadian dollars in millions)	September 30, 2015	December 31, 2014	$ Change
Cash, cash equivalents and short-term investments	$ 3,116	$ 2,275	$ 841
Accounts receivable	751	656	95
Other current assets	519	547	(28)
Total current assets	**$ 4,386**	**$ 3,478**	**$ 908**
Accounts payable and accrued liabilities	1,452	1,259	193
Advance ticket sales	1,841	1,794	47
Current portion of long-term debt and finance leases	562	484	78
Total current liabilities	**$ 3,855**	**$ 3,537**	**$ 318**
Net working capital	**$ 531**	**$ (59)**	**$ 590**

The net working capital of $531 million at September 30, 2015 represented an improvement of $590 million from December 31, 2014. This meaningful improvement was mainly driven by the cash flow benefit of positive operating results in the first nine months of 2015, partly offset by capital expenditures of $1,201 million (or $658 million net of the financing drawn upon the delivery of four Boeing 787 aircraft) and pension funding payments of $246 million.

7.5. Consolidated Cash Flow Movements

The following table provides the cash flow movements for Air Canada for the periods indicated:

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2015	2014	$ Change	2015	2014	$ Change
Net cash flows from operating activities	**$ 476**	**$ 191**	**$ 285**	**$ 1,793**	**$ 921**	**$ 872**
Proceeds from borrowings	302	194	108	591	978	(387)
Reduction of long-term debt and finance lease obligations	(124)	(166)	42	(386)	(556)	170
Distributions related to aircraft special purpose leasing entities	-	-	-	(9)	-	(9)
Issue of common shares	-	1	(1)	3	1	2
Share purchased for cancellation	(41)	-	(41)	(42)	-	(42)
Financing fees	(1)	-	(1)	(23)	-	(23)
Net cash flows from financing activities	**136**	**29**	**107**	**134**	**423**	**(289)**
Short-term investments	(227)	157	(384)	(517)	(137)	(380)
Additions to property, equipment and intangible assets	(566)	(383)	(183)	(1,201)	(1,115)	(86)
Proceeds from sale of assets	7	65	(58)	17	68	(51)
Other	7	(23)	30	23	(13)	36
Net cash flows used in investing activities	**(779)**	**(184)**	**(595)**	**(1,678)**	**(1,197)**	**(481)**
Increase (decrease) in cash and cash equivalents	**(167)**	**36**	**(203)**	**249**	**147**	**102**
Cash and cash equivalents, beginning of period	1,077	861	216	661	750	(89)
Cash and cash equivalents, end of period	**$ 910**	**$ 897**	**$ 13**	**$ 910**	**$ 897**	**$ 13**

The following table provides the consolidated calculation of free cash flow for Air Canada for the periods indicated:

(Canadian dollars in millions)	Third Quarter			First Nine Months		
	2015	2014	$ Change	2015	2014	$ Change
Net cash flows from operating activities	**$ 476**	**$ 191**	**$ 285**	**$ 1,793**	**$ 921**	**$ 872**
Additions to property, equipment and intangible assets	(566)	(383)	(183)	(1,201)	(1,115)	(86)
Free cash flow (1)	**$ (90)**	**$ (192)**	**$ 102**	**$ 592**	**$ (194)**	**$ 786**

(1) Free cash flow is not a recognized measure for financial presentation under GAAP, does not have a standardized meaning and is not comparable to measures presented by other public companies. Air Canada considers free cash flow to be an indicator of the financial strength and performance of its business because it shows how much cash is generated from the business after investing in capital assets, which is available to meet ongoing financial obligations, including repaying debt, and reinvesting in Air Canada.

Free cash flow

Net cash flows from operating activities of $476 million for the third quarter of 2015 improved $285 million compared to the third quarter of 2014. This increase in net cash flows from operating activities was largely due to the improvement in operating income. Negative free cash flow of $90 million improved $102 million in the third quarter of 2015 from the same period in 2014, reflecting the impact of higher operating income partly offset by higher capital expenditures when compared to the third quarter of 2014. Air Canada took delivery of two Boeing 787 aircraft in the third quarter of 2015.

In the first nine months, net cash flows from operating activities of $1,793 million improved $872 million from the first nine months of 2014, largely due to the improvement in operating income and, to a lesser extent, the impact of higher cash inflows from working capital. The higher cash inflows from working capital was mainly due to the impact of the timing of certain payments, the impact of lower fuel prices and the growth in advance ticket sales. Similarly, free cash flow improved $786 million in the first nine months of 2015 from the same period in 2014.

Net cash flows used in financing activities

Proceeds from borrowings amounted to $302 million in the third quarter of 2015 and $591 million in the first nine months of 2015. In the third quarter and first nine months of 2015, reduction of long-term debt and finance lease obligations amounted to $124 million and $386 million, respectively. Refer to section 7.3 "Adjusted Net Debt" of this MD&A and section 7.6 "Capital Expenditures and Related Financing Arrangements" below for additional information on Air Canada's financing activities.

7.6. Capital Expenditures and Related Financing Arrangements

Aircraft and Related Financing

Private Offering of Enhanced Equipment Trust Certificates

In March 2015, in connection with the financing of one Boeing 787-8 delivered in January 2015 and eight new Boeing 787-9 aircraft, two of which were delivered in the third quarter of 2015 and the remaining of which are scheduled for delivery by March 2016, Air Canada announced the closing of a private offering of three tranches of enhanced equipment trust certificates with a combined aggregate face amount of approximately US$1.031 billion. Refer to section 7.8 "Contractual Obligations" of this MD&A for additional information.

Boeing

As at September 30, 2015, Air Canada had outstanding purchase commitments with The Boeing Company ("Boeing") for 27 Boeing 787 aircraft (31 Boeing 787 aircraft as at December 31, 2014). Three of the four aircraft delivered in the first nine months of 2015 were financed via the enhanced equipment trust certificates financing transaction as described above, and the other delivery was financed through EXIM financing support.

Air Canada also has purchase options for 13 Boeing 787 aircraft (entitling Air Canada to purchase aircraft based on previously determined pricing and delivery positions), and purchase rights for 10 Boeing 787 aircraft (entitling Air Canada to purchase aircraft based on Boeing's then current pricing).

Subject to certain conditions, Air Canada has various financing or sale and leaseback commitments covering up to 22 of the remaining 27 Boeing 787 firm aircraft orders, which are summarized as follows:

- For six Boeing 787-9 aircraft, which are currently scheduled for delivery from November 2015 to March 2016, Air Canada announced the closing of a private offering of enhanced equipment trust certificates which is described above.
- For 14 of the 787 aircraft, the financing terms are for 80% of the aircraft delivery price and the term to maturity is 12 years with straight-line principal repayments.
- A sale and leaseback transaction with a third party for two Boeing 787 firm aircraft.

In the first quarter of 2015, Air Canada and Boeing concluded an amendment to the Boeing 787 purchase agreement which substitutes the remaining seven Boeing 787-8 with seven Boeing 787-9 aircraft. Air Canada's Boeing 787 fleet is planned to be comprised of eight Boeing 787-8 aircraft, of which all are in Air Canada's operating fleet, and 29 Boeing 787-9 aircraft, two of which are in Air Canada's operating fleet and the remainder of which are scheduled for delivery between 2015 and 2019.

Air Canada has outstanding purchase commitments with Boeing for the purchase of Boeing 737 MAX aircraft. This agreement includes firm orders for 33 737 MAX 8 and 28 737 MAX 9 aircraft with substitution rights between them as well as for the 737 MAX 7 aircraft. It also provides for purchase options for 18 Boeing 737 aircraft and certain rights to purchase an additional 30 Boeing 737 aircraft. Deliveries are scheduled to begin in 2017 with two aircraft, with the remaining deliveries between 2018 and 2021, subject to deferral and acceleration rights.

Air Canada has financing commitments, subject to certain conditions, covering all 61 of the Boeing 737 MAX firm aircraft orders. The financing terms are for 80% of the aircraft delivery price and the term to maturity is 10 years with mortgage-style repayments.

In 2014, Air Canada exercised purchase rights for two Boeing 777 aircraft, with scheduled deliveries in the second quarter of 2016. Financing alternatives will be considered prior to the planned delivery dates of these aircraft. As at September 30, 2015, Air Canada had purchase rights for 11 Boeing 777 (entitling Air Canada to purchase aircraft based on previously determined pricing).

As described in section 9.6 "Capital Expenditures and Related Financing Arrangements" of Air Canada's 2014 MD&A, certain of the financing commitments for the Boeing 787 and/or the Boeing 737 MAX aircraft would be reduced based on the allocation of the commitments between aircraft types to be determined by Air Canada. Following the closing of the private offering of enhanced equipment trust certificates in March 2015, Air Canada completed the allocation of the commitments between aircraft types. The total committed financing on these Boeing 787 aircraft and/or the Boeing 737 MAX aircraft, including commitments from the private offering of enhanced equipment trust certificates and the sale and leaseback transaction with a third party, will be at least $6,267 million.

Capital Commitments

As outlined in the table below, the estimated aggregate cost of the future firm Boeing 787, Boeing 777 and Boeing 737 MAX aircraft deliveries and other capital purchase commitments as at September 30, 2015 approximates $9,056 million.

(Canadian dollars in millions)	Remainder of 2015	2016	2017	2018	2019	Thereafter	Total
Projected committed expenditures	$ 369	$ 2,553	$ 2,048	$ 1,642	$ 1,229	$ 1,215	$ 9,056
Projected planned but uncommitted expenditures	46	356	310	314	356	not available	not available
Projected planned but uncommitted capitalized maintenance (1)	95	233	141	141	141	not available	not available
Total projected expenditures (2)	**$ 510**	**$ 3,142**	**$ 2,499**	**$ 2,097**	**$ 1,726**	**not available**	**not available**

(1) Future capitalized maintenance amounts for 2018 and beyond are not yet determinable however an estimate of $141 million has been made for 2018 and 2019.

(2) U.S. dollar amounts are converted using the September 30, 2015 closing exchange rate of US$1 = C$1.3345. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation and, where applicable, deferred price delivery payment interest calculated based on the 90-day U.S. LIBOR rate at September 30, 2015.

7.7. Pension Funding Obligations

Air Canada maintains several pension plans, including defined benefit and defined contribution pension plans and plans providing other retirement and post-employment benefits to its employees. Based on actuarial valuations completed in the second quarter of 2015, the aggregate solvency surplus in Air Canada's domestic registered pension plans as at January 1, 2015 was $660 million.

In the second quarter of 2015, Air Canada elected to opt out of the *Air Canada Pension Plan Funding Regulations, 2014* (the "2014 Regulations"). As described in section 9.7 "Pension Funding Obligations" of Air Canada's 2014 MD&A, the 2014 Regulations became effective on January 1, 2014 and under their terms, Air Canada was required to make solvency deficit payments of $200 million per year, on average, over a seven-year period. The agreement with the Government of Canada entered into in connection with these regulations contained several restrictions, including a prohibition on dividends and share repurchases, however, the agreement allowed Air Canada to opt out at any time.

Total employer contributions to defined benefit pension plans for 2015 are expected to be $322 million, which includes solvency deficit payments of approximately $96 million versus the $200 million that would have been required under the 2014 Regulations.

As at September 30, 2015, approximately 75% of Air Canada's pension liabilities were matched with fixed income products to mitigate a significant portion of the interest rate (discount rate) risk. Air Canada may continue to increase the percentage of pension liabilities being matched with fixed income products, subject to favourable market conditions.

Assuming that Air Canada's domestic registered pension plans are in a solvency surplus position as at January 1, 2016, Air Canada's projected pension funding obligations, on a cash basis, for the years 2015 to 2019 are as follows:

(Canadian dollars in millions)	2015	2016	2017	2018	2019
Past service domestic registered plans	$ 96	$ 7	$ -	$ -	$ -
Current service domestic registered plans	145	144	143	141	139
Other pension arrangements (1)	81	84	88	89	89
Total projected pension funding obligations	**$ 322**	**$ 235**	**$ 231**	**$ 230**	**$ 228**

(1) Includes retirement compensation arrangements, supplemental plans and international plans.

7.8. Contractual Obligations

Private Offering of Enhanced Equipment Trust Certificates

In March 2015, in connection with the financing of one Boeing 787-8 aircraft delivered in January 2015 and eight new Boeing 787-9 aircraft, two of which were delivered in the third quarter of 2015, and the remaining of which are scheduled for delivery by March 2016, Air Canada announced the closing of a private offering of three tranches of enhanced equipment trust certificates with a combined aggregate face amount of approximately US$1.031 billion.

The private offering is comprised of Class A certificates, Class B certificates and Class C certificates.

- The Class A certificates, with a US$667 million face amount, have an interest rate of 3.600% per annum and a final expected distribution date of March 15, 2027.

- The Class B certificates, with a US$182 million face amount, have an interest rate of 3.875% per annum and a final expected distribution date of March 15, 2023.

- The Class C certificates, with US$182 million face amount, have an interest rate of 5.000% per annum and a final expected distribution date of March 15, 2020.

The certificates have a combined weighted average interest rate of 3.81% per annum.

The table below provides Air Canada's contractual obligations as at September 30, 2015, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and finance lease obligations, operating lease obligations and committed capital expenditures. The table below also includes the impact of the financing associated with the six Boeing 787-9 aircraft as described above, the proceeds of which are held in escrow and will be drawn upon the delivery of these aircraft (which are currently scheduled for delivery by March 2016).

(Canadian dollars in millions)	Remainder of 2015	2016	2017	2018	2019	Thereafter	Total
Principal							
Long-term debt obligations	$ 161	$ 461	$ 607	$ 622	$ 1,679	$ 2,417	$ 5,947
Finance lease obligations	21	36	37	45	42	106	287
Total principal obligations	**$ 182**	**$ 497**	**$ 644**	**$ 667**	**$ 1,721**	**$ 2,523**	**$ 6,234**
Interest							
Long-term debt obligations	$ 74	$ 286	$ 283	$ 229	$ 198	$ 229	$ 1,299
Finance lease obligations	7	24	20	16	12	29	108
Total interest obligations	**$ 81**	**$ 310**	**$ 303**	**$ 245**	**$ 210**	**$ 258**	**$ 1,407**
Total long-term debt and finance lease obligations	**$ 263**	**$ 807**	**$ 947**	**$ 912**	**$ 1,931**	**$ 2,781**	**$ 7,641**
Operating lease obligations	**$ 115**	**$ 441**	**$ 399**	**$ 345**	**$ 265**	**$ 401**	**$ 1,966**
Committed capital expenditures	**$ 369**	**$ 2,553**	**$ 2,048**	**$ 1,642**	**$ 1,229**	**$ 1,215**	**$ 9,056**
Total contractual obligations (1)(2)	**$ 747**	**$ 3,801**	**$ 3,394**	**$ 2,899**	**$ 3,425**	**$ 4,397**	**$ 18,663**
EETC financing related to six Boeing 787 aircraft (principal and interest)	**$ -**	**$ 67**	**$ 77**	**$ 75**	**$ 74**	**$ 901**	**$ 1,194**
Total obligations, including the impact of the EETC financing related to six Boeing 787 aircraft	**$ 747**	**$ 3,868**	**$ 3,471**	**$ 2,974**	**$ 3,499**	**$ 5,298**	**$ 19,857**

(1) Total contractual obligations exclude commitments for goods and services required in the ordinary course of business. Also excluded are long-term liabilities other than long-term debt in finance lease obligations due to reasons of uncertainty of timing of cash flows and items that are non-cash in nature.

(2) The table above excludes the future minimum non-cancelable commitments under CPA arrangements which, for the year 2015, amounted to approximately $856 million with Jazz and $115 million for the other regional carriers. In February 2015, Air Canada and Jazz concluded an amendment to the Jazz CPA, effective as of January 1, 2015.

7.9. Share Information

The issued and outstanding shares of Air Canada, along with shares potentially issuable, as of the dates indicated below, are as follows:

	September 30, 2015	December 31, 2014
Issued and outstanding shares		
Variable voting shares	90,302,896	69,232,535
Voting shares	193,465,645	217,256,759
Total issued and outstanding shares	**283,768,541**	**286,489,294**
Class A variable voting and Class B voting shares potentially issuable		
Stock options	10,041,440	10,002,975
Total shares potentially issuable	**10,041,440**	**10,002,975**
Total outstanding and potentially issuable shares	**293,809,981**	**296,492,269**

Issuer Bid

In May 2015, Air Canada announced that it had received approval from the Toronto Stock Exchange ("TSX") to implement a normal course issuer bid to purchase, for cancellation, up to 10,000,000 Class A variable voting shares and/or Class B voting shares (the "Shares") representing, at that time, 3.49% of the total issued and outstanding shares. The repurchase program, which is authorized for the period from May 29, 2015 to May 28, 2016, being conducted through the facilities of the TSX.

Since commencing the bid, Air Canada purchased and cancelled 3,585,735 Shares for cash at an average cost of $11.59 per Share for aggregate consideration of $42 million.

8. QUARTERLY FINANCIAL DATA

The following table summarizes quarterly financial results for Air Canada for the last eight quarters. As of 2015, expenses incurred related to capacity purchase agreements are now presented in a separate line item on Air Canada's consolidated statement of operations titled Regional airlines expense. Prior period amounts have been reclassified to conform to the current period presentation.

	2013	2014				2015		
(Canadian dollars in millions, except where indicated)	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Passenger	2,560	2,608	2,965	3,476	2,755	2,786	3,082	3,716
Cargo	128	119	122	128	133	129	123	119
Other	206	338	218	194	216	334	209	188
Operating revenues	**$ 2,894**	**$ 3,065**	**$ 3,305**	**$ 3,798**	**$ 3,104**	**$ 3,249**	**$ 3,414**	**$ 4,023**
Aircraft fuel	713	793	835	939	680	592	648	697
Regional airlines expense								
Aircraft fuel	118	125	127	137	111	86	97	95
Other	433	442	451	471	460	466	497	489
Wages, salaries & benefits (1)	540	557	535	549	590	568	568	598
Benefit plan amendments	(82)	-	-	-	-	-	-	-
Airport and navigation fees	167	183	186	208	178	185	201	223
Aircraft maintenance	141	162	171	158	187	188	190	192
Depreciation, amortization and impairment (2)	144	126	128	142	130	153	177	165
Sales and distribution costs	114	148	143	146	123	154	152	157
Ground package costs	66	170	77	56	74	181	84	63
Aircraft rent	73	76	76	74	76	82	84	89
Food, beverages and supplies	67	66	74	84	70	62	80	91
Communications and information technology	44	52	47	49	51	57	52	52
Other (3)	221	227	210	259	268	275	261	297
Operating expenses	**2,759**	**3,127**	**3,060**	**3,272**	**2,998**	**3,049**	**3,091**	**3,208**
Operating income (loss)	**135**	**(62)**	**245**	**526**	**106**	**200**	**323**	**815**
Foreign exchange gain (loss)	(55)	(161)	40	(71)	(115)	(408)	56	(251)
Interest income	10	9	9	11	10	9	12	12
Interest expense	(73)	(77)	(81)	(81)	(83)	(90)	(94)	(106)
Interest capitalized	10	5	10	6	9	9	21	20
Net financing expense relating to employee benefits	(53)	(34)	(34)	(34)	(32)	(25)	(25)	(28)
Fuel and other derivatives	22	(15)	36	(31)	9	1	5	(20)
Other	(2)	(6)	(2)	(3)	(4)	(5)	(2)	(5)
Total non-operating income (expense)	**(141)**	**(279)**	**(22)**	**(203)**	**(206)**	**(509)**	**(27)**	**(378)**
Income taxes	-	-	-	-	-	-	-	-
Net income (loss)	**$ (6)**	**$ (341)**	**$ 223**	**$ 323**	**$ (100)**	**$ (309)**	**$ 296**	**$ 437**
Diluted earnings per share	**$ (0.02)**	**$ (1.20)**	**$ 0.75**	**$ 1.10**	**$ (0.35)**	**$ (1.08)**	**$ 1.00**	**$ 1.48**
EBITDAR, excluding benefit plan amendments (4)	**$ 277**	**$ 147**	**$ 456**	**$ 749**	**$ 319**	**$ 442**	**$ 591**	**$ 1,076**
EBITDAR (4)	**$ 359**	**$ 147**	**$ 456**	**$ 749**	**$ 319**	**$ 442**	**$ 591**	**$ 1,076**
Adjusted net income (loss) (5)	**$ 3**	**$ (132)**	**$ 139**	**$ 457**	**$ 67**	**$ 122**	**$ 250**	**$ 734**
Adjusted earnings per share – diluted (5)	**$ 0.01**	**$ (0.46)**	**$ 0.47**	**$ 1.55**	**$ 0.23**	**$ 0.41**	**$ 0.85**	**$ 2.50**

(1) *In the fourth quarter of 2014, one-time payments totaling $30 million were made to ACPA members under a collective agreement concluded in October 2014.*

(2) *In the second quarter of 2015, Air Canada recorded impairment charges of $14 million related to the planned disposal of two Airbus A340-300 aircraft in the second half of 2015 (neither of which was operated by Air Canada).*

(3) *In the second quarter of 2015, Air Canada recorded favourable tax-related provision adjustments of $23 million. In the second quarter of 2014, Air Canada recorded favourable tax-related provision adjustments of $41 million.*

(4) *EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent) is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.*

(5) *Adjusted net income (loss) and adjusted earnings (loss) per share – diluted are non-GAAP financial measures. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.*

The following table provides a breakdown of the most significant items included in other expenses for the last eight quarters:

	2013	2014				2015		
(Canadian dollars in millions)	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Terminal handling	39	42	47	54	47	50	59	65
Crew cycle	31	32	35	38	36	35	36	43
Building rent and maintenance	33	36	36	35	31	36	36	36
Miscellaneous fees and services	27	25	33	31	30	31	35	32
Remaining other expenses	91	92	59	101	124	123	95	121
Total other expenses	**$ 221**	**$ 227**	**$ 210**	**$ 259**	**$ 268**	**$ 275**	**$ 261**	**297**

The following table provides a breakdown of the most significant items included in regional airlines expense for the last eight quarters:

	2013	2014				2015		
(Canadian dollars in millions)	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Capacity purchase fees	280	281	294	312	295	274	302	298
Aircraft fuel	118	125	127	137	111	86	97	95
Airport and navigation fees	65	64	70	73	69	65	70	74
Sales and distribution costs	24	27	28	27	30	33	33	32
Depreciation, amortization and impairment	5	4	4	4	4	4	4	4
Aircraft rent	2	3	3	3	3	3	3	3
Other operating expenses	57	63	52	52	59	87	85	78
Total regional airlines expense	**$ 551**	**$ 567**	**$ 578**	**$ 608**	**$ 571**	**$ 552**	**$ 594**	**584**

The following table provides major quarterly operating statistics for Air Canada for the last eight quarters.

	2013	2014				2015		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue passenger miles (millions)	12,882	13,466	15,495	18,565	14,090	14,937	16,845	20,462
Available seat miles (millions)	16,033	16,774	18,413	21,299	17,403	18,335	20,132	23,535
Passenger load factor (%)	80.3	80.3	84.2	87.2	81.0	81.5	83.7	86.9
Passenger PRASM (cents)	15.7	15.3	15.9	16.1	15.6	14.9	15.0	15.5
CASM	17.2	18.6	16.6	15.4	17.2	16.6	15.4	13.6
CASM, excluding benefit plan amendments (cents)	17.7	18.6	16.6	15.4	17.2	16.6	15.4	13.6
Adjusted CASM (cents) (1)	12.1	12.2	11.2	10.1	12.1	11.9	11.3	10.0
Economic fuel price per litre (cents) (2)	88.4	94.7	91.6	90.0	80.7	66.3	66.9	61.4

(1) Adjusted CASM is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

(2) Includes aircraft fuel expense related to regional airline operations. Includes fuel handling expenses. Economic fuel price per litre is a non-GAAP financial measure. Refer to section 4 "Results of Operations" of this MD&A for additional information.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Fuel and Other Derivatives

The following is a summary of fuel and other derivatives included in non-operating income (expense) on Air Canada's consolidated statement of operations for the periods indicated:

	Third Quarter		First Nine Months	
(Canadian dollars in millions)	**2015**	**2014**	**2015**	**2014**
Fuel derivatives	$ (7)	$ (24)	$ (11)	$ (18)
Share forward contracts	(14)	(7)	(5)	7
Interest rate swaps	1	-	2	1
Total fuel and other derivatives	**$ (20)**	**$ (31)**	**$ (14)**	**$ (10)**

Risk Management

Under its risk management policy, Air Canada manages its interest rate risk, foreign exchange risk, share-based compensation risk and market risk through the use of various derivative financial instruments. Air Canada uses derivative financial instruments only for risk management purposes, not for generating trading profit. As such, any change in cash flows associated with derivative instruments is designed to be offset by changes in cash flows related to the risk being hedged.

Air Canada engages in derivative hedging in an effort to mitigate various risks. The derivative fair values represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Fair value of these derivatives is determined using active markets, where available. When no such market is available, valuation techniques are applied such as discounted cash flow analysis. Where practical, the valuation technique incorporates all factors that would be considered in setting a price, including Air Canada's own credit risk and the credit risk of the counterparty.

Fuel Price Risk Management

Fuel price risk is the risk that future cash flows will fluctuate because of changes in base jet fuel prices. In order to manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, Air Canada enters into crude oil-based derivative contracts with financial intermediaries. Air Canada's policy permits hedging of up to 75% of the projected jet fuel purchases for the next 12 months, 50% for the next 13 to 24 months and 25% for the next 25 to 36 months. These are maximum (but not mandated) limits. There is no minimum monthly hedging requirement. There are regular reviews to adjust the strategy in light of market conditions.

In the third quarter of 2015:

- Air Canada recorded a loss of $7 million in fuel and other derivatives related to fuel derivatives (a loss of $11 million in the first nine months of 2015; losses of $24 million and $18 million in the third quarter of 2014 and in the first nine months of 2014, respectively). These derivatives were not designated as hedges for accounting purposes.

- Air Canada purchased crude-oil call options covering a portion of 2015 and 2016 fuel exposures. The cash premium related to these contracts was $10 million ($27 million in the first nine months of 2015; $11 million and $31 million in the third quarter of 2014 and in the first nine months of 2014, respectively, for 2014 and 2015 exposures).

- Fuel derivative contracts cash settled with a net fair value of nil ($1 million in favour of Air Canada in the first nine months of 2015; $6 million and $24 million in favour of Air Canada in the third quarter of 2014 and in the first nine months of 2014, respectively).

Air Canada applies fuel hedge accounting for certain designated fuel derivatives prospectively from April 1, 2015. In the third quarter of 2015, the fair value decrease of $9 million ($10 million in the first nine months of 2015) for derivatives under hedge accounting was deferred as a cost of the hedge in other comprehensive income and will be reclassified to aircraft fuel expense when the underlying hedged jet fuel is used.

A summary of amounts related to fuel derivatives designated as hedging instruments at September 30, 2015 is presented below.

	Carrying amount of the hedging instrument				
	Nominal amount of the hedging instrument (in barrels)	Assets	Liabilities	Consolidated statement of financial position classification	Changes in fair value used for calculating hedge ineffectiveness
Cash flow hedge					
Fuel price risk – option contracts	5,274,000	$ 10	$ -	Prepaid expenses and other current assets	$ -

As of September 30, 2015, and based on the derivate structures in place as of that date, approximately 40% of Air Canada's anticipated purchases of jet fuel for the remainder of 2015 is hedged at an average West Texas Intermediate ("WTI") equivalent capped price of US$65 per barrel for WTI prices up to US$67 per barrel and an average equivalent capped price of US$67 per barrel for WTI prices above US$70 per barrel. Air Canada's contracts to hedge anticipated jet fuel purchases over the remainder of 2015 are comprised of call options with notional volumes of 2,580,000 barrels. Air Canada has also hedged approximately 9% of its 2016 anticipated jet fuel purchases with call options with notional volumes of 2,694,000 barrels at an average WTI equivalent capped price of US$53 per barrel. The fair value of the fuel derivatives portfolio at September 30, 2015 was $10 million in favour of Air Canada (as at December 31, 2014 – $4 million in favour of Air Canada) and is recorded within prepaid expenses and other current assets on Air Canada's consolidated statement of financial condition.

Foreign Exchange Risk Management

Air Canada's financial results are reported in Canadian dollars, while a large portion of its expenses, debt obligations and capital commitments are in foreign currencies, primarily in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows.

In order to manage exposure to the U.S dollar and other foreign exchange exposures, Air Canada holds U.S. dollar cash reserves and enters into currency derivative contracts. These derivatives and U.S. dollar cash reserves serve to mitigate the cash flow exposure from adverse currency movements. The result of these hedging activities is recorded as a Foreign exchange gain or loss in non-operating expense on Air Canada's consolidated statement of operations (not within operating income).

Air Canada's risk management objective is to reduce cash flow risk related to foreign denominated cash flows.

The level of foreign exchange derivatives entered into and their related maturity dates are dependent upon a number of factors, which include the amount of foreign revenue conversion available, U.S. dollar net cash flows, as well as the amount attributed to aircraft and debt payments. For the net U.S. dollar shortfall, the Corporation has targeted 70% coverage on a rolling 18-month basis. Based on the notional amount of currency derivatives outstanding at September 30, 2015, as further described below, approximately 49% of net U.S. cash outflows is hedged for the remainder of 2015 and 64% for the following 15 months, resulting in a derivative coverage of 62% over the next 18 months. U.S. dollar cash and investment reserves combined with the derivative coverage results in a coverage of 69%.

As at September 30, 2015, Air Canada had outstanding foreign currency options and swap agreements, settling in 2015 and 2016, to purchase at maturity $2,912 million (US$2,184 million) of U.S. dollars at a weighted average rate of $1.2359 per US$1.00 (as at December 31, 2014 – $2,658 million (US$2,292 million) with settlements in 2015 and 2016 at a weighted average rate of $1.0884 per US$1.00). Air Canada also has protection in place to sell a portion of its excess Euros, Sterling and Yen (EUR $8 million, GBP $6 million, JPY $356 million) which settle in 2015 at weighted average rates of $1.1850, $1.5667, and $0.0084 per US$1.00, respectively, and to sell a portion of its excess Yuan (CNY $233 million) which settles in 2016 at a weighted average price of $0.1548 per US$1.00 (as at December 31, 2014 - EUR $35 million, GBP $27 million with settlement in 2015 at weighted average rates of $1.2806 and $1.6217, respectively, per US$1.00).

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at September 30, 2015 was $61 million in favour of Air Canada (as at December 31, 2014 – $30 million in favour of Air Canada). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. In the third quarter of 2015, a gain of $77 million was recorded in foreign exchange gain (loss) related to these derivatives (a gain of $118 million in the first nine months of 2015; gains of $126 million and $33 million, respectively, in the third quarter of 2014 and in the first nine months of 2014). In the third quarter of 2015, foreign exchange derivative contracts cash settled with a net fair value of $27 million in favour of Air Canada ($87 million in favour of Air Canada in the first nine months of 2015, $3 million in favour of the counterparties and $29 million in favour of Air Canada, respectively, in the third quarter of 2014 and in the first nine months of 2014).

Air Canada also holds U.S. cash and investment reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash and short-term investment balances as at September 30, 2015 amounted to $750 million or US$563 million ($717 million or US$620 million as at December 31, 2014). In the third quarter of 2015, an unrealized loss of $53 million was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash and short-term investment balances held ($112 million in favour of Air Canada in the first nine months of 2015; unrealized gain of $42 million and $34 million, respectively, in the third quarter of 2014 and in the first nine months of 2014).

Update on Foreign Exchange Sensitivity

Information on Air Canada's sensitivity of results to various economic assumptions is disclosed in section 17 "Sensitivity of Results" of Air Canada's 2014 MD&A. Given the decrease in the price of jet fuel, Air Canada's net exposure to the U.S. dollar has also declined. As a result, the annual pre-tax income impact of a one cent change in the Canadian dollar versus the U.S. dollar has decreased from $45 million to approximately $34 million.

10. CRITICAL ACCOUNTING ESTIMATES

Information on Air Canada's critical accounting estimates is disclosed in section 13 "Critical Accounting Estimates" of Air Canada's 2014 MD&A. There have been no material changes to Air Canada's critical accounting estimates from what was disclosed at that time.

11. ACCOUNTING POLICIES

Air Canada's accounting policies are as disclosed in Air Canada's audited consolidated financial statements and notes for 2014. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time with the exception that Air Canada has early adopted the new accounting standard *IFRS 9 – Financial Instruments* with a date of initial application of January 1, 2015. The adoption of this standard has no impact on Air Canada's consolidated financial statements on date of adoption or for comparative periods. Air Canada began to apply hedge accounting for certain designated fuel derivatives prospectively from April 1, 2015. Crude oil prices, while not contractually specified in Air Canada's jet fuel purchase contracts, are economically related to jet fuel prices. Air Canada enters into option contracts on crude oil and designates the contracts in cash flow hedges of the crude oil component of its future jet fuel purchases. Air Canada has established a hedge ratio of 1:1 for its hedging relationships. Under hedge accounting, the effective gain or loss on fuel hedging derivatives is recorded in other comprehensive income and reclassified to aircraft fuel expense when the underlying jet fuel being hedged is used. Premiums paid for option contracts and the time value of the option contracts are deferred as a cost of the hedge in other comprehensive income and reclassified to aircraft fuel expense when the underlying hedged jet fuel is used. Any ineffective gain or loss on fuel hedging derivatives is recorded in non-operating expense in fuel and other derivatives on Air Canada's consolidated statement of operations.

Accounting Standards and Amendments Issued but Not Yet Adopted

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 replaces IAS 18 Revenue and related interpretations. The core principle of the new standard is to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Corporation expects to be entitled in exchange for those goods or services. In July, 2015, the International Accounting Standards Board confirmed a deferral of the effective date by one year to January 1, 2018, with earlier application permitted. Air Canada continues to evaluate the impact that the adoption of this standard may have on its consolidated financial statements.

12. OFF-BALANCE SHEET ARRANGEMENTS

Information on Air Canada's off-balance sheet arrangements is disclosed in section 15 "Off-Balance Sheet Arrangements" of Air Canada's 2014 MD&A. There have been no material changes to Air Canada's off-balance sheet arrangements from what was disclosed at that time.

13. RELATED PARTY TRANSACTIONS

At September 30, 2015, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

14. RISK FACTORS

For a detailed description of risk factors associated with Air Canada and its business, refer to section 18 "Risk Factors" of Air Canada's 2014 MD&A. Air Canada is not aware of any significant changes to its risk factors from those disclosed at that time.

15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its President and Chief Executive Officer ("CEO"), its Executive Vice President and Chief Financial Officer ("CFO") and its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

In the Corporation's 2014 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

In the Corporation's third quarter 2015 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

The Corporation's Audit, Finance and Risk Committee reviewed this MD&A and the interim unaudited condensed consolidated financial statements and notes, and the Corporation's Board of Directors approved these documents prior to their release.

Changes in Internal Controls over Financial Reporting

There have been no changes to the Corporation's internal controls over financial reporting during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

16. NON-GAAP FINANCIAL MEASURES

EBITDAR

EBITDAR (earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent) is a non-GAAP financial measure commonly used in the airline industry to view operating results before 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. EBITDAR is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, and may not be comparable to similar measures presented by other public companies.

EBITDAR is reconciled to operating income as follows:

	Third Quarter			First Nine Months		
(Canadian dollars in millions)	**2015**	**2014**	**$ Change**	**2015**	**2014**	**$ Change**
Operating income – GAAP	**$ 815**	**$ 526**	**$ 289**	**$ 1,338**	**$ 709**	**$ 629**
Add back (as reflected on Air Canada's consolidated statement of operations):						
Depreciation, amortization and impairment	165	142	23	495	396	99
Aircraft rent	89	74	15	255	226	29
Add back (included in Regional airlines expense):						
Depreciation, amortization and impairment	4	4	-	12	12	-
Aircraft rent	3	3	-	9	9	-
EBITDAR	**$ 1,076**	**$ 749**	**$ 327**	**$ 2,109**	**$ 1,352**	**$ 757**

Adjusted CASM

Air Canada uses adjusted CASM to assess the operating and cost performance of its ongoing airline business without the effects of aircraft fuel expense, the cost of ground packages at Air Canada Vacations, and unusual items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

Adjusted CASM is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning and may not be comparable to similar measures presented by other public companies.

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.

Therefore, excluding aircraft fuel expense, the cost of ground packages at Air Canada Vacations, and unusual items from operating expenses generally allows for more meaningful analysis of Air Canada's operating expense performance and a more meaningful comparison to those of other airlines.

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)	Third Quarter 2015	Third Quarter 2014	Third Quarter $ Change	First Nine Months 2015	First Nine Months 2014	First Nine Months $ Change
Operating expense – GAAP	**$ 3,208**	**$ 3,272**	**$ (64)**	**$ 9,348**	**$ 9,459**	**$ (111)**
Adjusted for:						
Aircraft fuel expense (as reflected on Air Canada's consolidated statement of operations)	(697)	(939)	242	(1,937)	(2,567)	630
Aircraft fuel expense (included in Regional airlines expense)	(95)	(137)	42	(278)	(389)	111
Tax-related provision adjustments	-	-	-	23	41	(18)
Impairment charges	-	-	-	(14)	-	(14)
Ground package costs at Air Canada Vacations	(63)	(56)	(7)	(328)	(303)	(25)
Operating expense, adjusted for the above-noted items	**$ 2,353**	**$ 2,140**	**$ 213**	**$ 6,814**	**$ 6,241**	**$ 573**
ASMs (millions)	**23,535**	**21,299**	**10.5%**	**62,002**	**56,486**	**9.8%**
Adjusted CASM (cents)	**¢ 10.00**	**¢ 10.05**	**(0.5)%**	**¢ 10.99**	**¢ 11.05**	**(0.5)%**

Adjusted Net Income and Adjusted Earnings per Share – Diluted

Air Canada uses adjusted net income and adjusted earnings per share – diluted 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 fuel and other derivatives and unusual items as these items 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 which is further described below. These measures are not recognized measures for financial statement presentation under GAAP, do not have a standardized meaning and may not be comparable to similar measures presented by other public companies.

(Canadian dollars in millions, except per share values)	Third Quarter 2015	Third Quarter 2014	Third Quarter $ Change	First Nine Months 2015	First Nine Months 2014	First Nine Months $ Change
Net income attributable to shareholders of Air Canada	**$ 435**	**$ 321**	**$ 114**	**$ 420**	**$ 201**	**$ 219**
Adjusted for:						
Tax-related provision adjustments	-	-	-	(23)	(41)	18
Impairment charges	-	-	-	14	-	14
Foreign exchange loss	251	71	180	603	192	411
Net financing expense relating to employee benefits	28	34	(6)	78	102	(24)
Loss on fuel and other derivatives	20	31	(11)	14	10	4
Adjusted net income	**$ 734**	**$ 457**	**$ 277**	**$ 1,106**	**$ 464**	**$ 642**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	294	294	-	293	293	-
Adjusted earnings per share – diluted	**$ 2.50**	**$ 1.55**	**$ 0.95**	**$ 3.77**	**$ 1.58**	**$ 2.19**

The following reflects the share amounts used in the computation of basic and diluted earnings per share on an adjusted earnings per share basis:

(in millions)	Third Quarter 2015	Third Quarter 2014	First Nine Months 2015	First Nine Months 2014
Weighted average number of shares outstanding – basic	**287**	**286**	**286**	**286**
Effect of dilution	7	8	7	7
Weighted average number of shares outstanding – diluted	**294**	**294**	**293**	**293**

Return on Invested Capital

Air Canada uses return on invested capital ("ROIC") 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 (i) average year-over-year total assets, net of average year-over-year non-interest-bearing operating liabilities, and (ii) the value of capitalized operating leases (calculated by multiplying annualized aircraft rent by 7). This measure is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning and may not be comparable to similar measures presented by other public companies.

(Canadian dollars in millions, except where indicated)	September 30, 2015	September 30, 2014	$ Change
Net income for the period attributable to shareholders of Air Canada (trailing 12 months)	**$ 319**	**$ 194**	**$ 125**
Remove:			
One-time payments – ACPA	30	-	30
Benefit plan amendments	-	(82)	82
Tax-related provision adjustments	(23)	(41)	18
Impairment charges	14	6	8
Foreign exchange (gain) loss	718	247	471
Net financing expense relating to employee benefits	110	155	(45)
(Gain) loss on financial instruments recorded at fair value	5	(12)	17
Adjusted net income (trailing 12 months)	**$ 1,173**	**$ 467**	**$ 706**
Adjusted for:			
Interest expense (1)	373	312	61
Implicit interest on operating leases (2)	168	152	16
Adjusted income before interest (trailing 12 months)	**$ 1,714**	**$ 931**	**$ 783**
Invested capital:			
Working capital excluding current portion of long-term debt and finance leases	840	566	274
Long-term assets, excluding pension assets	7,353	6,447	906
Maintenance provisions	(840)	(694)	(146)
Other operating long-term liabilities	(239)	(304)	65
Capitalized operating leases (3)	2,401	2,170	231
Invested capital	**$ 9,515**	**$ 8,185**	**$ 1,330**
Return on invested capital (%)	**18.0%**	**11.4%**	**6.6 pp**

(1) Interest expense excludes the non-recurring interest expense charge on the repayment of the senior secured notes recognized in 2013.

(2) Interest implicit on operating leases is equal to 7.0% of 7 times the trailing 12 months of aircraft rent. 7.0% is a proxy and does not necessarily represent the actual implicit interest on operating leases for any given period.

(3) Capitalized operating leases are calculated by multiplying the trailing 12 months of aircraft rent by 7. Aircraft rent totaled $343 million for the twelve months ended September 30, 2015 and $310 million for the twelve months ended September 30, 2014 (includes aircraft rent related to regional operations).

17. GLOSSARY

2014 Regulations – Refers to the *Air Canada Pension Plan Funding Regulations, 2014*

ACPA – Refers to the Air Canada Pilots Association.

Adjusted CASM – Refers to operating expense per ASM adjusted to remove the effects of aircraft fuel expense, ground packages costs, and unusual items. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Adjusted net income (loss) – Refers to the consolidated net income (loss) of Air Canada attributable to the shareholders of Air Canada adjusted to remove the effects of (to the extent included in consolidated net income (loss)) foreign exchange gains or losses, net financing income (expense) relating to employee benefits, mark-to-market adjustments on fuel and other derivatives and unusual items. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Air Canada's 2014 MD&A – Refers to Air Canada's 2014 Management's Discussion and Analysis of Results of Operations and Financial Condition dated February 11, 2015.

Air Georgian – Refers to Air Georgian Limited.

Atlantic passenger and cargo revenues – Refer to revenues from flights that cross the Atlantic Ocean with origins and destinations principally in Europe.

Available seat miles or ASMs – Refers to a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the miles flown.

Average stage length – Refers to the average mile per departure seat and is calculated by dividing total ASMs by total seats dispatched.

Boeing – Refers to The Boeing Company.

CASM – Refers to operating expense per ASM.

CUPE – Refers to the Canadian Union of Public Employees.

Domestic passenger and cargo revenues – Refer to revenues from flights within Canada.

EBITDAR – Refers to earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent. EBITDAR is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

EETCs – Refers to Enhanced Equipment Trust Certificates issued in connection with the financing of aircraft.

Effective ton miles or ETMs – Refers to the mathematical product of tonnage capacity times distance hauled.

EVAS – Refers to Exploits Valley Air Services Ltd.

GDS – Refers to Global Distribution System which is generally a network that enables automated transactions between third parties and booking agents in order to provide travel-related services to customers.

IBT – Refers to the International Brotherhood of Teamsters.

Jazz – Refers to Jazz Aviation LP.

Jazz CPA – Refers to the capacity purchase agreement between Air Canada and Jazz.

Other passenger and cargo revenues – Refer to revenues from flights with origins and destinations principally in Central and South America and the Caribbean and Mexico.

Pacific passenger and cargo revenues – Refer to revenues from flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia.

Passenger load factor – Refers to a measure of passenger capacity utilization derived by expressing Revenue Passenger Miles as a percentage of Available Seat Miles.

Passenger revenue per available seat mile or PRASM – Refers to average passenger revenue per ASM (baggage fee revenues, which are included in passenger revenues, are removed for the purposes of calculating PRASM).

Percentage point (pp) – Refers to a measure for the arithmetic difference of two percentages.

Return on invested capital or ROIC – Refers to return on invested capital and is a measure used to assess the efficiency with which a company allocates its capital to generate returns. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Revenue passenger carried – Refers to IATA's definition of passenger carried whereby passengers are counted on a flight no. basis rather than by journey/itinerary or by leg.

Revenue passenger miles or RPMs – Refers to a measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the miles they are carried.

Revenue ton miles or RTMs – Refers to the mathematical product of weight in tons of a shipment being transported by the number of miles that it is transported.

Seats dispatched – Refers to the number of seats on non-stop flights. A non-stop flight refers to a single take-off and landing.

Sky Regional – Refers to Sky Regional Airlines Inc.

Unifor – Refers to the trade union in Canada, launched in 2013, as a merger of the Canadian Auto Workers and Communications, Energy and Paperworkers unions.

Unite – Refers to the union which represents Air Canada's U.K.-based unionized workforce.

Weighted average cost of capital or WACC – Refers to management's estimate of its cost of capital, in which each category of capital is proportionately weighted.

Yield – Refers to average passenger revenue per RPM (baggage fee revenues, which are included in passenger revenues, are removed for the purposes of calculating yield).