

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

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		Change	
	2015	2014	\$	%
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)

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

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.

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.