



AIR CANADA

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Air Canada reports improved fourth quarter 2006 and full year 2006 results

In accordance with Canadian GAAP Accounting Guideline No. 15 Air Canada is required to consolidate the financial statements of Jazz and certain leasing entities and fuel facility corporations into its financial statements. Air Canada does not have any ownership in Jazz. The financial statements of Air Canada, the mainline airline, are termed Air Canada Services. With a view to ensure greater clarity, this press release highlights the performance of Air Canada Services and Jazz separately.

Air Canada Services

2006 FOURTH QUARTER OVERVIEW

- EBITDAR (excluding special charges)(1) of \$197 million, an increase of \$92 million on the fourth quarter of 2005.
- Operating loss of \$5 million, an improvement of \$86 million on 2005.
- Passenger revenues up \$122 million or 6 per cent, driven by a 5 per cent growth in traffic on a capacity growth of 4 per cent and a 1 per cent yield improvement.
- Passenger load factor at 77.8 per cent, a record load factor for the fourth quarter.
- Loss before non-controlling interest, foreign exchange and income taxes of \$57 million compared to a loss of \$177 million in 2005.

2006 FULL YEAR OVERVIEW

- EBITDAR (excluding special charges)(1) of \$1,043 million compared to \$936 million in 2005.
- Operating income of \$114 million, or \$236 million excluding special charges, compared to \$191 million in 2005.
- Special charges of \$122 million - \$102 million (\$70 million after tax) in connection with Air Canada's obligations for redemption of Aeroplan miles issued before 2002 and special charge for labour restructuring of \$20 million (\$13 million after tax).
- Fuel expense increase of \$347 million or 16 per cent over 2005.
- Passenger revenues up \$690 million or 8 per cent, driven by a 5 per cent growth in traffic on a capacity growth of 4 per cent and a 3 per cent yield improvement.
- Passenger load factor at 80.2 per cent marked a new record load factor for the year.
- Loss before non-controlling interest, foreign exchange and income taxes of \$77 million compared to a loss of \$33 million in 2005.
- Net proceeds of \$187 million from the initial public offering of Air Canada shares.
- Cash, cash equivalents and short-term investments of \$2.1 billion at December 31, 2006.

MONTREAL, Feb. 9 /CNW Telbec/ - Air Canada today reported fourth quarter Air Canada Services EBITDAR (excluding special charges)(1) of \$197 million, an increase of \$92 million on the 2005 quarter. The operating loss of \$5 million recorded in the quarter represented an improvement of \$86 million on 2005.

Passenger revenues increased \$122 million or 6 per cent due to traffic growth of 5 per cent reflecting stronger market demand and a yield improvement of 1 per cent. Passenger revenue improvements were reflected in all markets. Unit cost, as measured by operating expense per ASM, decreased 1 per cent from the fourth quarter of 2005.

For 2006, Air Canada Services reported operating income (excluding special charges)(1) of \$236 million, despite an increase in fuel expense of \$347 million or 16 per cent. EBITDAR (excluding special charges)(1) amounted to \$1,043 million in the year compared to \$936 million in 2005, an improvement of \$107 million. Operating income amounted to \$114 million.

Passenger revenues were up \$690 million or 8 per cent due to a 3 per cent yield improvement and a 5 per cent growth in traffic on a capacity increase of 4 per cent. Unit cost, as measured by operating expense per available seat mile (ASM), rose 4 per cent from 2005. Excluding fuel expense and the special charge for labour restructuring of \$20 million, unit cost was up 1 per cent.

The deficit, on an accounting basis, at December 31, 2006 for pension benefits was \$1.4 billion compared to \$2.5 billion at December 31, 2005. The decrease in the accounting deficit was mainly the result of a strong return on plan assets and funding of past service contributions in 2006. The solvency deficit on the registered pension plans at January 1, 2007 is also expected to decrease significantly compared to January 1, 2006 and, as a result, employer contributions determined in accordance with regulations, are expected to decline by approximately \$90 million in 2007 and \$120 million each year thereafter.

"I am very pleased to report one of the strongest fourth quarters in Air Canada's history, capping a year of numerous accomplishments that included the initial public offering of Air Canada creating an independently traded company from ACE Aviation," said Montie Brewer, President and Chief Executive Officer.

"Through the hard work and dedication of our employees, we took significant steps in moving our business plan forward. Our results are on track following our third consecutive year of record load factors, as we continue to renew our fleet and ramp up the introduction of a market leading onboard product in the months to come. Consumers are responding favourably to our value-based fare products that are successfully differentiating Air Canada from the competition, and at the same time our distribution costs have been significantly reduced in line with leading low cost carriers.

"In the months ahead, we expect to see continued positive returns from our investments in Air Canada's new business model. With the recent consolidation of all Air Canada flights under one roof at our main Toronto hub, the customer experience has improved and we will be able to continue leveraging our global network via one of North America's premier gateway cities. In March, we will begin taking delivery of new, fuel efficient Boeing 777 widebody aircraft for our international fleet. Looking forward, revenue and cost performance are on track aided by continued strong future bookings."

Jazz

As reported by Jazz on February 8, 2007, for the full year 2006 the Jazz segment recorded operating income of \$144 million, an improvement of \$15 million from the operating income of \$129 million recorded in 2005.

Air Canada Consolidated (including Jazz)

On a consolidated basis, Air Canada reported operating income of \$29 million in the fourth quarter compared to an operating loss of \$57 million in the fourth quarter of 2005. Loss before non-controlling interest, foreign exchange and income taxes for the quarter amounted to \$25 million compared to a loss of \$145 million in the fourth quarter of 2005.

For 2006, Air Canada recorded consolidated operating income of \$259 million for the full year 2006, despite a fuel expense increase of \$348 million or 16 per cent, compared to operating income of \$318 million in 2005. Excluding special charges of \$122 million, operating income⁽¹⁾ of \$381 million represented an increase of \$63 million over 2005. Income before non-controlling interest, foreign exchange and income taxes for the year amounted to \$63 million compared to income of \$85 million in 2005.

2006 Air Canada Services Accomplishments

- Successfully completed its initial public offering, trading on the TSX independently from its parent company, ACE Aviation Holdings.
- Recorded a full year load factor of 80.2 per cent, the third consecutive year the airline achieved a full-year record load factor.
- Eighty per cent on-time arrivals performance ranked as second best in North America, as measured by U.S. carriers for the 12 month period October 2005-September 2006.
- Launched 22 new non-stop services including Calgary-New York City, Edmonton-London Heathrow, Montreal-Denver, Montreal-Mexico City, Toronto-San Diego and Toronto-Shanghai.
- Began a major refurbishment of its Boeing 767-300 and Airbus narrowbody fleets installing new seats, seatback personal entertainment systems and in-seat power throughout both cabins.
- Introduced 15 Embraer E190 aircraft, of a total of 45 on order, joining 3 E190 and 15 E175 aircraft already in service in its North American fleet.
- Introduced unique "à la carte" pricing, an industry first, enabling customers to choose the features and services they wish to include in their fare.
- Forty-six per cent of domestic consumers chose a branded fare higher than the everyday low Tango fare available.
- Continued to expand its line of multi-flight pass products and grew pass sales revenue by 148 per cent in 2006; first time pass purchasers increased by 228 per cent from previous year.
- Introduced the first flat fee subscription Flight Pass, allowing for unlimited flights within a choice of geographical zones and periods of time.
- Web penetration for domestic Canada sales in the fourth quarter was 57 per cent, and reached 61 per cent for the month of December.
- Sixty-nine per cent of domestic Canada sales for the fourth quarter were made directly with Air Canada, either online or through call centres.
- Eighteen per cent of customers checked in online at aircanada.com, a threefold increase from the previous year.
- Selected by the editors of Air Transport World to receive the magazine's Airline Industry Achievement Award for Market Leadership.
- Voted 'Best Airline in North America' and 'Best Airline in Canada' by the readers of U.S. frequent flyer magazine, Global Traveler, and 'Best Business Class to Canada' by the readers of Business Traveler magazine.
- Concluded an agreement with ITA Software to develop Air Canada's new reservation management system, Polaris.
- Successfully completed wage reviews with all major employee groups except CUPE (for which an arbitration decision is pending), resulting in average awards of approximately 5 per cent over three years.
- Contributed \$477 million to funding its employees' defined benefit pension plans in 2006, in accordance with the OSFI agreement, of which \$224 million represented funding of past service costs.
- Paid out \$25.5 million to Air Canada employees under its 'Sharing Our Success' monthly incentive program.

(1) Non-GAAP Measures

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation and aircraft rent. EBITDAR is used to view operating results before aircraft rent and depreciation, amortization and obsolescence 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 and does not have a standardized meaning and is therefore not comparable to similar measures presented by other public companies.

Operating income excluding the special charges for Aeroplan miles and labour restructuring is a non-GAAP financial measure. Air Canada Services uses operating income excluding the special charges for Aeroplan miles and labour restructuring to assess the operating performance of its ongoing business without the effects of these special charges. These special charges are excluded from Air Canada Services' results as they could potentially distort the analysis of trends in business performance.

Readers should refer to Air Canada's 2006 Management's Discussion and Analysis (MD&A) which will be filed on SEDAR for a reconciliation of EBITDAR to operating income (loss) and for a reconciliation of operating income (loss) excluding the special charge for Aeroplan miles and the special charge for labour restructuring to operating income (loss).

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form, please consult SEDAR at www.sedar.com

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this news release may contain forward-looking statements. These 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. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions. Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements to differ materially from those expressed in the forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, energy prices, general industry, market and economic conditions, war, terrorist attacks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations or disputes, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout Air Canada's filings with securities regulators in Canada and, in particular, those identified in the Risk Factors section to Air Canada's 2006 MD&A, which will be filed on SEDAR. The forward-looking statements contained herein represent Air Canada's expectations as of the date they are 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.

AIR CANADA

Selected Financial Information

Quarter 4 2006 versus Quarter 4 2005

The following table reflects the income / loss before non-controlling interest, foreign exchange, and income taxes of Air Canada and its reportable segments and earnings before interest, taxes, depreciation, amortization and obsolescence, and aircraft rent (EBITDAR), which is a non-GAAP measure, for quarter 4 2006 and quarter 4 2005.

UNAUDITED (in millions - Canadian dollars)	Air Canada Services	Inter- segment	Consoli- segment Jazz elimination	Quarter 4 2006 dated total
Operating revenues				
Passenger	\$ 2,071	-	-	\$ 2,071
Cargo	166	-	-	166
Other	178	352	(372)	158
	2,415	352	(372)	2,395
Operating expenses				
Salaries, wages and benefits	443	82	-	525
Aircraft fuel	583	69	(69)	583
Aircraft rent	75	34	(2)	107
Airport and navigation fees	232	46	(46)	232
Aircraft maintenance, materials and supplies	205	27	(4)	228
Communications and information technology	68	2	(1)	69

Food, beverages and supplies	76	4	-	80
Depreciation, amortization and obsolescence	135	5	-	140
Commissions	49	-	-	49
Capacity purchase fees paid to Jazz	224	-	(224)	-
Special charge for labour restructuring	(8)	-	-	(8)
Other	338	50	(27)	361
	2,420	319	(373)	2,366

Operating income (loss) (5) 33 1 29

Non-operating income (expense)				
Interest income	24	2	(1)	25
Interest expense	(88)	(2)	(1)	(91)
Interest capitalized	22	-	-	22
Gain (loss) on sale of and provisions on assets	(10)	-	-	(10)
Other	-	(1)	1	-
	(52)	(1)	(1)	(54)

Income (loss) before non-controlling interest, foreign exchange and income taxes \$ (57) \$ 32 - \$ (25)

EBITDAR	205	72	(1)	276
EBITDAR excluding special charges	197	72	(1)	268

UNAUDITED	Quarter 4 2005			
(in millions - Canadian dollars)	Air Canada Services	Inter-Jazz	Consolidated segment elimination	dated total
Operating revenues				
Passenger	\$ 1,949	\$ 1	-	\$ 1,950
Cargo	177	-	-	177
Other	145	303	(319)	129
	2,271	304	(319)	2,256

Operating expenses				
Salaries, wages and benefits	463	75	-	538
Aircraft fuel	577	62	(62)	577
Aircraft rent	90	28	(1)	117
Airport and navigation fees	222	37	(37)	222
Aircraft maintenance, materials and supplies	180	18	(4)	194
Communications and information technology	72	2	(1)	73
Food, beverages and supplies	78	3	-	81
Depreciation, amortization and obsolescence	106	4	-	110
Commissions	47	-	-	47
Capacity purchase fees paid to Jazz	194	-	(194)	-
Special charge for labour restructuring	-	-	-	-
Other	333	41	(20)	354
	2,362	270	(319)	2,313

Operating income (loss) (91) 34 - (57)

Non-operating income (expense)				
Interest income	14	-	1	15
Interest expense	(74)	(3)	(1)	(78)
Interest capitalized	6	-	-	6
Gain (loss) on sale of and provisions on assets	(30)	1	-	(29)
Other	(2)	-	-	(2)
	(86)	(2)	-	(88)

Income (loss) before non-controlling interest, foreign exchange and income taxes	\$	(177)	\$	32	-	\$	(145)
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EBITDAR	105	66	(1)	170
EBITDAR excluding special charges	105	66	(1)	170

For the year ended December 31 (in millions - Canadian dollars)	Unaudited 2006	Unaudited 2005
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Operating revenues			
Passenger	\$ 8,887	\$ 8,199	
Cargo	629	625	
Other	651	634	

10,167	9,458
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Special charge for Aeroplan Miles	(102)	-
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10,065	9,458
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Operating expenses			
Salaries, wages and benefits	2,127	2,122	
Aircraft fuel	2,545	2,197	
Aircraft rent	441	417	
Airport and navigation fees	982	924	
Aircraft maintenance, materials and supplies		855	751
Communications and information technology		278	297
Food, beverages and supplies	335	334	
Depreciation, amortization and obsolescence		514	422
Commissions	237	253	
Special charge for labour restructuring		20	-
Other	1,472	1,423	

9,806	9,140
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Operating income	259	318
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Non-operating income (expense)			
Interest income	87	48	
Interest expense	(321)	(284)	
Interest capitalized	61	14	
Loss on sale of and provisions on assets		(6)	(27)
Other	(17)	16	

(196)	(233)
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Income before non-controlling interest, foreign exchange and income taxes	\$	63	\$	85
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2006 versus 2005

The following table reflects the income / loss before non-controlling interest, foreign exchange, and income taxes of Air Canada and its reportable segments and earnings before interest, taxes, depreciation, amortization and obsolescence, and aircraft rent (EBITDAR), which is a non-GAAP measure, for 2006 and 2005.

UNAUDITED	Year ended December 31, 2006			
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(in millions - Canadian dollars)	Air Canada Services	Inter- segment Jazz	Consoli- segment elimination	dated total
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Operating revenues				
Passenger	\$ 8,887	-	-	\$ 8,887
Cargo	629	-	-	629
Other	723	1,381	(1,453)	651

10,239	1,381	(1,453)	10,167
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Special charge for Aeroplan miles	(102)	-	-	(102)
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10,137	1,381	(1,453)	10,065
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Operating expenses				
Salaries, wages and benefits	1,816	311	-	2,127

Aircraft fuel	2,544	285	(284)	2,545
Aircraft rent	314	134	(7)	441
Airport and navigation fees	982	178	(178)	982
Aircraft maintenance, materials and supplies	768	98	(11)	855
Communications and information technology	273	8	(3)	278
Food, beverages and supplies	322	15	(2)	335
Depreciation, amortization and obsolescence	493	21	-	514
Commissions	237	-	-	237
Capacity purchase fees paid to Jazz	871	-	(871)	-
Special charge for labour restructuring	20	-	-	20
Other	1,383	187	(98)	1,472
	10,023	1,237	(1,454)	9,806

Operating income 114 144 1 259

Non-operating income (expense)

Interest income	82	6	(1)	87
Interest expense	(313)	(8)		(321)
Interest capitalized	62	(1)	-	61
Gain (loss) on sale of and provisions on assets	(6)	-	-	(6)
Other	(16)	(1)		(17)
	(191)	(4)	(1)	(196)

Income (loss) before non-controlling interest, foreign exchange and income taxes \$ (77) \$ 140 - \$ 63

EBITDAR	921	299	(6)	1,214
EBITDAR excluding special charges	1,043	299	(6)	1,336

UNAUDITED Year ended December 31, 2005

(in millions - Canadian dollars) Air Canada Inter- segment dated Services Jazz elimination total

Operating revenues				
Passenger	\$ 8,197	2	-	\$ 8,199
Cargo	625	-	-	625
Other	687	1,021	(1,074)	634

9,509 1,023 (1,074) 9,458

Special charge for Aeroplan miles - - - -

9,509 1,023 (1,074) 9,458

Operating expenses

Salaries, wages and benefits	1,857	265	-	2,122
Aircraft fuel	2,197	177	(177)	2,197
Aircraft rent	341	80	(4)	417
Airport and navigation fees	924	124	(124)	924
Aircraft maintenance, materials and supplies	693	68	(10)	751
Communications and information technology	294	5	(2)	297
Food, beverages and supplies	326	8	-	334
Depreciation, amortization and obsolescence	404	18	-	422
Commissions	253	-	-	253
Capacity purchase fees paid to Jazz	693	-	(693)	-
Special charge for labour restructuring	-	-	-	-
Other	1,336	149	(62)	1,423
	9,318	894	(1,072)	9,140

Operating income 191 129 (2) 318

Non-operating income (expense)

Interest income	48	1	(1)	48
Interest expense	(270)	(16)	2	(284)
Interest capitalized	14	-	-	14

Gain (loss) on sale of and provisions on assets	(31)	4	-	(27)
Other	15	-	1	16
	(224)	(11)	2	(233)
Income (loss) before non-controlling interest, foreign exchange and income taxes	\$ (33)	\$ 118	-	85
EBITDAR	936	227	(6)	1,157
EBITDAR excluding special charges	936	227	(6)	1,157

Passenger Revenue Analysis

The following table describes quarter-over quarter percentage changes in passenger revenues, capacity, traffic, passenger load factor, yield per revenue passenger mile (yield) and passenger revenue per available seat mile (RASM) for quarter 4 2006 to quarter 4 2005.

UNAUDITED							
Quarter 4 2006 versus Quarter 4 2005	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	RASM % Change	
Canada	6	4	6	1.7	-	2	
US transborder	10	11	15	2.0	(4)	(1)	
Atlantic	4	2	2	-	2	2	
Pacific	1	-	-	0.1	1	1	
Other	6	1	5	3.0	1	5	
System	6	4	5	1.1	1	2	

The following table describes year-over year percentage changes in passenger revenues, capacity, traffic, passenger load factor, yield and RASM for 2006 to 2005.

UNAUDITED							
2006 versus 2005	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	RASM % Change	
Canada	8	4	4	(0.5)	4	3	
US transborder	17	12	16	2.5	1	4	
Atlantic	5	2	2	0.5	2	3	
Pacific	2	-	1	1.4	1	3	
Other	9	1	3	1.8	6	8	
System	8	4	5	0.7	3	4	

Unit Cost Analysis

The following table compares the Air Canada Services segment's operating expenses per available seat mile (ASM) for quarter 4 2006 to the Air Canada Services segment's operating expenses per ASM for quarter 4 2005.

UNAUDITED					
(\$ cents per ASM)	Quarter 4		Change		
	2006	2005	\$	%	
Salary and wages	2.60	2.63	(0.03)	(1)	
Benefits	0.49	0.72	(0.23)	(32)	
Ownership (DAR) (1)	1.46	1.42	0.04	3	
Airport and navigation fees	1.62	1.61	0.01	1	
Aircraft maintenance, materials and supplies	1.43	1.31	0.12	9	
Food, beverages and supplies	0.53	0.56	(0.03)	(5)	
Commissions	0.34	0.34	-	-	
Capacity purchase fees paid to Jazz	1.56	1.40	0.16	11	
Other	2.83	2.94	(0.11)	(4)	
Operating expense, excluding fuel expense and the special charge for labour restructuring	12.86	12.93	(0.07)	(1)	
Aircraft fuel	4.06	4.18	(0.12)	(3)	
Special charge for labour restructuring	(0.05)	-	(0.05)	n/a	
Total operating expense	16.87	17.11	(0.24)	(1)	

The following table compares the Air Canada Services segment's operating expenses per ASM for the year ended 2006 to the corresponding period in 2005.

UNAUDITED (\$ cents per ASM)	2006	2005	Change \$	%
Salary and wages	2.35	2.45	(0.10)	(4)
Benefits	0.62	0.70	(0.08)	(11)
Ownership (DAR) (1)	1.32	1.27	0.05	4
Airport and navigation fees	1.61	1.57	0.04	3
Aircraft maintenance, materials and supplies	1.26	1.18	0.08	7
Food, beverages and supplies	0.53	0.55	(0.02)	(4)
Commissions	0.39	0.43	(0.04)	(9)
Capacity purchase fees paid to Jazz	1.43	1.18	0.25	21
Other	2.70	2.78	(0.08)	(3)
Operating expense, excluding fuel expense and the special charge for labour restructuring	12.21	12.11	0.10	1
Aircraft fuel	4.17	3.73	0.44	12
Special charge for labour restructuring	0.03	-	0.03	n/a
Total operating expense	16.41	15.84	0.57	4

(1) DAR refers to the combination of Aircraft rent and Depreciation, amortization and obsolescence.

Cash and Short-term Investments

UNAUDITED	2006			
(in millions - Canadian dollars)	Air Canada Services	Jazz	Consoli- Elimi- nation	dated Total
Cash and cash equivalents	\$ 1,312	\$ 135	\$ -	\$ 1,447
Short-term investments	798	-	-	798
	\$ 2,110	\$ 135	\$ -	\$ 2,245

	2005			
	Air Canada Services	Jazz	Consoli- Elimi- nation	dated Total
Cash and cash equivalents	\$ 1,000	\$ 34	\$ -	\$ 1,034
Short-term investments	302	-	-	302
	\$ 1,302	\$ 34	\$ -	\$ 1,336

Long-term Debt and Capital Leases

UNAUDITED (in millions - Canadian dollars)	Final Maturity	Stated Interest Rate	2006	2005
Embraer aircraft financing	2017-2021	6.89-8.49	\$ 776	\$ 393
Conditional sales agreements	2019	8.26-8.28	184	193
Lufthansa cooperation agreement	2009	6.50	44	59
GE loan	2015	11.12	48	51
Revolving credit facility	2010	-	-	-
Other	2007-2010	4.32-9.10	5	8
Direct Corporation debt			1,057	704
Jazz - senior syndicated credit facility	2009	7.09	115	-
Jazz - term loans and credit facilities		-	14	
Aircraft and engine leasing				

entities - debt	1,051	1,125
Fuel facility corporations - debt	59	53
Debt consolidated under AcG-15 (1)	1,225	1,192
Capital lease obligations	1,281	1,365
Total debt and capital leases	3,563	3,261
Current portion	(367)	(265)
Long-term debt and capital leases	\$ 3,196	\$ 2,996

The Stated Interest Rate in the table above is the rate as of December 31, 2006.

(1) CICA HB Accounting Guideline 15, Variable Interest Entities ("AcG-15")

Non-GAAP Financial Measures - EBITDAR

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

EBITDAR is reconciled to operating income (loss) as follows:

UNAUDITED Quarter 4						
(in millions - Canadian dollars)						
	2006	2005	\$ Change	2006	\$ 2005	Change
Air Canada Services						
GAAP operating income (loss)	(5)	(91)	86	114	191	(77)
Add back:						
Aircraft rent	75	90	(15)	314	341	(27)
Depreciation, amortization and obsolescence	135	106	29	493	404	89
EBITDAR	205	105	100	921	936	(15)
Add back:						
Special charge for labour restructuring	(8)	-	(8)	20	-	20
Special charge for Aeroplan miles	-	-	-	102	-	102
EBITDAR excluding special charges	197	105	92	1,043	936	107
Jazz						
GAAP operating income	33	34	(1)	144	129	15
Add back:						
Aircraft rent	34	28	6	134	80	54
Depreciation, amortization and obsolescence	5	4	1	21	18	3
EBITDAR	72	66	6	299	227	72
Consolidated total						
GAAP operating income (loss)	29	(57)	86	259	318	(59)
Add back:						
Aircraft rent	107	117	(10)	441	417	24
Depreciation, amortization and obsolescence	140	110	30	514	422	92
EBITDAR	276	170	106	1,214	1,157	57
Add back:						
Special charge for labour restructuring	(8)	-	(8)	20	-	20
Special charge for Aeroplan miles	-	-	-	102	-	102

EBITDAR excluding special charges	268	170	98	1,336	1,157	179
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Operating Income excluding the Special Charge for Aeroplan Miles and the Special Charge for Labour Restructuring

The Air Canada Services segment uses operating income excluding the special charges for Aeroplan miles and labour restructuring to assess the operating performance of its ongoing business without the effects of these special charges. These items are excluded from Air Canada Services' segment results as they could potentially distort the analysis of trends in business performance. The special charge for Aeroplan miles is the full and final settlement between the parties in connection with Air Canada's obligations for the redemption of pre-2002 miles. The special charge for labour restructuring is the total cost of the 20 percent non-unionized workforce reduction plan announced in February 2006. The special charges for Aeroplan miles and labour restructuring are not reflective of the underlying financial performance of the Air Canada Services segment from ongoing operations.

The following measure is not a recognized measure for financial statement presentation under Canadian GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies.

Operating income excluding the special charge for Aeroplan miles and the special charge for labour restructuring is reconciled to operating income as follows:

UNAUDITED						
(in millions -						
Canadian	Q4	Q4				
dollars)	2006	2005	Change	2006	2005	Change

Air Canada Services						
GAAP operating income (loss)	(5)	(91)	86	114	191	(77)
Add back:						
Special charge for Aeroplan miles	-	-	-	102	-	102

Operating income (loss), excluding the special charge for Aeroplan miles	(5)	(91)	86	216	191	25
Add back:						
Special charge for labour restructuring	(8)	-	(8)	20	-	20

Operating income (loss), excluding the special charges for Aeroplan miles and labour restructuring	(13)	(91)	78	236	191	45
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UNAUDITED						
(in millions -						
Canadian	Q4	Q4				
dollars)	2006	2005	Change	2006	2005	Change

Consolidated total						
GAAP operating income (loss)	29	(57)	86	259	318	(59)
Add back:						
Special charge for Aeroplan miles	-	-	-	102	-	102

Operating income (loss), excluding the special charge for Aeroplan miles	29	(57)	86	361	318	43
Add back:						
Special charge for labour restructuring	(8)	-	(8)	20	-	20

Operating income (loss), excluding the special charges for Aeroplan miles and labour restructuring	21	(57)	78	381	318	63
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For further information: Isabelle Arthur (Montréal), (514) 422-5788; Peter Fitzpatrick (Toronto), (416) 263-5576; Angela Mah (Vancouver), (604) 270-5741; aircanada.com

A STAR ALLIANCE MEMBER

