AIR CANADA

News Release

AIR CANADA REPORTS 2010 FIRST QUARTER RESULTS

Operating loss narrows; revenue and traffic growth reflect strengthening economy

MONTRÉAL, May 6, 2010 – Air Canada today reported a reduced operating loss of $126 million in the first quarter of 2010 compared to the operating loss of $188 million in the first quarter of 2009, an improvement of $62 million. Air Canada's operating revenues increased $128 million or 5 per cent from the same quarter in 2009. Earnings before interest, taxes, depreciation, amortization and aircraft rent (EBITDAR) of $138 million increased $81 million from the first quarter of 2009.

Air Canada reported a net loss of $85 million in the first quarter of 2010 which included gains on foreign exchange of $100 million. This compared to a net loss of $400 million in the first quarter of 2009 which included losses on foreign exchange of $101 million.

Passenger revenues of $2.095 billion in the first quarter of 2010 increased $84 million or 4 per cent from the first quarter of 2009. The passenger revenue increase was due to a 6.4 per cent growth in traffic, reflecting a strengthening economy and a 6.6 per cent growth in capacity. The capacity growth was achieved through a 3.1 per cent increase in aircraft utilization. Yield declined 2.2 per cent in the first quarter of 2010, primarily driven by the impact of a stronger Canadian dollar on foreign currency denominated passenger revenues, reduced fuel surcharges year-over-year, and greater fare discounting to stimulate traffic. A stronger Canadian dollar in the first quarter of 2010 versus the first quarter of 2009 accounted for a decrease of $61 million to first quarter 2010 foreign currency passenger revenues versus to the first quarter of 2009. In the first quarter of 2010, passenger revenues from the premium cabin increased $58 million or 14.9 per cent and accounted for almost 70 per cent of the total passenger revenue increase. The premium cabin revenue growth reflected a 10.6 per cent increase in traffic and a 3.9 per cent yield improvement compared to the first quarter of 2009. Although the premium revenue growth reflected a significant improvement from the first quarter of 2009, premium cabin revenues remained below the first quarter of 2008 level. Revenue per available seat mile (RASM) decreased 2.3 per cent from the first quarter of 2009, mainly due to the system yield decline as system passenger load factor was essentially unchanged from the same quarter in 2009.

Operating expenses increased $66 million or 3 per cent from the first quarter of 2009, mainly due to the capacity growth and higher fuel prices year-over-year. The impact of the stronger Canadian dollar and, to a lesser extent, the favourable impact of cost reduction initiatives partly offset operating expense increases. The impact of the stronger Canadian dollar in the first quarter of 2010 versus the first quarter of 2009 on foreign currency denominated expenses (mainly U.S. dollars) accounted for a reduction of $162 million to total operating expenses when compared to the first quarter of 2009.

Unit cost, as measured by operating expense per available seat mile (CASM), decreased 3.7 per cent compared to the first quarter of 2009. Excluding fuel expense, CASM decreased 4.2 per cent year-over-year, with the largest contributing factor in the CASM decrease (excluding fuel expense) being the favourable impact of foreign exchange. The 4.2 per cent decrease in CASM (excluding fuel expense) for the first quarter of 2010 was within the 3.5 to 4.5 per cent CASM (excluding fuel expense) decrease projected in Air Canada's news release dated February 10, 2010.

Air Canada reported a loss per diluted share of $0.31 in the first quarter of 2010 on an unadjusted basis. On an adjusted basis, the airline reported a loss per share (diluted) in the first quarter of 2010 of $0.62. Loss per share is adjusted to remove Air Canada's gains on foreign exchange of $100 million and a loss on assets of $1 million in the first quarter of 2010.

At March 31, 2010, Air Canada's cash, cash equivalents and short-term investments amounted to $1.621 billion and represented 16 per cent of 12-month trailing operating revenues. At April 30, 2010, Air Canada's cash balances amounted to approximately $1.7 billion.

Air Canada experienced disruptions to its transatlantic flying schedule following the closure of European airspace from April 15th to 20th due to volcanic ash resulting from the volcanic eruption in Iceland. Although some of the lost passenger revenue may be recovered, at this time, Air Canada estimates the negative impact on its second quarter operating income to be approximately $20 million.

"I am pleased to report year-over-year improvements in several key areas during the first quarter, traditionally one of the weakest quarters for the industry," said Calin Rovinescu, President and Chief Executive Officer. "Growth in revenue and traffic, combined with continued reductions in unit cost led to a narrowed operating loss compared to the previous year's quarter. We are encouraged to see some evidence of an economic recovery and that a gradual improvement in business travel demand can be expected over the coming year.

"While in 2009 we focused on stabilization and increasing our liquidity levels, in 2010 we are focused on the following key priorities: First, we are committed to improving our revenue and unit cost productivity without compromising our customers' experience. Our Cost Transformation Program remains on track to realize $270 million in annual savings and cost reduction benefits by the end of 2010, and $500 million by the end of 2011, on a run-rate basis, primarily through internal process improvements and more favourable vendor agreements.

"Second, we continue to strengthen our position as one of the world's leading international carriers by leveraging our hubs and partnerships to build global transfer points for domestic, transborder and international travelers. Our transatlantic joint venture, known as A++, is in the process of being implemented with United, Continental and Lufthansa. In addition, we are launching new services on the following routes: Toronto-Copenhagen, Toronto/Montreal-Brussels, Toronto and Montreal to Barcelona and Athens, as well as St. John's NL-London Heathrow.

"Our third priority, improving the quality of revenue, is also showing encouraging signs. Although premium cabin revenues are still below 2008 levels, a 15 per cent year-over-year increase provides a positive indicator that business travel demand is slowly beginning to return and customers recognize the value of our industry-leading products.

"Our fourth priority, re-engaging customers, is on track, underscored by improvements in customer satisfaction ratings and a number of recent industry awards including best airline in North America. This goal ties in with our fifth and most important priority in the on-going transformation of Air Canada, one of changing culture. Our performance during the Vancouver Winter Games is an indication of the progress we are making. Engaged and empowered Air Canada employees displayed an immense pride in Canada and Air Canada as they successfully accommodated unprecedented volumes of customers, teams and equipment. This same 'just do it' attitude was manifested again more recently, following the closure of European air space that forced carriers to cancel thousands of flights world wide. Our employees worked tirelessly to mitigate the impact on customers and recover quickly while maintaining a safe operation at all times. Our customers are noticing a difference. I want to thank our employees whose professionalism, entrepreneurial spirit and team work is earning the loyalty of our customers each and every day."

Current Outlook

Air Canada plans to increase its full year 2010 system capacity, as measured by available seat miles (ASMs), by 4 to 6 per cent from the full year 2009 level. Full year 2010 domestic ASM capacity is expected to increase up to 1.5 percent (as opposed to the full year 2010 domestic ASM capacity increase of 1.5 to 2.5 percent projected in Air Canada's news release dated February 10, 2010) compared to the full year 2009. The airline adjusted its projected domestic ASM capacity from what it had previously projected in order to better match its capacity with expected passenger demand. For the second quarter of 2010, Air Canada plans to increase its system ASM capacity by 4.5 to 5.5 per cent compared to the second quarter of 2009.

Air Canada expects its full year 2010 CASM, excluding fuel expense, to decrease from the full year 2009 level by 2 to 4 per cent. For the second quarter of 2010, Air Canada expects CASM, excluding fuel expense, to decrease from the second quarter of 2009 level by 1.5 to 2.5 per cent.

In the second quarter of 2009, Air Canada launched a company-wide Cost Transformation Program (CTP) that is targeting $500 million in annual revenue enhancements and cost reduction initiatives by the end of 2011. The initiatives can be categorized within three major areas: contract improvements (representing $200 million), operational process and productivity improvements (representing $160 million) and revenue optimization (representing $140 million). These estimates have been recently updated to reflect reclassifications and changes to various initiatives. Air Canada's CTP target for 2010 is $270 million and $500 million by the end of 2011, on a run-rate basis. As of the date of this news release, $255 million of the $270 million target for 2010 and $281 million of the $500 million target by the end of 2011, on a run-rate basis, have been achieved.

Air Canada's outlook assumes that the North American economy will continue to slowly recover in 2010. In addition, Air Canada expects that the Canadian dollar will trade, on average, at C$1.02 per U.S. dollar in the second quarter of 2010 and for the full year 2010 and that the price of fuel will average 72 cents per litre in the second quarter of 2010 and for the full year 2010 (both net of fuel hedging positions).

The following table summarizes Air Canada's above-mentioned outlook and related assumptions for the second quarter of 2010 and for the full year 2010:

	Full Year 2010 versus Full Year 2009	**Second Quarter 2010 versus Second Quarter 2009**
Current Outlook		
Available seat miles (System)	increase 4 to 6%	increase 4.5 to 5.5%
Available seat miles (Canada)	increase 0 to 1.5%	
CASM, excluding fuel expense	decrease 2 to 4%	decrease 1.5 to 2.5%
Major Assumptions		
Canadian dollar per U.S. dollar	1.02	1.02
Fuel price – Cents per litre (net of fuel hedging)	72 cents	72 cents
North American economy	Continued slow recovery	Continued slow recovery

The outlook provided constitutes forward-looking statements within the meaning of applicable securities laws and is based on a number of assumptions and subject to a number of risks. Please see section below entitled "Caution Regarding Forward-Looking Information."

(1) Non-GAAP Measures

Air Canada uses adjusted earnings (loss) per share to assess share performance without the effects of foreign exchange gains (losses). This 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.

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation, amortization and aircraft rent. EBITDAR is used to view operating results before aircraft rent, depreciation and amortization 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.

Air Canada's Interim Unaudited Consolidated Financial Statements and Notes and its Management's Discussion and Analysis (MD&A) for the first quarter of 2010 are available on Air Canada's website at www.aircanada.com, and will be filed on SEDAR at www.sedar.com. Readers should refer to Air Canada's First Quarter 2010 MD&A for a reconciliation of EBITDAR to operating income (loss).

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 26, 2010, refer to Air Canada's website at www.aircanada.com or 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 press release and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to 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 and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, environmental factors (including weather systems and other natural phenomena, such as volcanic eruptions, 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 Air Canada's First Quarter 2010 MD&A and, in particular, those identified in section 12 "Risk Factors" of Air Canada's First Quarter 2010 MD&A and section 19 "Risk Factors" of Air Canada's 2009 MD&A. The forward-looking statements contained in this news release represent Air Canada's expectations as of the date of this news release and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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Highlights

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

	First Quarter		
(Canadian dollars in millions, except per share figures)	**2010**	**2009**	**Change $**
Financial			
Operating revenues	2,519	2,391	128
Operating loss	(126)	(188)	62
Non-operating expense	(75)	(109)	34
Loss before non-controlling interest, foreign exchange and income taxes	(201)	(297)	96
Loss for the period	(85)	(400)	315
Operating margin %	(5.0%)	(7.9%)	2.9 pp
EBITDAR (1)	138	57	81
EBITDAR margin % (1)	5.5%	2.4%	3.1 pp
Cash, cash equivalents and short-term investments	1,621	1,087	534
Free cash flow	215	61	154
Adjusted debt/equity ratio %	79.3%	93.3%	(14.0) pp
Loss per share - Basic and diluted	($0.31)	($4.00)	$3.69
Operating Statistics			**Change %**
Revenue passenger miles (millions) (RPM)	11,692	10,984	6.4
Available seat miles (millions) (ASM)	14,727	13,821	6.6
Passenger load factor %	79.4%	79.5%	(0.1) pp
Passenger revenue per RPM (cents)	17.9	18.2	(2.2)
Passenger revenue per ASM (cents)	14.2	14.5	(2.3)
Operating revenue per ASM (cents)	17.1	17.3	(1.1)
Operating expense per ASM ("CASM") (cents)	18.0	18.7	(3.7)
CASM, excluding fuel expense (cents)	13.8	14.4	(4.2)
Average number of full-time equivalent (FTE) employees (thousands) (2)	22.9	22.7	0.7
Aircraft in operating fleet at period end (3)	327	334	(2.1)
Average fleet utilization (hours per day) (4)	9.4	9.1	3.1
Average aircraft flight length (miles) (4)	856	841	1.9
Fuel price per litre (cents) (5)	70.7	71.4	(1.0)
Fuel litres (millions)	872	827	5.4

(1) See section 14 "Non-GAAP Financial Measures" in Air Canada's First Quarter 2010 MD&A dated May 6, 2010 for a reconciliation of EBITDAR to operating income (loss).

(2) Reflects FTE employees at Air Canada. Excludes FTE employees at Jazz and other third party carriers operating under capacity purchase agreements with Air Canada.

(3) Includes Jazz aircraft covered under the Jazz CPA.

(4) Excludes charter operations. Also excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the Jazz CPA.

(5) Includes fuel handling and is net of fuel hedging results.

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