

News Release

Air Canada Reports First Quarter 2014 Results Improved operating income, EBITDAR and adjusted net loss

MONTRÉAL, May 15, 2014 – Air Canada today reported first quarter earnings before interest, taxes, depreciation, amortization and impairment, and aircraft rent (EBITDAR⁽¹⁾) of \$147 million compared to EBITDAR of \$145 million in the first quarter of 2013. Air Canada's EBITDAR of \$147 million was consistent with the EBITDAR projection provided in the airline's news release dated April 3, 2014 which forecasted EBITDAR in the first quarter of 2014 to be in line with last year's level. An operating loss of \$62 million in the first quarter of 2014 reflected a \$44 million improvement from the same quarter in 2013. On a GAAP basis, in the first quarter of 2014, Air Canada reported a net loss of \$341 million or \$1.20 per diluted share compared to a net loss of \$260 million or \$0.95 per diluted share in the first quarter of 2013. The net loss in the first quarter of 2014 included foreign exchange losses of \$161 million versus foreign exchange losses of \$40 million in the first quarter of 2013. On an adjusted basis⁽¹⁾, the airline reported a net loss of \$132 million or \$0.46 per diluted share compared to a net loss of \$143 million or \$0.52 per diluted share in the first quarter of 2013, an improvement of \$11 million or \$0.06 per diluted share.

"I am pleased to report that despite the challenges of several extreme weather events and the impact of a much lower Canadian dollar in the first quarter, we delivered improved EBITDAR and adjusted results over the previous year," said Calin Rovinescu, President and Chief Executive Officer. During this somewhat difficult quarter, we continued to make good progress on our cost transformation initiatives with adjusted CASM decreasing by 2.5 per cent and, nonetheless, achieved a solid revenue performance. Based on forward bookings, we expect a strong summer travel season ahead.

"As we enter a new phase of network growth and capital investment in our fleet and product, the successful completion of our unsecured notes offering in April was another important milestone for Air Canada. I was especially pleased with the offering's reception. The capital markets demonstrated their confidence in our future by supporting our debt on an unsecured basis on very competitive terms, recognizing, among other things, our improved leverage ratios, credit ratings and profitability, as well as the elimination of our pension deficit.

"We have many exciting developments coming up with respect to our fleet and we are now starting to reap the benefits of our significant capital investment program. We look forward to the delivery flight of our first of 37 Boeing 787 Dreamliners on May 18th, a very important step in Air Canada's fleet renewal that will provide further cost improvements and opportunities to develop international markets on a more competitive basis.

“Moreover, in order to improve the economics of our standard Boeing 777 long-haul fleet and to provide customers with a consistent product to our new Boeing 787 Dreamliners, we are planning on converting 12 Boeing 777-300ER and six Boeing 777-200LR aircraft into a more competitive configuration, adding a much desired premium economy cabin and refurbishing the International Business Class cabin to the new Boeing 787 state-of-the-art standards. The reconfiguration is designed to both lower unit costs and to allow us to compete more effectively with a harmonized product offering across our flagship international fleet. The reconfiguration project is planned to start in late 2015 and be completed in the second half of 2016.

“I would like to thank our employees for their ongoing focus on taking care of customers and transporting them safely to their destination, especially during the very challenging weather conditions we experienced in the first quarter.”

First Quarter Income Statement Highlights

System passenger revenues amounted to \$2,608 million, an increase of \$81 million or 3.2 per cent from the first quarter of 2013, on a 2.9 per cent growth in traffic and a 0.4 per cent improvement in yield. Passenger revenue per available seat mile (PRASM) decreased 0.5 per cent from the same quarter in 2013 on a 0.7 percentage point decline in passenger load factor which was partly offset by the yield improvement. In the first quarter of 2014, system premium cabin revenues increased \$37 million or 7.0 per cent on yield and traffic growth of 4.5 per cent and 2.4 per cent, respectively.

Operating expenses amounted to \$3,127 million, an increase of \$69 million or 2 per cent from the first quarter of 2013 on a 3.8 per cent increase in capacity. The unfavourable impact of a weaker Canadian dollar on foreign currency denominated operating expenses (mainly U.S. dollars), when compared to same quarter in 2013, increased operating expenses by \$130 million. This currency impact was partially offset by a favourable currency impact on passenger revenues of \$38 million, realized currency derivative gains of \$23 million and lower fuel prices (in U.S. dollars).

Air Canada’s adjusted cost per available seat mile (adjusted CASM⁽¹⁾), which excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items, decreased 2.5 per cent compared to the first quarter of 2013. The 2.5 per cent reduction in adjusted CASM was in line with the adjusted CASM decrease of 2.0 to 2.5 per cent projected in Air Canada’s news release dated April 3, 2014.

In the first quarter of 2014, Air Canada recorded an operating loss of \$62 million compared to an operating loss of \$106 million in the first quarter of 2013, an improvement of \$44 million.

Financial and Capital Management Highlights

At March 31, 2014, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to \$2,515 million (March 31, 2013 – \$2,092 million). Air Canada’s principal objective in managing liquidity risk is to maintain a minimum unrestricted liquidity level of \$1.7 billion.

At March 31, 2014, adjusted net debt⁽¹⁾ amounted to \$4,426 million, an increase of \$75 million from December 31, 2013. The increase in adjusted net debt was driven by net

borrowings of \$116 million and an unfavourable currency impact of \$155 million, partly offset by higher cash balances of \$182 million. The airline's adjusted net debt to EBITDAR ratio was 3.1 at March 31, 2014 versus a ratio 3.0 at December 31, 2013. Air Canada uses this ratio to manage its financial leverage risk and its objective is to maintain the ratio below 3.5.

Free cash flow⁽¹⁾ of \$34 million declined \$113 million from the same quarter in 2013. While operating cash flows improved year-over-year, free cash flow was impacted by the addition of the fifth and final Boeing 777-300ER aircraft delivered in February 2014.

For the 12 months ended March 31, 2014, return on invested capital (ROIC⁽¹⁾) was 10.7 per cent versus 8.0 per cent at March 31, 2013. Air Canada's goal is to achieve a sustainable ROIC of 10 to 13 per cent by 2015.

Current Outlook

For the second quarter of 2014, Air Canada expects its system ASM capacity, as measured by available seat miles (ASMs), to increase in the range of 7.5 to 8.5 per cent when compared to the second quarter of 2013.

Air Canada continues to expect its full year 2014 system ASM capacity to increase in the range of 6.5 to 8.0 per cent and its full year domestic ASM capacity to increase in the range of 3.0 to 4.0 per cent when compared to 2013. The domestic capacity growth will be primarily on transcontinental services. The projected system capacity increase will be achieved at a unit cost which is below historical levels.

For the second quarter of 2014, Air Canada expects adjusted CASM to decrease in the range of 3.5 to 4.5 per cent when compared to the second quarter of 2013.

For the full year 2014, Air Canada now expects adjusted CASM to decrease in the range of 3.0 to 4.0 per cent from the full year 2013 (as opposed to the 2.5 to 3.5 per cent decrease projected in Air Canada's news release dated April 3, 2014). This expected improvement is largely due to lower aircraft maintenance and depreciation, amortization and impairment expenses than previously projected.

Air Canada is taking tangible steps to improve its earnings through the execution of strategic initiatives designed to lower its overall cost structure and increase its competitiveness. These include:

- The growth of Air Canada rouge to enhance margins in leisure markets and to pursue opportunities in international leisure markets made viable by Air Canada rouge's lower cost structure.
- The introduction five new high-density Boeing 777 aircraft configured for high volume, leisure-oriented international routes.
- The introduction of Boeing 787 aircraft to operate existing Boeing 767 routes in a more efficient manner and to pursue international growth opportunities made viable by this aircraft's lower operating costs.

- Other ongoing cost reduction initiatives which are expected to deliver cost savings in excess of \$100 million per annum within the next five years.

Had these initiatives been implemented today with all other cost drivers remaining at 2012 levels, Air Canada would expect to achieve a 15 per cent reduction in CASM within the next five years. Also assuming the value of the Canadian dollar and fuel prices were at 2012 levels, the projected CASM reduction for 2014 would be 5 to 6 per cent.

With respect to Air Canada's narrow-body fleet, as part of its December 2013 Boeing 737 MAX order for 61 firm aircraft, 18 options and certain rights to purchase an additional 30 aircraft, Boeing agreed to purchase 20 Embraer 190 aircraft. These 20 Embraer 190 aircraft are planned to exit the fleet in the second half of 2015 when they will be initially replaced with 10 larger narrow-body leased aircraft. The replacement of these Embraer 190 aircraft with larger narrow-body aircraft will further reduce CASM. Ultimately, the 10 larger narrow-body leased aircraft will be replaced by Boeing 737 MAX aircraft which will also further lower CASM. With respect to the remaining 25 Embraer 190 aircraft in the airline's fleet, after careful consideration, Air Canada has decided to continue to operate the aircraft given their young age, productivity and high customer acceptance on existing routes and to avoid additional capital expenditures and debt.

Air Canada's outlook assumes Canadian GDP growth of 2.0 to 3.0 per cent for 2014. Air Canada also expects that the Canadian dollar will trade, on average, at C\$1.10 per U.S. dollar in the second quarter of 2014 and for the full year 2014 and that the price of jet fuel will average 91 cents per litre for the second quarter of 2014 and 92 cents per litre for the full year 2014.

The following table summarizes Air Canada's above-mentioned outlook for the second quarter and full year 2014 and related major assumptions:

	Second Quarter 2014 versus Second Quarter 2013	Full Year 2014 versus Full Year 2013
<u>Current Outlook</u>		
Available seat miles (System)	Increase 7.5% to 8.5%	Increase 6.5% to 8.0%
Available seat miles (Canada)		Increase 3.0% to 4.0%
Adjusted CASM*	Decrease 3.5% to 4.5%	Decrease 3.0% to 4.0%

*Excludes fuel expense, the cost of ground packages at Air Canada Vacations and unusual items

	Major Assumptions – Second Quarter 2014	Major Assumptions – Full Year 2014
<u>Major Assumptions</u>		
Canadian dollar per U.S. dollar	1.10	1.10
Jet fuel price – CAD cents per litre	91 cents	92 cents
Canadian economy	2014 Annualized Canadian GDP growth of 2.0% to 3.0%	Canadian GDP growth of 2.0% to 3.0%

For the full year 2014, Air Canada also expects:

- Depreciation, amortization and impairment expense to decrease by \$45 million from the full year 2013 (as opposed to the \$40 million decrease projected in Air Canada's news release dated February 12, 2014).
- Employee benefits expense to decrease by \$25 million from the full year 2013 (as opposed to the \$20 million decrease projected in Air Canada's news release dated February 12, 2014). This improvement is driven by the impact of revised actuarial assumptions related to post-employment benefits.
- Aircraft maintenance expense to increase by \$90 million (approximately \$40 million of which is expected to be due to the weaker Canadian dollar when compared to the U.S. dollar) from the full year 2013 (as opposed to the \$110 million increase projected in Air Canada's news release dated February 12, 2014). This improvement is driven by cost reduction initiatives, including savings obtained through contract negotiations.
- Net financing expense relating to employee benefits (in non-operating expense on Air Canada's statement of operations) to decrease by \$75 million from the full year 2013.

The following table summarizes the above-mentioned projections for the full year 2014:

	Full Year 2014 versus Full Year 2013
Depreciation, amortization and impairment expense	Decrease \$45 million
Employee benefits expense	Decrease \$25 million
Aircraft maintenance expense	Increase \$90 million
Net financing expense relating to employee benefits (in non-operating expense)	Decrease of \$75 million

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

⁽¹⁾ **Non-GAAP Measures**

Below is a description of certain non-GAAP measures used by Air Canada to provide additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under Canadian GAAP and do not have standardized meanings and may not be comparable to similar measures presented by other public companies. Refer to Air Canada's First Quarter 2014 MD&A for reconciliation of non-GAAP financial measures.

- Adjusted net income (loss) and adjusted net income (loss) per diluted share are used by Air Canada to assess its performance without the effects of foreign exchange, net financing expense on employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value and unusual items.
- EBITDAR is commonly used in the airline industry and is used by Air Canada to assess earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets.
- Adjusted CASM is used by Air Canada to assess the operating performance of its ongoing airline business without the effects of fuel expense, the cost of ground packages at Air Canada Vacations and unusual items, such as impairment charges and benefit plan amendments, as such expenses may distort the analysis of certain business trends and render comparative analyses to other airlines less meaningful.
- Free cash flow is used by Air Canada as an indicator of the financial strength and performance of its business because it shows how much cash is available for such purposes as repaying debt, meeting ongoing financial obligations and reinvesting in Air Canada.
- Adjusted net debt is a key component of the capital managed by Air Canada and provides a measure of the airline's net indebtedness. Adjusted net debt is calculated as the sum of total long-term debt and finance lease obligations and capitalized operating leases less cash and cash equivalents and short-term investments.
- Return on invested capital is used by Air Canada to assess the efficiency with which it allocates its capital to generate returns. Return is based on Adjusted net income (loss) (as discussed in the section above), excluding interest expense and implicit interest on operating leases. Invested capital includes average long-term debt, average finance lease obligations, the value of capitalized operating leases (calculated by multiplying annualized aircraft rent expense by 7) and the average market capitalization of Air Canada's outstanding shares.

Air Canada's First Quarter 2014 interim Consolidated Financial Statements and Notes and its First Quarter 2014 Management's Discussion and Analysis are available on Air Canada's website at aircanada.com, and will be filed on SEDAR at www.sedar.com.

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 28, 2014, consult SEDAR at www.sedar.com.

Analyst Conference Call Advisory

Air Canada will host its quarterly analysts' call today, May 15, 2014 at 08:30 ET. Calin Rovinescu, President and Chief Executive Officer, Michael Rousseau, Executive Vice President and Chief Financial Officer, and Ben Smith, Executive Vice President and Chief Commercial Officer will be available for analysts' questions. Immediately following the analysts' Q&A session, Michael Rousseau, Executive Vice President and Chief Financial Officer, and Pierre Houle, Treasurer, will be available to answer questions from holders of

Air Canada's bonds and term loan B lenders. Media and the public may access this call on a listen-in basis. Details are as follows:

Dial 416-340-2219 or 1-866-226-1798

Live audio webcast: <http://bell.media-server.com/m/p/6fjs4cyi>

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This news release includes forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to preliminary results, guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, energy prices, currency exchange and 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 news release and those identified in section 18 "Risk Factors" of Air Canada's 2013 MD&A dated February 12, 2014. The forward-looking statements contained in this news release represent Air Canada's expectations as of the date of this news release (or as of the date they are otherwise stated to be made), and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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INFORMATION

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HIGHLIGHTS

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

(Canadian dollars in millions, except where indicated)	First Quarter		
	2014	2013	\$ Change
Financial Performance Metrics			
Operating revenues	3,065	2,952	113
Operating loss	(62)	(106)	44
Non-operating expense	(279)	(154)	(125)
Net loss	(341)	(260)	(81)
Adjusted net loss ⁽¹⁾	(132)	(143)	11
Operating margin %	(2.0)%	(3.6)%	1.6 pp
EBITDAR ⁽²⁾	147	145	2
EBITDAR margin % ⁽²⁾	4.8%	4.9%	(0.1) pp
Unrestricted liquidity ⁽³⁾	2,515	2,092	423
Free cash flow ⁽⁴⁾	34	147	(113)
Adjusted net debt ⁽⁵⁾	4,426	3,987	439
Return on invested capital ("ROIC") % ⁽⁶⁾	10.7%	8.0%	2.7 pp
Diluted loss per share	\$ (1.20)	\$ (0.95)	\$ (0.25)
Adjusted net loss per share – diluted ⁽¹⁾	\$ (0.46)	\$ (0.52)	\$ 0.06
Operating Statistics ⁽⁷⁾			% Change
Revenue passenger miles (millions) ("RPM")	13,466	13,087	2.9
Available seat miles (millions) ("ASM")	16,774	16,164	3.8
Passenger load factor %	80.3%	81.0%	(0.7) pp
Passenger revenue per RPM ("Yield") (cents)	19.1	19.0	0.4
Passenger revenue per ASM ("PRASM") (cents)	15.3	15.4	(0.5)
Operating revenue per ASM (cents)	18.3	18.3	-
Operating expense per ASM ("CASM") (cents)	18.6	18.9	(1.5)
Adjusted CASM (cents) ⁽⁸⁾	12.2	12.5	(2.5)
Average number of full-time equivalent ("FTE") employees (thousands) ⁽⁹⁾	24.3	24.5	(0.8)
Aircraft in operating fleet at period end	353	350	0.9
Average fleet utilization (hours per day)	9.8	10.1	(2.1)
Aircraft frequencies (thousands)	131	134	(2.2)
Average aircraft flight length (miles)	832	826	0.7
Economic fuel cost per litre (cents) ⁽¹⁰⁾	94.7	92.4	2.4
Fuel litres (millions)	973	953	2.1
Revenue passengers carried (millions) ⁽¹¹⁾	8.7	8.5	3.2

- (1) *Adjusted net income (loss) and adjusted net income (loss) per share – diluted are non-GAAP financial measures. Refer to section 15 "Non-GAAP Financial Measures" of Air Canada's First Quarter 2014 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 15 "Non-GAAP Financial Measures" of Air Canada's First Quarter 2014 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 March 31, 2014, unrestricted liquidity was comprised of cash and short-term investments of \$2,390 million and undrawn lines of credit of \$125 million. At March 31, 2013, unrestricted liquidity was comprised of cash and short-term investments of \$2,056 million and undrawn lines of credit of \$36 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 6.5 of Air Canada's First Quarter 2014 MD&A for additional information.*
- (5) *Adjusted net debt (total debt less cash, cash equivalents and short-term investments plus capitalized operating leases) is a non-GAAP financial measure. Refer to section 6.3 of Air Canada's First Quarter 2014 MD&A for additional information.*
- (6) *Return on invested capital ("ROIC") is a non-GAAP financial measure. Refer to section 15 "Non-GAAP Financial Measures" of Air Canada's First Quarter 2014 MD&A for additional information*
- (7) *Operating statistics (except for average number of FTE employees) 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 15 "Non-GAAP Financial Measures" of Air Canada's First Quarter 2014 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) *Includes fuel handling expenses. Economic fuel price per litre is a non-GAAP financial measure. Refer to section 4 "Results of Operations" of Air Canada's First Quarter 2014 MD&A for additional information.*
- (11) *Revenue passengers are counted on a flight number basis which is consistent with the IATA definition of revenue passengers carried.*