

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 entity expects to be entitled in exchange for those goods or services. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements.

Air Canada adopted the standard effective January 1, 2018 using the full retrospective method, which requires each prior reporting period presented to be restated. Refer to Note 2 of Air Canada's first quarter 2018 interim unaudited condensed consolidated financial statements for additional information on the impact. The 2017 financial statements, restated to reflect the adoption of IFRS 15, are presented below.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION - RESTATED FOR IFRS 15

| Unaudited (Canadian dollars in millions) | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 |
|---|---------------------------|--------------------------|-------------------------------|------------------------------|
| ASSETS | | | | |
| Current | | | | |
| Cash and cash equivalents | \$ 1,270 | \$ 1,299 | \$ 1,146 | \$ 642 |
| Short-term investments | 2,354 | 2,755 | 2,989 | 3,162 |
| Total cash, cash equivalents and short-term investments | 3,624 | 4,054 | 4,135 | 3,804 |
| Restricted cash | 83 | 67 | 108 | 148 |
| Accounts receivable | 785 | 871 | 789 | 814 |
| Aircraft fuel inventory | 80 | 62 | 75 | 91 |
| Spare parts and supplies inventory | 110 | 111 | 107 | 115 |
| Prepaid expenses and other current assets | 368 | 358 | 374 | 425 |
| Total current assets | 5,050 | 5,523 | 5,588 | 5,397 |
| Deposits and other assets | 468 | 456 | 450 | 465 |
| Property and equipment | 8,845 | 9,133 | 9,072 | 9,252 |
| Pension assets | 1,007 | 1,069 | 1,179 | 1,583 |
| Deferred income tax | - | - | 594 | 456 |
| Intangible assets | 312 | 309 | 313 | 318 |
| Goodwill | 311 | 311 | 311 | 311 |
| Total assets | \$ 15,993 | \$ 16,801 | \$ 17,507 | \$ 17,782 |
| LIABILITIES | | | | |
| Current | | | | |
| Accounts payable and accrued liabilities | \$ 1,753 | \$ 1,675 | \$ 1,898 | \$ 1,961 |
| Advance ticket sales | 2,736 | 3,194 | 2,393 | 2,469 |
| Current portion of long-term debt and finance leases | 825 | 871 | 769 | 671 |
| Total current liabilities | 5,314 | 5,740 | 5,060 | 5,101 |
| Long-term debt and finance leases | 5,959 | 5,894 | 5,560 | 5,448 |
| Pension and other benefit liabilities | 2,559 | 2,697 | 2,595 | 2,592 |
| Maintenance provisions | 961 | 992 | 968 | 1,003 |
| Other long-term liabilities | 199 | 194 | 214 | 216 |
| Total liabilities | \$ 14,992 | \$ 15,517 | \$ 14,397 | \$ 14,360 |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | 791 | 794 | 801 | 799 |
| Contributed surplus | 72 | 69 | 68 | 69 |
| Hedging reserve | (2) | (1) | - | - |
| Retained earnings | 140 | 422 | 2,241 | 2,554 |
| Total shareholders' equity | 1,001 | 1,284 | 3,110 | 3,422 |
| Total liabilities and shareholders' equity | \$ 15,993 | \$ 16,801 | \$ 17,507 | \$ 17,782 |

CONSOLIDATED STATEMENT OF OPERATIONS - RESTATED FOR IFRS 15

| Unaudited (Canadian dollars in millions except per share figures) | Three months ended | | | |
|---|--------------------|------------------|-----------------------|----------------------|
| | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 |
| Operating revenues | | | | |
| Passenger | \$ 3,120 | \$ 3,550 | \$ 4,514 | \$ 3,409 |
| Cargo | 148 | 168 | 194 | 198 |
| Other | 374 | 192 | 172 | 213 |
| Total revenues | 3,642 | 3,910 | 4,880 | 3,820 |
| Operating expenses | | | | |
| Aircraft fuel | 659 | 701 | 832 | 735 |
| Regional airlines expense | 632 | 648 | 662 | 675 |
| Wages, salaries and benefits | 644 | 663 | 690 | 674 |
| Airport and navigation fees | 210 | 230 | 264 | 201 |
| Aircraft maintenance | 228 | 226 | 241 | 243 |
| Depreciation, amortization and impairment | 228 | 242 | 241 | 245 |
| Sales and distribution costs | 181 | 188 | 232 | 169 |
| Ground package costs | 256 | 103 | 73 | 106 |
| Aircraft rent | 122 | 130 | 125 | 126 |
| Food, beverages and supplies | 85 | 97 | 112 | 89 |
| Communications and information technology | 71 | 58 | 63 | 62 |
| Special items | 30 | - | - | - |
| Other | 326 | 332 | 369 | 362 |
| Total operating expenses | 3,672 | 3,618 | 3,904 | 3,687 |
| Operating income (loss) | (30) | 292 | 976 | 133 |
| Non-operating income (expense) | | | | |
| Foreign exchange gain (loss) | 70 | 68 | 44 | (62) |
| Interest income | 12 | 14 | 16 | 18 |
| Interest expense | (79) | (80) | (73) | (79) |
| Interest capitalized | 9 | 9 | 9 | 9 |
| Net financing expense relating to employee benefits | (16) | (16) | (15) | (18) |
| Gain (loss) on financial instruments recorded at fair value | - | 7 | 17 | (1) |
| Gain on sale and leaseback of assets | 26 | 26 | - | - |
| Gain (loss) on debt settlements and modifications | - | - | (3) | 24 |
| Other | (5) | (6) | (6) | (4) |
| Total non-operating income (expense) | 17 | 22 | (11) | (113) |
| Income (loss) before income taxes | (13) | 314 | 965 | 20 |
| Recovery of (provision for) income taxes | - | (3) | 758 | (12) |
| Net income (loss) for the period | \$ (13) | \$ 311 | \$ 1,723 | \$ 8 |
| Net income (loss) per share | | | | |
| Basic earnings (loss) per share | \$ (0.05) | \$ 1.15 | \$ 6.33 | \$ 0.02 |
| Diluted earnings (loss) per share | \$ (0.05) | \$ 1.13 | \$ 6.22 | \$ 0.02 |

CONSOLIDATED STATEMENT OF CASH FLOW - RESTATED FOR IFRS 15

| Unaudited (Canadian dollars in millions) | Three months ended | | | |
|---|--------------------|------------------|-----------------------|----------------------|
| | March 31, 2017 | June 30, 2017 | September 30, 2017 | December 31, 2017 |
| Cash flows from (used for) | | | | |
| Operating | | | | |
| Net income (loss) for the period | \$ (13) | \$ 311 | \$ 1,723 | \$ 8 |
| Adjustments to reconcile to net cash from operations | | | | |
| Deferred income tax | - | - | (771) | 12 |
| Depreciation, amortization and impairment | 235 | 249 | 248 | 252 |
| Foreign exchange (gain) loss | (64) | (37) | (123) | 41 |
| Gain on sale and leaseback of assets | (26) | (26) | - | - |
| Loss (gain) on debt settlements and modifications | - | - | 3 | (24) |
| Employee benefit funding less than expense | 66 | 53 | 62 | 56 |
| Financial instruments recorded at fair value | 8 | (17) | (14) | 9 |
| Change in maintenance provisions | 34 | 15 | 34 | 42 |
| Changes in non-cash working capital balances | 786 | 261 | (696) | (9) |
| Other | 1 | 20 | 27 | 2 |
| Net cash flows from operating activities | 1,027 | 829 | 493 | 389 |
| Financing | | | | |
| Proceeds from borrowings | 371 | 362 | - | - |
| Reduction of long-term debt and finance lease obligations | (152) | (219) | (203) | (240) |
| Shares purchased for cancellation | (33) | (3) | - | (35) |
| Issue of shares | 1 | 2 | 4 | 2 |
| Financing fees | (3) | (9) | (3) | (11) |
| Net cash flows from (used in) financing activities | 184 | 133 | (202) | (284) |
| Investing | | | | |
| Short-term investments | (162) | (413) | (256) | (167) |
| Additions to property, equipment and intangible assets | (926) | (895) | (169) | (432) |
| Proceeds from sale of assets | 1 | 1 | 1 | 2 |
| Proceeds from sale and leaseback of assets | 369 | 371 | - | - |
| Other | (6) | 5 | 9 | (24) |
| Net cash flows used in investing activities | (724) | (931) | (415) | (621) |
| Effect of exchange rate changes on cash and cash equivalents | (4) | (2) | (29) | 12 |
| Increase (decrease) in cash and cash equivalents | 483 | 29 | (153) | (504) |
| Cash and cash equivalents, beginning of period | 787 | 1,270 | 1,299 | 1,146 |
| Cash and cash equivalents, end of period | \$ 1,270 | \$ 1,299 | \$ 1,146 | \$ 642 |