AIR CANADA

News Release

Air Canada Reports First Quarter 2018 Results

- First quarter EBITDAR of $397 million and operating loss of $14 million
- Record first quarter operating revenues of $4.071 billion
- Record unrestricted liquidity of $4.883 billion
- Leverage ratio of 2.0

MONTRÉAL, April 30, 2018 – Air Canada today reported first quarter 2018 EBITDAR(1) (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent) of $397 million compared to first quarter 2017 EBITDAR of $366 million. Air Canada reported an operating loss of $14 million compared to an operating loss of $30 million in the first quarter of 2017. The airline reported an adjusted pre-tax loss(1) of $72 million in the first quarter of 2018 compared to an adjusted pre-tax loss of $63 million in the prior year's quarter. On a GAAP basis, in the first quarter of 2018, Air Canada reported a loss before income taxes of $184 million, which included losses on foreign exchange of $112 million, compared to a loss before income taxes of $13 million, which included gains on foreign exchange of $70 million, in the first quarter of 2017.

Special items are excluded from Air Canada's reported EBITDAR calculations. See below for a description of the special item recorded in the first quarter of 2017.

"We are pleased with our strong results in the first quarter, historically the most challenging of the year for airlines in Canada. Alongside the record quarterly and annual results we have previously reported, our performance in this more challenging quarter affirms Air Canada's progress towards consistent earnings and long-term, sustained profitability," said Calin Rovinescu, President and Chief Executive Officer.

"We generated record first quarter passenger revenue of $3.5 billion, with traffic growth of 11.4 per cent outstripping a capacity increase of 8.6 per cent. Given the cost discipline we've developed, we delivered better than expected adjusted CASM and overall cost performance in the first quarter. We achieved record unrestricted liquidity of $4.9 billion and a leverage ratio(1) of 2.0, further reducing our risk profile and positioning us towards investment grade. The demand environment continues to show strength, and our advance bookings are in line with expectations. We remain well positioned to compete effectively and adapt to variables, with the launch of new products and fare offerings, cost reductions and other levers at our disposal.

"I thank our employees for their hard work safely transporting and caring for our customers during the quarter, particularly during periods of extreme weather, including the recent severe ice storm at our Toronto global hub. Their unwavering focus on our customers' needs as a crucial part of our ongoing transformation is evident in all aspects of our operation, from rising customer satisfaction scores to cost improvements that have contained adjusted unit cost increases below our own projections. Finally, I am pleased that our customers are increasingly recognizing the strides we have made and thank them for their patronage and loyalty in choosing Air Canada," said Mr. Rovinescu.

First Quarter Income Statement Highlights

In the first quarter of 2018, on capacity growth of 8.6 per cent, record system passenger revenues of $3.489 billion increased $369 million or 11.8 per cent from the first quarter of 2017. The increase in system passenger revenues was driven by traffic growth of 11.4 per cent and a yield improvement of 0.4 per cent. An increase in average stage length of 3.9 per cent had the effect of reducing system yield by 2.2 percentage points. On a stage-length adjusted basis, system yield increased 2.6 per cent year-over-year.

In the business cabin, system passenger revenues increased $88 million or 13.8 per cent from the first quarter of 2017 on traffic and yield growth of 9.1 per cent and 4.3 per cent, respectively.

In the first quarter of 2018, operating expenses of $4.085 billion increased $413 million or 11 per cent from the same quarter in 2017, mainly driven by the increase in capacity and higher fuel prices year-over-year.

Air Canada's cost per available seat mile (CASM) increased 2.4 per cent from the first quarter of 2017. The airline's adjusted CASM(1) increased 0.4 per cent from the prior year's quarter, better than the 2.0 to 3.0 percent increase projected in Air Canada's news release dated February 16, 2018. This improvement was mainly due to lease extensions that were negotiated earlier than anticipated, which resulted in a decrease to maintenance provisions in the first quarter of 2018, timing of certain maintenance events previously scheduled for the first quarter of 2018 (the majority of which was moved to the second quarter of 2018), and the impact of initiatives related to Air Canada's $250 million Cost Transformation Program.

Air Canada recorded an adjusted net loss(1) of $52 million or $0.19 per diluted share in the first quarter of 2018 compared to an adjusted net loss of $63 million or $0.23 per diluted share in first quarter of 2017. On a GAAP basis, the airline reported a first quarter 2018 net loss of $170 million or $0.62 per diluted share compared to a first quarter 2017 net loss of $13 million or $0.05 per diluted share. In the first quarter of 2018, Air Canada recorded losses on foreign exchange of $112 million compared to gains on foreign exchange of $70 million in the first quarter of 2017.

Special Item

In the first quarter of 2017, Air Canada recorded a provision of $30 million relating to a fine which was reinstated by a decision of the European Commission pertaining to cargo investigations. Air Canada paid the fine in the second quarter of 2017, pending the outcome of its appeal of the decision.

Financial and Capital Management Highlights

At March 31, 2018, unrestricted liquidity (cash, short-term investments and undrawn lines of credit) amounted to 4.883 billion, the highest level in Air Canada's history (December 31, 2017 – $4.181 billion).

At March 31, 2018, adjusted net debt of $6.063 billion decreased $53 million from December 31, 2017. In the first quarter of 2018, the increase in cash and short-term investment balances of $692 million more than offset the increase in long-term debt and finance lease balances of $618 million. At March 31, 2018, Air Canada's leverage ratio(1) was 2.0 versus 2.1 at December 31, 2017.

Record net cash flows from operating activities of $1.111 billion improved $84 million compared to the first quarter of 2017. Free cash flow(1) of $193 million in the first quarter of 2018 decreased $277 million from the first quarter of 2017 mainly due to Air Canada having received proceeds from the sale and leaseback of aircraft in the first quarter of 2017.

For the 12 months ended March 31, 2018, return on invested capital (ROIC(1)) was 15.0 per cent, significantly higher than Air Canada's weighted average cost of capital of 7.7 per cent. Air Canada updated its methodology to calculate ROIC, as described in the section below entitled "Non-GAAP Measures".

Current Outlook

In addition to reaffirming its EBITDAR margin, ROIC, free cash flow and leverage ratio targets discussed in its September 19, 2017 Investor Day news release, Air Canada is providing the following guidance:

Full Year 2018 Free Cash Flow

Air Canada continues to expect positive free cash flow in the range of $250 to $500 million in 2018. Air Canada is not planning any sale-leaseback transactions in 2018.

Second Quarter and Full Year 2018 Adjusted CASM

For the second quarter of 2018, Air Canada expects adjusted CASM (which excludes fuel expense, the cost of ground packages at Air Canada Vacations and special items) to increase 0.5 to 1.5 per cent when compared to the second quarter of 2017.

Air Canada now expects full year 2018 adjusted CASM to range between a decrease of 0.5 per cent to an increase of 1.0 per cent when compared to the full year 2017, as opposed to the range of a decrease of 0.5 per cent to an increase of 1.5 per cent projected in Air Canada's news release dated February 16, 2018. The improved range takes into account the initial success of our $250 million Cost Transformation Program. Approximately 0.75 percentage points of this range are driven by non-recurring costs for branding initiatives and new uniforms, customer service and technology investments, accelerated depreciation for Embraer 190 aircraft, and 2018 start-up costs of approximately $10 million related to Air Canada's new loyalty program scheduled to launch in 2020.

Full Year 2018 Depreciation, Amortization and Impairment Expense

Air Canada continues to expect depreciation, amortization and impairment expense to increase by approximately $150 million from the full year 2017.

Full Year 2018 Employee Benefits Expense

Air Canada continues to expect employee benefits expense to increase by approximately $75 million from the full year 2017.

Full Year 2018 Aircraft Maintenance Expense

Air Canada now expects aircraft maintenance expense to increase by approximately $90 million from the full year 2017, as opposed to the increase of $140 million projected in Air Canada's news release dated February 16, 2018. This improvement is largely due to Air Canada expecting to accelerate certain lease extensions in the remainder of 2018 and the anticipated impact of cost reduction initiatives.

2018 Outlook – Major Assumptions: Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its assumptions, Air Canada assumes relatively modest Canadian GDP growth for the second quarter and full year 2018. Air Canada also expects that the Canadian dollar will trade, on average, at C$1.27 per U.S. dollar in the second quarter and at C$1.26 per U.S. dollar for the full year 2018 and that the price of jet fuel will average 77 CAD cents per litre in the second quarter and 75 CAD cents per litre for the full year 2018.

The following table summarizes the above-mentioned outlook for the second quarter and the full year 2018 and related major assumptions:

	Second Quarter 2018 versus Second Quarter 2017	**Full Year 2018 versus Full Year 2017**
Free Cash Flow		$250 - $500 million
Adjusted CASM	Increase of 0.5% to 1.5%	Range between a decrease of 0.5% to an increase of 1.0%
Depreciation, Amortization and Impairment Expense		Increase by $150 million
Employee Benefits Expense		Increase by $75 million
Aircraft Maintenance Expense		Increase by $90 million
Major Assumptions	**Second Quarter 2018**	**Full Year 2018**
Canadian GDP	Relatively modest growth	Relatively modest growth
Canadian dollar per U.S. dollar	1.27	1.26
Jet fuel price – CAD cents per litre	77	75

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".

IFRS 15 – Revenue from Contracts with Customers

Air Canada adopted *IFRS 15 – Revenue from Contracts with Customers* (replacing *IAS 18 Revenue and related interpretations*) effective January 1, 2018 with restatement of 2017 amounts. A summary of the main changes are as follows:

- Certain passenger and cargo related fees and surcharges were reclassified from Other to Passenger revenue and to Cargo revenue on Air Canada's consolidated statement of operations to better reflect the nature and aggregation of similar revenue items. This reclassification has no impact on total operating revenues.

- Incremental costs of obtaining passenger revenues, such as credit card fees and global distribution system charges, are capitalized at time of sale and expensed at the time of passenger revenue recognition. Prior to adoption of *IFRS 15*, these costs were expensed as incurred at the time the flight ticket was sold.

Refer to Note 2 of Air Canada's first quarter 2018 interim unaudited condensed consolidated financial statements for additional information.

(1) Non-GAAP Measures

Below is a description of certain non-GAAP measures used by Air Canada in an effort to provide readers with additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Readers are advised to review the section entitled Non-GAAP Financial Measures in Air Canada's 2017 MD&A for a further discussion of such non-GAAP measures and a reconciliation of such measures to Canadian GAAP.

- Adjusted net income (loss) and adjusted earnings (loss) per share – diluted are used by Air Canada as a means to assess the overall financial performance of its business without the after-tax effects of foreign exchange gains or losses, net financing income (expense) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value, gain on sale and leaseback of assets, gains or losses on debt settlements and modifications and special items as these may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful. Starting as of and including the fourth quarter of 2017, adjusted net income (loss) is determined net of tax and includes the income tax effect of adjustments included in the measurement of adjusted net income (loss).

- Adjusted pre-tax income (loss) is used by Air Canada to assess the overall pre-tax financial performance of its business without the effects of foreign exchange gains or losses, net financing income (expense) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value, gain on sale and leaseback of assets, gains or losses on debt settlements and modifications, and special items. Air Canada uses adjusted pre-tax income (loss) to determine return on invested capital.

- EBITDAR is commonly used in the airline industry and is used by Air Canada as a means to view operating results 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. Air Canada excludes special items from EBITDAR as such items would distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

- Adjusted CASM is used by Air Canada as a means to assess the operating and cost performance of its ongoing airline business without the effects of fuel expense, the cost of ground packages at Air Canada Vacations® and special items, as such expenses may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful. Aircraft fuel expense is excluded from operating expense results as it fluctuates widely depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and Canada/U.S. currency exchange rates. Air Canada also incurs expenses related to ground packages at Air Canada Vacations® which some airlines, without comparable tour operator businesses, may not incur. In addition, these costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

- "Leverage ratio" refers to adjusted net debt to trailing 12-month EBITDAR leverage ratio and is commonly used in the airline industry and is used by Air Canada as a means to measure financial leverage. Leverage ratio is calculated by dividing adjusted net debt by trailing 12-month EBITDAR (excluding special items). As mentioned above, Air Canada excludes special items from EBITDAR results (which are used to determine leverage ratio) as such items would distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

- Free cash flow is commonly used in the airline industry and is used by Air Canada as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada is able to generate from operations and after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment and intangible assets, and is net of proceeds from sale-leaseback transactions.

- Return on invested capital (ROIC) is used by Air Canada as a means to assess the efficiency with which it allocates its capital to generate returns. Return is based on adjusted pre-tax income (or loss, as applicable), excluding interest expense and implicit interest on operating leases. Invested capital includes average year-over-year long-term debt, average year-over-year finance lease obligations, average year-over-year shareholders' equity and the value of capitalized operating leases (the latter calculated by multiplying annualized aircraft rent by 7). Air Canada calculates invested capital based on a book value-based method of calculating ROIC, as described above. Following an increase in Air Canada's total cash, cash equivalents and short-term investments, Air Canada decided to revise its methodology to reduce the average year-over-year book value of shareholders' equity by excess cash not required to run its core business operations. Air Canada has used average year-over-year advance ticket sales as a proxy for the minimum cash required for ongoing core business operations. This change should result in invested capital more closely reflecting operating capital. Refer to the definition of adjusted pre-tax income (loss) for a discussion as to why Air Canada uses adjusted pre-tax income (loss) to assess the overall pre-tax financial performance of its business.

Air Canada's First Quarter 2018 Interim Unaudited Consolidated Financial Statements and Notes and its First Quarter 2018 Management's Discussion and Analysis of Results of Operations and Financial Condition 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 19, 2018, consult SEDAR at **www.sedar.com**.

Analyst Conference Call Advisory

Air Canada will host its quarterly analysts' call today, April 30, 2018 at 08:30 E.T. Calin Rovinescu, President and Chief Executive Officer, Michael Rousseau, Executive Vice President and Chief Financial Officer, and Benjamin Smith, President, Passenger Airlines, will be available for analysts' questions. Immediately following the analysts' Q&A session, Mr. Rousseau and Pierre Houle, Managing Director and 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 416-340-2218 or 1-800-478-9326

Live audio webcast: **http://bell.media-server.com/m/p/3rec5bid**

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 using 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, our ability to successfully achieve or sustain positive net profitability or to realize our initiatives and objectives, industry, market, credit, economic and geopolitical conditions, energy prices, currency exchange, competition, our dependence on technology, cybersecurity risks, our ability to pay our indebtedness and secure financing, our ability to successfully implement appropriate strategic initiatives or reduce operating costs, war, terrorist acts, epidemic diseases, airport user and related fees, high levels of fixed costs, liquidity, our dependence on key suppliers including regional carriers and Aimia Canada Inc., our success in transitioning from the Aeroplan program and launching our new loyalty program, casualty losses, employee and labour relations and costs, our ability to preserve and grow our brand, pension issues, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), limitations due to restrictive covenants, insurance issues and costs, our dependence on Star Alliance, interruptions of service, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties and our ability to attract and retain required personnel, as well as the factors identified in Air Canada's public disclosure file available at www.sedar.com and, in particular, those identified in section 18 "Risk Factors" of Air Canada's 2017 MD&A. The forward-looking statements contained or incorporated by reference 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 because of new information, future events or otherwise, except as required under applicable securities regulations.

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INFORMATION

Investor Relations: (514) 422-7353

Internet: aircanada.com

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 2018	First Quarter 2017 [(1)]	$ Change
Financial Performance Metrics			
Operating revenues	4,071	3,642	429
Operating loss	(14)	(30)	16
Loss before income taxes	(184)	(13)	(171)
Net loss	(170)	(13)	(157)
Adjusted pre-tax loss [(2)]	(72)	(63)	(9)
Adjusted net loss [(2)]	(52)	(63)	11
Operating margin %	(0.3%)	(0.8%)	0.5 pp
EBITDAR (excluding special items) [(2)]	397	366	31
EBITDAR margin (excluding special items) % [(2)]	9.8%	10.0%	(0.2 pp)
Unrestricted liquidity [(3)]	4,883	4,073	810
Net cash flows from operating activities	1,111	1,027	84
Free cash flow [(2)]	193	470	(277)
Adjusted net debt [(2)]	6,063	6,702	(639)
Return on invested capital ("ROIC") % [(2)]	15.0	16.7	(1.7 pp)
Leverage ratio [(2)]	2.0	2.5	(0.5)
Diluted loss per share	$ (0.62)	$ (0.05)	$ (0.57)
Adjusted loss per share – diluted [(2)]	$ (0.19)	$ (0.23)	$ 0.04
Operating Statistics [(4)]			**% Change**
Revenue passenger miles ("RPM") (millions)	20,440	18,341	11.4
Available seat miles ("ASM") (millions)	24,862	22,894	8.6
Passenger load factor %	82.2%	80.1%	2.1 pp
Passenger revenue per RPM ("Yield") (cents)	17.1	17.0	0.4
Passenger revenue per ASM ("PRASM") (cents)	14.0	13.6	3.0
Operating revenue per ASM (cents)	16.4	15.9	2.9
Operating expense per ASM ("CASM") (cents)	16.4	16.0	2.4
Adjusted CASM (cents) [(2)]	11.5	11.5	0.4
Average number of full-time equivalent ("FTE") employees (thousands) [(5)]	28.9	26.9	7.4
Aircraft in operating fleet at period-end	406	384	5.7
Average fleet utilization (hours per day)	10.0	9.9	1.2
Seats dispatched (thousands)	14,932	14,280	4.6
Aircraft frequencies (thousands)	136.5	134.3	1.6
Average stage length (miles) [(6)]	1,665	1,603	3.9
Fuel cost per litre (cents)	73.3	63.2	16.0
Fuel litres (thousands)	1,281,838	1,193,732	7.4
Revenue passengers carried (thousands) [(7)]	11,654	10,924	6.7

(1) *Air Canada adopted accounting standard IFRS 15 - Revenue from Contracts with Customers effective January 1, 2018 with restatement of 2017 amounts. ROIC and leverage ratio as at March 31, 2017 have not been restated for the adoption of this new accounting standard. Refer to section 9 "Accounting Policies" of Air Canada's First Quarter 2018 MD&A for additional information.*

(2) *Adjusted pre-tax loss, adjusted net loss, adjusted loss per share – diluted, EBITDAR (earnings before interest, taxes, depreciation, amortization, impairment and aircraft rent), EBITDAR margin, leverage ratio, free cash flow, ROIC and adjusted CASM are each non-GAAP financial measures and adjusted net debt is an additional GAAP measure. Refer to sections 6 and 14 of Air Canada's First Quarter 2018 MD&A for descriptions of Air Canada's non-GAAP financial measures and additional GAAP measures. As referenced in the table above, special items are excluded from Air Canada's reported EBITDAR calculations. Refer to section 4 of Air Canada's First Quarter 2018 MD&A for information on the special items.*

(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, 2018, unrestricted liquidity was comprised of cash and short-term investments of $4,496 million and undrawn lines of credit of $387 million. At March 31, 2017, unrestricted liquidity was comprised of cash and short-term investments of $3,624 million and undrawn lines of credit of $449 million.*

(4) *Except for the reference to average number of FTE employees, operating statistics in this table include third party carriers (such as Jazz Aviation LP ("Jazz"), Sky Regional Airlines Inc. ("Sky Regional"), Air Georgian Limited ("Air Georgian") and Exploits Valley Air Services Ltd. ("EVAS")) operating under capacity purchase agreements with Air Canada.*

(5) *Reflects FTE employees at Air Canada. Excludes FTE employees at third party carriers (such as Jazz, Sky Regional, Air Georgian and EVAS) operating under capacity purchase agreements with Air Canada.*

(6) *Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.*

(7) *Revenue passengers are counted on a flight number basis (rather than by journey/itinerary or by leg) which is consistent with the IATA definition of revenue passengers carried.*