AIR CANADA

News Release

Air Canada Reports First Quarter Results

- Operating income of $127 million and EBITDA of $583 million
- Record first quarter operating revenues of $4.453 billion
- Leverage ratio of 1.2
- Record unrestricted liquidity of $6.877 billion

MONTRÉAL, May 6, 2019 – Air Canada today reported first quarter 2019 EBITDA(1) (earnings before interest, taxes, depreciation, amortization and impairment) of $583 million compared to first quarter 2018 EBITDA of $504 million. The airline reported first quarter 2019 operating income of $127 million compared to first quarter 2018 operating income of $86 million. Adjusted pre-tax income(1) amounted to $24 million in the first quarter of 2019 compared to an adjusted pre-tax loss of $32 million in the first quarter of 2018. On a GAAP basis, the airline reported net income of $345 million in the first quarter of 2019 compared to a net loss of $203 million in the first quarter of 2018.

“I am pleased to report excellent first quarter results for Air Canada, despite several challenges in the quarter. We set records of $4.453 billion in operating revenue and $6.877 billion in liquidity for the period and delivered on a system yield improvement of 5.0 per cent over last year’s first quarter. Contributing to our performance was the completion of two key strategic initiatives early in the quarter with better than expected results - our acquisition of the Aeroplan loyalty program and our conclusion of a new capacity purchase agreement with Chorus Aviation for flying by Jazz. We are further encouraged by strong booking trends entering the busy summer peak,” said Calin Rovinescu, President and Chief Executive Officer of Air Canada.

“These Q1 results, following on records set in previous quarters, are an affirmation of our ability to operate on a sustainably profitable basis, notwithstanding fuel price or foreign currency fluctuations or other unexpected challenges. With respect to our cost containment initiatives, we have now realized or identified savings of $242 million, or 97 per cent, of our previously announced two-year $250 million Cost Transformation Program to December 31, 2019. We also made further progress in lowering our leverage ratio in the quarter, which improved to 1.2. Our greater financial resiliency was acknowledged during the quarter by a debt-rating upgrade from Standard & Poor’s, which advances us to one level below our goal of investment grade status. Fitch also recently upgraded our debt rating.

“The grounding of the Boeing 737 MAX aircraft following Transport Canada's and other regulators’ decisions resulted in the unexpected removal of 24 aircraft from our fleet during the last 18 days of the quarter, with the associated cost and revenue impact. Our team immediately executed on several significant mitigation measures, including entering into new leases and extensions, contracting other airlines to cover some flights and consolidating flights and frequencies, thereby protecting approximately 98 per cent of our flying from the date of the grounding to April 30. The agility of our business model, the flexibility of our fleet and our team's "can-do" culture was on full display as we adjusted to these unexpected circumstances. This is further evidence of the changed culture at Air Canada, with its emphasis on nimble decision-making and a focus on customer care," said Mr. Rovinescu.

"I commend our employees for their adaptability and commitment to taking care of our customers. Through a challenging period, they have stepped up to put our customers first. And I also thank our customers for their continued loyalty in choosing to fly with Air Canada."

First Quarter Income Statement Highlights

Air Canada began consolidating Aeroplan's financial results on the January 10, 2019 acquisition date. Air Canada adopted accounting standard IFRS 16 - Leases effective January 1, 2019 and restated 2018 amounts (including for period over period comparisons).

On capacity growth of 4.6 per cent, record first quarter system passenger revenues of $3.816 billion increased $327 million or 9.4 per cent from the same quarter in 2018. The increase in system passenger revenues was driven by a yield improvement of 5.0 per cent and traffic growth of 4.2 per cent. The yield improvement resulted from a strong demand environment and included additional yield earned by Air Canada on Aeroplan redemption revenues recorded subsequent to the Aeroplan acquisition on January 10, 2019.

In the business cabin, system passenger revenues increased $90 million or 12.4 per cent from the first quarter of 2018 on traffic and yield growth of 8.0 per cent and 4.1 per cent, respectively.

In the first quarter of 2019, operating expenses of $4.326 billion increased $341 million or 9 per cent from the first quarter of 2018.

Air Canada's cost per available seat mile (CASM) increased 3.7 per cent from the first quarter of 2018. The airline's adjusted CASM(1) increased 3.2 per cent over the same quarter in 2018. Given that the Aeroplan loyalty business was not consolidated in Air Canada's financial results in 2018, for a more meaningful comparison of the cost performance of the ongoing airline business, Air Canada's adjusted CASM for the first quarter of 2019 excludes the operating expenses of Aeroplan.

Air Canada recorded adjusted net income(1) of $17 million or $0.06 per diluted share in the first quarter of 2019 compared to an adjusted net loss of $26 million or $0.10 per diluted share in the first quarter of 2018. On a GAAP basis, the airline reported first quarter 2019 net income of $345 million or $1.26 per diluted share compared to a first quarter 2018 net loss of $203 million or $0.74 per diluted share. Air Canada recorded foreign exchange gains of $263 million in the first quarter of 2019 compared to foreign exchange losses of $197 million in the first quarter of 2018.

Financial and Capital Management Highlights

At March 31, 2019, unrestricted liquidity (cash, cash equivalents, short-term investments and undrawn lines of credit) amounted to a record $6.877 billion (March 31, 2018 – $4.883 billion) and included net proceeds of $1.115 billion from a series of transactions with several financial institutions relating to Air Canada's acquisition of the Aeroplan loyalty program and affiliated commercial agreements. In the first quarter of 2019, additions to property, equipment and intangible assets amounted to $920 million and included one Boeing 787-9 and six Boeing 737 MAX 8 aircraft. Air Canada purchased these aircraft with cash.

At March 31, 2019, net debt of $3.820 billion decreased $1.394 billion from December 31, 2018, reflecting an increase in cash, cash equivalents and short-term investment balances of $1.169 billion and, to a lesser extent, a decrease in long-term debt and lease liabilities of $225 million. At March 31, 2019, Air Canada's leverage ratio was 1.2 versus a ratio of 1.6 at December 31, 2018.

Net cash flows from operating activities of $3.111 billion increased $1.820 billion compared to the first quarter of 2018. The operating cash inflows related to the Aeroplan acquisition amounted to $1.612 billion. The cash flow benefit of an improvement in operating income year-over-year, combined with the positive improvement in cash from working capital of $127 million, also contributed to a strong improvement in cash from operating activities. Excluding the one-time proceeds related to the Aeroplan acquisition, free cash flow(1) of $579 million increased $261 million from the first quarter of 2018 due to the higher cash from operating activities and, to a lesser extent, a lower level of capital expenditures year-over-year.

For the 12 months ended March 31, 2019, return on invested capital (ROIC(1)) as 14.5 per cent, significantly higher than Air Canada's weighted average cost of capital of 7.5 per cent.

Outlook

Air Canada announced in its March 15, 2019 news release that it was suspending the financial guidance it provided on February 15, 2019 and February 28, 2019 in respect of the 2019 financial year, given the grounding of the Boeing 737 MAX aircraft until further notice and Boeing's decision to suspend MAX deliveries to airline customers.

The financial guidance provided for the years 2020 and 2021 with respect to annual EBITDA margin (earnings before interest, taxes, depreciation, amortization and impairment, as a percentage of operating revenue) and annual ROIC, as well as the cumulative free cash flow over the 2019-2021 period, remains in place.

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 2019. Air Canada also expects that the Canadian dollar will trade, on average, at C$1.34 per U.S. dollar in the second quarter and for the full year 2019 and that the price of jet fuel will average 85 CAD cents per litre in the second quarter and 84 CAD cents per litre for the full year 2019. Outlook provided constitutes forward-looking statements within the meaning of applicable securities laws and is based on a number of assumptions (including those provided above) 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 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 First Quarter 2019 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, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets, and special items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

- 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, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets, and special items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful. Air Canada uses adjusted pre-tax income (loss) before interest to determine return on invested capital.

- EBITDA 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 and impairment 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 EBITDA as these items may 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®, the operating costs of Aeroplan, 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. Following the completion of Air Canada's acquisition of Aeroplan on January 10, 2019, Air Canada began consolidating Aeroplan's results. Given that the Aeroplan loyalty business was not consolidated in Air Canada's financial results in 2018, for a more meaningful comparison of the cost performance of the ongoing airline business, Air Canada's adjusted CASM for the first quarter of 2019 excludes the operating expenses of Aeroplan.

- "Leverage ratio" refers to net debt to trailing 12-month EBITDA 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 net debt by trailing 12-month EBITDA (excluding special items). As mentioned above, Air Canada excludes special items from EBITDA results (which are used to determine leverage ratio) as these items may 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. In conjunction with Air Canada's acquisition of Aeroplan, Air Canada received payments from TD Bank, CIBC, Visa and AMEX in the aggregate amount of $1.212 billion. In addition, TD Bank and CIBC made payments to Air Canada in the aggregate amount of $400 million as prepayments to be applied towards future monthly payments in respect of Aeroplan Miles. Air Canada has excluded these one-time proceeds in its calculation of free cash flow.

- 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. ROIC is based on adjusted pre-tax income (loss), excluding interest expense. Invested capital includes average year-over-year long-term debt, average year-over-year lease obligations, and average year-over-year shareholders' equity, net of excess cash. Air Canada defines excess cash as cash not required to operate its core business. Advance ticket sales and the current portion of Aeroplan and other deferred revenue is used as a proxy for cash requirements. Air Canada calculates invested capital based on a book value-based method of calculating ROIC, as described above. 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 2019 Consolidated Financial Statements and Notes and its First Quarter 2019 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 25, 2019, consult SEDAR at **www.sedar.com**.

First Quarter Analyst Conference Call and Loyalty Accounting Information Session

Air Canada will host its quarterly analysts' call today, May 6, 2019 at 08:30 E.T. Calin Rovinescu, President and Chief Executive Officer, Michael Rousseau, Deputy Chief Executive Officer and Chief Financial Officer, and Lucie Guillemette, Executive Vice President and Chief Commercial Officer, 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 term loan B lenders and holders of Air Canada's bonds.

Immediately following the first quarter analysts' call, Chris Isford, Vice President and Controller, and Kathleen Murphy, Director, Investor Relations and Corporate Reporting, will remain on the line to discuss the accounting policies related to Air Canada's acquisition of the Aeroplan loyalty program and to answer questions from analysts. A presentation is available at **aircanada.com**.

Media and the public may access this call on a listen-in basis. Details are as follows:
Dial 416-340-2219 or 1-800-377-0758

Live audio webcast: **https://edge.media-server.com/m6/p/uih7jhkr**

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 successfully implement appropriate strategic initiatives (including the return to service of Boeing 737 MAX aircraft in our fleet as well as those on order) or reduce operating costs, our ability to successfully integrate and operate the Aeroplan loyalty business following its acquisition from Aimia Inc. and to successfully launch our new loyalty program, our ability to preserve and grow our brand, airport user and related fees, high levels of fixed costs, our dependence on key suppliers including regional carriers, employee and labour relations and costs, our dependence on Star Alliance and joint ventures, interruptions of service, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), our ability to pay our indebtedness and maintain liquidity, pension issues, limitations due to restrictive covenants, pending and future litigation and actions by third parties, our ability to attract and retain required personnel, war, terrorist acts, casualty losses, changes in laws, regulatory developments or proceedings, epidemic diseases, insurance issues and costs, 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 14 of Air Canada's First Quarter 2019 MD&A and section 18 "Risk Factors" of Air Canada's 2018 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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AIR CANADA

HIGHLIGHTS

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

	First Quarter		
(Canadian dollars in millions, except where indicated)	**2019 [1]**	**2018 [2]**	**$ Change**
Financial Performance Metrics			
Operating revenues	4,453	4,071	382
Operating income	127	86	41
Income (loss) before income taxes	285	(229)	514
Net income (loss)	345	(203)	548
Adjusted pre-tax income (loss) [3]	24	(32)	56
Adjusted net income (loss) [3]	17	(26)	43
Operating margin %	2.9%	2.1%	0.8 pp
EBITDA [3]	583	504	79
EBITDA margin % [3]	13.1%	12.4%	0.7 pp
Unrestricted liquidity [4]	6,877	4,883	1,994
Net cash flows from operating activities	3,111	1,291	1,820
Free cash flow [3]	579	318	261
Net debt [2]	3,820	5,551	(1,731)
Return on invested capital ("ROIC") % [3]	14.5%	NM	NM
Leverage ratio [3]	1.2	NM	NM
Diluted earnings (loss) per share	$ 1.26	$ (0.74)	$ 2.00
Adjusted earnings (loss) per share – diluted [3]	$ 0.06	$ (0.10)	$ 0.16
Operating Statistics [5]			**% Change**
Revenue passenger miles ("RPM") (millions)	21,293	20,440	4.2
Available seat miles ("ASM") (millions)	26,016	24,862	4.6
Passenger load factor %	81.8%	82.2%	(0.4) pp
Passenger revenue per RPM ("Yield") (cents)	17.9	17.1	5.0
Passenger revenue per ASM ("PRASM") (cents)	14.7	14.0	4.5
Operating revenue per ASM (cents)	17.1	16.4	4.5
Operating expense per ASM ("CASM") (cents)	16.6	16.0	3.7
Adjusted CASM (cents) [3]	11.5	11.1	3.2
Average number of full-time equivalent ("FTE") employees (thousands) [6]	32.1	28.9	11.3
Aircraft in operating fleet at period-end	401	406	(1.2)
Average fleet utilization (hours per day)	10.2	10.0	1.1
Seats dispatched (thousands)	15,412	14,932	3.2
Aircraft frequencies (thousands)	133.5	136.5	(2.2)
Average stage length (miles) [7]	1,688	1,665	1.4
Fuel cost per litre (cents)	75.5	73.3	3.0
Fuel litres (thousands)	1,320,765	1,281,838	3.0
Revenue passengers carried (thousands) [8]	12,031	11,654	3.2

(1) *Air Canada began consolidating Aeroplan Inc.'s ("Aeroplan") financial results on the January 10, 2019 acquisition date. Refer to section 9 "Accounting Policies" and section 10 "Critical Accounting Estimates and Judgements" of Air Canada's First Quarter 2019 MD&A for additional information.*

(2) *Air Canada adopted accounting standard IFRS 16 - Leases effective January 1, 2019 with restatement of 2018 amounts. ROIC and leverage ratio as at March 31, 2018 are not meaningful as trailing 12 months financial data is used in the calculation of both measures and 2017 amounts have not been restated for the adoption of IFRS 16 - Leases.*

(3) *Adjusted pre-tax income (loss), adjusted net income (loss), EBITDA (earnings before interest, taxes, depreciation, amortization and impairment), EBITDA margin, free cash flow, ROIC, leverage ratio, adjusted earnings (loss) per share – diluted and adjusted CASM are each non-GAAP financial measures and net debt is an additional GAAP measure. Refer to section 16 of Air Canada's First Quarter 2019 MD&A for descriptions of Air Canada's non-GAAP financial measures and additional GAAP measures.*

(4) *Unrestricted liquidity refers to the sum of cash, cash equivalents and short-term investments and the amount of available credit under Air Canada's revolving credit facilities. At March 31, 2019, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of $5,876 million and undrawn lines of credit of $1,001 million. At March 31, 2018, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of $4,496 million and undrawn lines of credit of $387 million.*

(5) *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.*

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

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

(8) *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.*