



First Quarter 2020

Management's Discussion and Analysis of Results of Operations and Financial Condition

May 4, 2020

TABLE OF CONTENTS

1. Highlights	1
2. Introduction and Key Assumptions	3
3. Overview	5
4. Results of Operations – First Quarter 2020 versus first Quarter 2019.....	7
5. Fleet	11
6. Financial and Capital Management.....	13
6.1. Liquidity	13
6.2. Financial Position	15
6.3. Net Debt.....	16
6.4. Working Capital.....	17
6.5. Consolidated Cash Flow Movements	18
6.6. Capital Expenditures and Related Financing Arrangements.....	19
6.7. Pension Funding Obligations	20
6.8. Contractual Obligations	21
6.9. Share Information	21
7. Quarterly Financial Data	23
8. Financial Instruments and Risk Management	25
9. Accounting Policies.....	25
10. Critical Accounting Estimates and Judgments	25
11. Off-Balance Sheet Arrangements	25
12. Related Party Transactions	25
13. Sensitivity of Results	25
14. Risk Factors.....	26
15. Controls and Procedures	26
16. Non-GAAP Financial Measures	28
17. Glossary	33

1. 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		
	2020	2019	\$ Change
Financial Performance Metrics			
Operating revenues	3,722	4,434	(712)
Operating income (loss)	(433)	127	(560)
Income (loss) before income taxes	(1,276)	285	(1,561)
Net income (loss)	(1,049)	345	(1,394)
Adjusted pre-tax income (loss) ⁽¹⁾	(520)	24	(544)
Adjusted net income (loss) ⁽¹⁾	(392)	17	(409)
Operating margin %	(11.6%)	2.9%	(14.5) pp
EBITDA ⁽¹⁾	71	583	(512)
EBITDA margin % ⁽¹⁾	1.9%	13.1%	(11.2) pp
Unrestricted liquidity ⁽²⁾	6,523	7,039	(516)
Net cash flows from (used for) operating activities	(20)	3,111	(3,131)
Free cash flow ⁽¹⁾	(393)	579	(972)
Net debt ⁽¹⁾	4,170	3,658	512
Return on invested capital ("ROIC") % ⁽¹⁾	11.0%	14.8%	(3.8) pp
Leverage ratio ⁽¹⁾	1.3	1.1	0.2
Diluted earnings (loss) per share	\$ (4.00)	\$ 1.26	\$ (5.26)
Adjusted earnings (loss) per share – diluted ⁽¹⁾	\$ (1.49)	\$ 0.06	\$ (1.55)
Operating Statistics ⁽³⁾			
			% Change
Revenue passenger miles ("RPM") (millions)	17,507	21,293	(17.8)
Available seat miles ("ASM") (millions)	23,511	26,016	(9.6)
Passenger load factor %	74.5%	81.8%	(7.4) pp
Passenger revenue per RPM ("Yield") (cents)	18.2	17.8	2.3
Passenger revenue per ASM ("PRASM") (cents)	13.6	14.6	(6.9)
Operating revenue per ASM (cents)	15.8	17.0	(7.1)
Operating expense per ASM ("CASM") (cents)	17.7	16.6	6.7
Adjusted CASM (cents) ⁽¹⁾	13.1	11.6	13.2
Average number of full-time equivalent ("FTE") employees (thousands) ⁽⁴⁾	33.0	32.1	2.6
Aircraft in operating fleet at period-end ⁽⁵⁾	406	401	1.2
Average fleet utilization (hours per day)	9.1	10.2	(10.6)
Seats dispatched (thousands)	14,163	15,412	(8.1)
Aircraft frequencies (thousands)	115.2	133.5	(13.7)
Average stage length (miles) ⁽⁶⁾	1,660	1,688	(1.7)
Fuel cost per litre (cents)	69.2	75.5	(8.4)
Fuel litres (thousands)	1,208,119	1,320,765	(8.5)
Revenue passengers carried (thousands) ⁽⁷⁾	9,927	12,031	(17.5)

- (1) *Adjusted pre-tax income (loss), adjusted net income (loss), EBITDA (earnings before interest, taxes, depreciation and amortization), 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 this MD&A for descriptions of Air Canada's non-GAAP financial measures and additional GAAP measures.*
- (2) *Unrestricted liquidity refers to the sum of cash, cash equivalents and short and long-term investments, and the amount of available credit under Air Canada's revolving credit facilities. At March 31, 2020, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of \$6,128 million, and long-term investments of \$395 million. At March 31, 2019, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of \$5,876 million, long-term investments of \$162 million and undrawn lines of credit of \$1,001 million.*
- (3) *Except for the reference to average number of FTE employees, operating statistics in this table include third party carriers operating under capacity purchase agreements with Air Canada.*
- (4) *Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada.*
- (5) *Such number of aircraft in Air Canada's operating fleet at March 31, 2020 includes a number of aircraft that have been temporarily grounded due to the COVID-19 pandemic as well as 24 Boeing 737 MAX aircraft which have been grounded since 2019. Refer to section 5 "Fleet" of this MD&A for additional information.*
- (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.*

2. INTRODUCTION AND KEY ASSUMPTIONS

In this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A"), the "Corporation" refers, as the context may require, to Air Canada and/or one or more of Air Canada's subsidiaries, including its wholly-owned operating subsidiaries, Touram Limited Partnership, doing business under the brand name Air Canada Vacations® ("Air Canada Vacations"), Air Canada Rouge LP, doing business under the brand name Air Canada Rouge® ("Air Canada Rouge") and Aeroplan Inc. ("Aeroplan"). This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the first quarter of 2020. This MD&A should be read in conjunction with Air Canada's interim unaudited condensed consolidated financial statements and notes for the first quarter of 2020, as well as Air Canada's 2019 annual audited consolidated financial statements and notes and Air Canada's 2019 MD&A each dated February 18, 2020. All financial information has been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), except for any non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 17 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of May 3, 2020.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of risks relating to Air Canada, refer to section 14 "Risk Factors" of this MD&A and section 20 "Risk Factors" of Air Canada's 2019 MD&A. Air Canada issued a news release dated May 4, 2020 reporting on its results for the first quarter of 2020. This news release is available on Air Canada's website at aircanada.com and on SEDAR's website at www.sedar.com. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Air Canada's public communications may include forward-looking statements within the meaning of applicable securities laws. Such forward-looking statements are included in this MD&A and may be included in other communications, including filings with regulatory authorities and securities regulators. Forward-looking statements may be 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 guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified using 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 those discussed below.

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue as a result of the coronavirus (COVID-19) pandemic and the travel restrictions imposed in many countries around the world, including Canada and the United States. The impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash from operations. There is very limited visibility on travel demand given government restrictions in place; these restrictions and concerns about

travel due to the COVID-19 virus and passenger expectations about the need for certain precautions, such as physical distancing, are severely inhibiting demand. Air Canada cannot predict the full impact or the timing for when conditions improve. Air Canada is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, government actions, and passenger reaction, none of which can be predicted with any degree of certainty.

Other factors which may cause results to differ materially from results indicated in forward-looking statements include our ability to successfully achieve or sustain positive net profitability, economic and geopolitical conditions, the timing and conditions of the return to service of Boeing 737 MAX aircraft in our fleet (including the introduction of those on order and the management of our fleet and operations until their return to service or introduction), industry and market conditions and the demand environment, competition, energy prices, our dependence on technology, our ability to successfully implement appropriate strategic and other important initiatives (including our ability to reduce operating costs), cybersecurity risks, war, terrorist acts, other epidemic diseases, our dependence on key suppliers, casualty losses, changes in laws, regulatory developments or proceedings, our ability to successfully launch and operate our new loyalty program, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), interruptions of service, our dependence on regional and other carriers, our ability to preserve and grow our brand, employee and labour relations and costs, our dependence on Star Alliance and joint ventures, limitations due to restrictive covenants, our ability to pay our indebtedness and maintain liquidity, pending and future litigation and actions by third parties, currency exchange, pension plans, our ability to attract and retain required personnel, 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 "Risk Factors" of this MD&A and section 20 "Risk Factors" of Air Canada's 2019 MD&A. Furthermore, the acquisition of Transat A.T. Inc. is subject to regulatory approvals and certain customary conditions, and there are no assurances that the acquisition will be completed as described in this MD&A or at all. The forward-looking statements contained or incorporated by reference in this MD&A represent Air Canada's expectations as of the date of this MD&A (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.

KEY ASSUMPTIONS

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue as a result of the coronavirus (COVID-19) pandemic. In light of the COVID-19 pandemic, as well as the economic environment and the recent significant volatility in fuel price and foreign exchange rates, Air Canada is not disclosing any assumptions around GDP, fuel price or foreign exchange rates. In addition, Air Canada is withdrawing all guidance, including as previously announced, all first quarter and full year 2020 guidance as well as its full year 2021 guidance (including its free cash flow guidance for the 2019-2021 period).

INTELLECTUAL PROPERTY

Air Canada owns or has rights to trademarks, service marks or trade names used in connection with the operation of its business. In addition, Air Canada's names, logos and website names and addresses are owned or licensed by Air Canada. Air Canada also owns or has the rights to copyrights that also protect the content of its products and/or services. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this MD&A may be listed without the ©, ® and TM symbols, but Air Canada reserves all rights to assert, to the fullest extent under applicable law, its rights or the rights of the applicable licensors to these trademarks, service marks, trade names and copyrights.

This MD&A may also include trademarks, service marks or trade names of other parties. Air Canada's use or display of other parties' trademarks, service marks, trade names or products is not intended to, and does not imply a relationship with, or endorsement or sponsorship of Air Canada by, the trademark, service mark or trade name owners or licensees.

3. OVERVIEW

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue as a result of the coronavirus ("COVID-19") pandemic and the travel restrictions imposed in many countries around the world, including Canada and the United States. The system-wide impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash from operations. There is very limited visibility on travel demand given government restrictions in place and concerns about travel due to the COVID-19 virus and passenger expectations about the need for certain precautions such as physical distancing. Air Canada cannot predict the full impact or the timing for when conditions improve. Air Canada is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, government actions, and passenger reaction, none of which can be predicted with any degree of certainty.

Air Canada has taken or will take the following measures in response to the COVID-19 pandemic:

- Air Canada has reduced second quarter 2020 capacity by 85% to 90% when compared to 2019's second quarter. Third quarter 2020 capacity is expected to be reduced by approximately 75% when compared to the third quarter of 2019. The airline will continue to dynamically adjust capacity and take other measures as required to account for health warnings, travel restrictions, border closures globally and passenger demand.
- In March 2020, Air Canada drew down its US\$600 million and \$200 million revolving credit facilities for aggregate net proceeds of \$1.027 billion. As at March 31, 2020, Air Canada's unrestricted liquidity amounted to \$6.523 billion.
- In April 2020, Air Canada concluded a 364-day term loan in the amount of US\$600 million, secured by aircraft and spare engines, for net proceeds of \$829 million. After giving effect to this facility and estimated declines in asset valuations as a result of COVID-19, Air Canada's unencumbered asset pool (excluding the value of Aeroplan and Air Canada Vacations) amounts to approximately \$2.6 billion. As part of Air Canada's ongoing efforts to increase liquidity levels, additional financing arrangements continue to be pursued.
- In late April 2020, Air Canada concluded a bridge financing of \$788 million for 18 Airbus A220 aircraft which may be used for general corporate purposes and which Air Canada expects to replace with longer-term secured financing arrangements later in 2020 with the same lender.
- In addition to cost savings associated with the significant capacity reductions, workforce reductions and other mitigation programs, Air Canada has initiated a company-wide cost reduction and capital reduction and deferral program which has now reached approximately \$1,050 million, increased from an initial target of \$500 million, and continues to seek additional opportunities for cash preservation.
- Air Canada is accelerating the retirement of 79 older aircraft from its fleet – Boeing 767, Airbus 319 and Embraer 190 aircraft, with the Embraer aircraft exiting the fleet immediately. Their retirement will simplify the airline's overall fleet, reduce its cost structure, and lower its carbon footprint.
- Air Canada suspended share purchases under its Normal Course Issuer Bid in early March 2020 and does not intend to renew it upon its expiry.

- To assist with global requirements of goods and personal protective equipment during the pandemic, Air Canada has operated more than 500 all-cargo international flights since March 22, 2020, and plans to operate up to 150 all-cargo flights per week in the second quarter using a combination of Boeing 787 and Boeing 777 aircraft as well as four newly converted Boeing 777 and four converted Airbus 330 aircraft where it has doubled available cargo space by removing seats from the passenger cabin.
- Air Canada has adopted the Canada Emergency Wage Subsidy (CEWS) for most of its workforce which allowed it to return previously furloughed Canadian-based employees to its payroll for the March 15 to June 6, 2020 period.
- Air Canada announced special benefits and accommodations for Aeroplan and Altitude members in light of COVID-19. These include pausing mileage expiration, grandfathering mileage-earned status, waiving certain change and redeposit fees, and launching new promotions so that members can earn additional Aeroplan Miles without leaving home.
- Air Canada makes safety its first consideration in all that it does and has been continually incorporating new information about COVID-19 into its health and safety policies and procedures for travelers and employees in all workplaces, airports and onboard aircraft. This includes a requirement for customers to wear a protective face covering and measures to implement social distancing, as well as enhanced protective personal equipment for airport agents and crews, the encouragement of safe practices such as frequent hand washing and collaborating with the Canadian federal government to screen passengers to determine fitness for flying of all customers.
- To underscore its commitment to customer and employee safety, Air Canada will be introducing Air Canada CleanCare+. The new program is designed to reduce the risk of exposure to COVID-19 through such measures as enhanced aircraft grooming, mandatory pre-flight customer temperature checks in addition to required health questionnaires, seat assignment policies until June 30, 2020 to allow for more personal space in Economy Class on all flights and by providing all customers with care kits for hand cleaning and hygiene.

Cash from operations in the first quarter of 2020 was negatively impacted by the COVID-19 pandemic and the expectation is for continuing considerable negative impact to cash flows and Air Canada's liquidity position as a result of the pandemic, including after taking into account the mitigation responses described above. In light of the ongoing uncertainty relating to the COVID-19 pandemic, the full extent and duration of any impact remains unknown. Refer to section 6 "Financial and Capital Management" of this MD&A for additional information on Air Canada's liquidity position and measures being taken to manage liquidity.

4. RESULTS OF OPERATIONS – FIRST QUARTER 2020 VERSUS FIRST QUARTER 2019

The following table and discussion provide and compare results of Air Canada for the first quarter of 2020 and the first quarter of 2019:

(Canadian dollars in millions, except per share figures)	First Quarter			
	2020	2019	Change	
			\$	%
Operating revenues				
Passenger	\$ 3,193	\$ 3,797	\$ (604)	(16)
Cargo	149	177	(28)	(16)
Other	380	460	(80)	(17)
Total revenues	3,722	4,434	(712)	(16)
Operating expenses				
Aircraft fuel	836	997	(161)	(16)
Wages, salaries and benefits	796	799	(3)	-
Regional airlines expense, excluding fuel	471	475	(4)	(1)
Depreciation and amortization	504	456	48	11
Aircraft maintenance	270	245	25	10
Airport and navigation fees	228	228	-	-
Sales and distribution costs	183	213	(30)	(14)
Ground package costs	234	294	(60)	(20)
Catering and onboard services	97	103	(6)	(6)
Communications and information technology	135	101	34	34
Other	401	396	5	1
Total operating expenses	4,155	4,307	(152)	(4)
Operating income (loss)	(433)	127	(560)	
Non-operating income (expense)				
Foreign exchange gain (loss)	(711)	263	(974)	
Interest income	42	38	4	
Interest expense	(129)	(133)	4	
Interest capitalized	8	8	-	
Net financing expense relating to employee benefits	(11)	(10)	(1)	
Gain (loss) on financial instruments recorded at fair value	(34)	8	(42)	
Other	(8)	(16)	8	
Total non-operating income (expense)	(843)	158	(1,001)	
Income (loss) before income taxes	(1,276)	285	(1,561)	
Income tax recovery	227	60	167	
Net income (loss)	\$ (1,049)	\$ 345	\$ (1,394)	
Diluted earnings (loss) per share	\$ (4.00)	\$ 1.26	\$ (5.26)	
EBITDA ⁽¹⁾	\$ 71	\$ 583	\$ (512)	
Adjusted pre-tax income (loss) ⁽¹⁾	\$ (520)	\$ 24	\$ (544)	
Adjusted net income (loss) ⁽¹⁾	\$ (392)	\$ 17	\$ (409)	
Adjusted earnings (loss) per share – diluted ⁽¹⁾	\$ (1.49)	\$ 0.06	\$ (1.55)	

(1) EBITDA, adjusted pre-tax income (loss), adjusted net income (loss) and adjusted earnings (loss) per share – diluted are non-GAAP financial measures. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

System Passenger Revenues

The system-wide impact of the COVID-19 pandemic, including government-regulated travel restrictions, was felt starting in early March 2020 and resulted in a system ASM capacity reduction of 9.6% in the first quarter of 2020 when compared to the same quarter in 2019. As passenger demand continued to rapidly decrease, particularly in the latter part of March, Air Canada continued to progressively reduce capacity, resulting in a system capacity reduction of 28% in March 2020 when compared to March 2019.

Passenger revenues of \$3,193 million decreased \$604 million or 15.9% from the first quarter of 2019, reflecting a traffic decrease of 17.8%, partly offset by a yield improvement of 2.3%. On a system basis, PRASM declined 6.9% on a passenger load factor decrease of 7.4 percentage points, partly offset by the yield improvement.

Due to the abrupt and severe impact and the very limited visibility of demand due to the COVID-19 pandemic, a discussion of passenger revenues and of factors influencing year-over-year changes in traffic and yield by geographic region would not be meaningful and is therefore not provided.

The table below provides passenger revenues by geographic region for the first quarter of 2020 and the first quarter of 2019.

Passenger Revenue (Canadian dollars in millions)	First Quarter		Change	
	2020	2019	\$	%
Canada	\$ 944	\$ 1,097	\$ (153)	(13.9)
U.S. transborder	755	942	(187)	(19.8)
Atlantic	659	762	(103)	(13.5)
Pacific	392	534	(142)	(26.7)
Other	443	462	(19)	(4.1)
System	\$ 3,193	\$ 3,797	\$ (604)	(15.9)

The table below provides year-over-year percentage changes in passenger revenues and operating statistics for the first quarter of 2020 versus the first quarter of 2019.

First Quarter 2020 versus First Quarter 2019	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	(13.9)	(6.5)	(15.2)	(7.5)	1.5	(7.9)
U.S. transborder	(19.8)	(11.2)	(22.7)	(10.4)	3.7	(9.7)
Atlantic	(13.5)	(3.4)	(11.6)	(6.8)	(2.1)	(10.4)
Pacific	(26.7)	(26.3)	(32.5)	(7.1)	8.7	(0.6)
Other	(4.1)	1.6	(4.0)	(4.7)	(0.1)	(5.6)
System	(15.9)	(9.6)	(17.8)	(7.4)	2.3	(6.9)

Cargo Revenues

In the first quarter of 2020, cargo revenues of \$149 million decreased \$28 million or 15.7% from the same period in 2019 on traffic and yield decreases of 14.5% and 1.3%, respectively. Demand for air cargo decreased industry-wide particularly starting in March and as a result of capacity reductions causing reductions in volumes and putting downward pressure on yields. This mainly reflected the impact of the COVID-19 pandemic.

The table below provides cargo revenue by geographic region for the first quarter of 2020 and the first quarter of 2019.

Cargo Revenue (Canadian dollars in millions)	First Quarter		Change	
	2020	2019	\$	%
Canada	\$ 19	\$ 26	\$ (7)	(27.3)
U.S. transborder	9	12	(3)	(24.7)
Atlantic	69	68	1	1.8
Pacific	38	56	(18)	(31.6)
Other	14	15	(1)	(7.7)
System	\$ 149	\$ 177	\$ (28)	(15.7)

Other Revenues

In the first quarter of 2020, other revenues of \$380 million decreased \$80 million or 17% when compared to the first quarter of 2019, mainly due a decrease in ground package revenues at Air Canada Vacations resulting from the COVID-19 pandemic.

Operating Expenses

In the first quarter of 2020, the more notable year-over-year changes in operating expenses compared to the same quarter in 2019 are summarized below.

- Aircraft fuel expense of \$836 million decreased \$161 million or 16%. This decrease reflected a lower volume of fuel litres consumed, accounting for a decrease of \$86 million, and the impact of lower jet fuel prices (before the impact of foreign exchange), accounting for a decrease of \$75 million.
- Wages, salaries and benefits expense of \$796 million decreased \$3 million or less than 1%. This decrease was largely due to lower stock-based compensation expense, reflecting the decrease in Air Canada's share price during the period, and a decrease in expenses related to employee profit sharing programs. These decreases were largely offset by a higher number of full-time equivalent employees, higher average salaries when compared to the same quarter in 2019 and an increase in employee benefits expense due to the unfavourable impact of lower discount rates related to pension and post-employment benefits.
- Depreciation and amortization expense of \$504 million increased \$48 million or 11%. This increase largely reflected a higher volume of engine maintenance events on leased aircraft, the addition of aircraft into the mainline fleet, including three Airbus A220 aircraft, and aircraft refurbishment programs. An increase in depreciation and amortization expense related to Air Canada's information technology projects was also a factor.
- Aircraft maintenance expense of \$270 million increased \$25 million or 10%, largely reflecting an increase in end of lease provisions and a higher volume of maintenance activity year-over-year.
- Sales and distribution costs of \$183 million decreased \$30 million or 14% reflecting the decrease in passenger revenues as a result of the COVID-19 pandemic.
- Ground package costs of \$234 million decreased \$60 million or 20%, mainly reflecting a decline in passenger volumes as a result of the COVID-19 pandemic.

- Communication and information technology expense of \$135 million increased \$34 million or 34%, reflecting a higher volume of planned information technology projects, including those related to security, systems resiliency and modernization, data, integration platforms and artificial intelligence, as well as recurring fees as a result of the implementation of the new passenger service system in the fourth quarter of 2019.

Non-operating Income (Expense)

In the first quarter of 2020, a non-operating loss amounted to \$843 million versus non-operating income of \$158 million in the first quarter of 2019.

Components of the year-over-year change in non-operating loss included:

- In the first quarter of 2020, losses on foreign exchange amounted to \$711 million compared to gains on foreign exchange of \$263 million in the first quarter of 2019. The March 31, 2020 closing exchange rate was US\$1=C\$1.4062 while the December 31, 2019 closing exchange rate was US\$1=C\$1.2990. The losses on foreign exchange in the first quarter of 2020 included foreign exchange losses on long-term debt and lease liabilities of \$692 million.
- In the first quarter of 2020, a loss on financial instruments recorded at fair value amounted to \$34 million compared to a gain of \$8 million in the first quarter of 2019, reflecting the change in fair value of share forward contracts to hedge shared-based compensation risk.

Income Taxes

An income tax recovery of \$227 million was recorded in the first quarter of 2020, compared to a recovery of \$60 million recorded in the first quarter of 2019.

5. FLEET

In response to the COVID-19 pandemic, Air Canada, together with regional airlines operating flights on behalf of Air Canada under capacity purchase agreements, have reduced capacity through the grounding of aircraft and will continue to assess fleet, capacity and schedule adjustments and other measures as developments warrant. In light of the ongoing uncertainty relating to the COVID-19 pandemic and the grounding and timing for return of the Boeing 737 MAX aircraft, the information disclosed in section 9 "Fleet" of Air Canada's 2019 MD&A is no longer indicative of Air Canada's operating fleet plan or delivery schedule, nor can Air Canada reasonably project at this stage what its fleet plan, schedule or capacity will be during and following the COVID-19 pandemic until such time as demand projections can be more reliably made and the impact and duration of the grounding of the Boeing 737 MAX aircraft is known.

The tables below provide the number of aircraft in Air Canada's and Air Canada Rouge's operating fleet at December 31, 2019 and at March 31, 2020. The tables below include a significant number of aircraft that have been grounded due to the COVID-19 pandemic as well as 24 Boeing 737 MAX aircraft in the mainline fleet which remain grounded since March 2019. Air Canada is accelerating the retirement of 79 older aircraft from its fleet – Boeing 767, Airbus 319 and Embraer 190 aircraft, with the Embraer aircraft exiting the fleet immediately. Their retirement will simplify the airline's overall fleet, reduce its cost structure, and lower its carbon footprint.

Mainline	Actual		
	December 31, 2019	First Quarter 2020 Fleet Changes	March 31, 2020
<u>Wide-body aircraft</u>			
Boeing 787-8	8	-	8
Boeing 787-9	29	-	29
Boeing 777-300ER	19	-	19
Boeing 777-200LR	6	-	6
Boeing 767-300ER	5	-	5
Airbus A330-300	13	2	15
<u>Narrow-body aircraft</u>			
Boeing 737 MAX 8	24	-	24
Airbus A321	15	-	15
Airbus A320	38	-	38
Airbus A319	16	-	16
Airbus A220-300	1	3	4
Embraer 190	14	-	14
Total Mainline	188	5	193

Air Canada Rouge

<u>Wide-body aircraft</u>			
Boeing 767-300ER	25	-	25
<u>Narrow-body aircraft</u>			
Airbus A321	14	-	14
Airbus A320	3	1	4
Airbus A319	22	-	22
Total Air Canada Rouge	64	1	65

Total Mainline and Air Canada Rouge	252	6	258
--	------------	----------	------------

On March 13, 2019, Transport Canada issued a safety notice closing Canadian airspace to Boeing 737 MAX aircraft until further notice. The Federal Aviation Administration also issued a temporary grounding order for such aircraft and Boeing has suspended all Boeing 737 MAX deliveries to airline customers. At the time of grounding, Air Canada had 24 Boeing 737 MAX aircraft in its operating fleet.

In the first quarter of 2020, Air Canada finalized an amendment to its 2013 order originally placed with Boeing for 61 Boeing 737 MAX aircraft, reducing its initial order by 11 Boeing 737 MAX 9 aircraft previously scheduled for delivery in 2023 and 2024. This amendment reflected Air Canada's evolving and long-term fleet planning requirements as of that time.

Air Canada has a firm order for 45 Airbus A220-300 aircraft. To date, Air Canada has taken delivery of four of these aircraft and expects to take delivery of an additional 14 in 2020.

Air Canada expects the delivery of one additional Airbus A330 aircraft in 2020.

Air Canada Express

The table below provides the number of aircraft operated, as at December 31, 2019 and March 31, 2020, on behalf of Air Canada, by Jazz, Sky Regional and other airlines operating flights under the Air Canada Express banner pursuant to capacity purchase agreements with Air Canada. The table below includes a significant number of aircraft that have been temporarily grounded due to the COVID-19 pandemic.

	Actual		
	December 31, 2019	First Quarter 2020 Fleet Changes	March 31, 2020
Embraer 175	25	-	25
Bombardier CRJ-100/200	22	(3)	19
Bombardier CRJ-900	26	-	26
Bombardier Dash 8-100	6	-	6
Bombardier Dash 8-300	23	-	23
Bombardier Dash 8-Q400	44	-	44
Total Air Canada Express	146	(3)	143

Other Aircraft with CPA Carriers

A total of five 18-passenger Beech 1900 aircraft were also operated by CPA carriers on behalf of Air Canada.

6. FINANCIAL AND CAPITAL MANAGEMENT

6.1. Liquidity

Liquidity Risk Management

Air Canada manages its liquidity needs through a variety of strategies, including by seeking to sustain and improve cash from operations and free cash flow, sourcing committed financing, as necessary, for new and existing aircraft, and through other financing activities.

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations, which are further discussed in sections 6.60, 6.7 and 0 of this MD&A. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts, including under various scenarios and assumptions, monitoring the condition and value of assets available for use as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

At March 31, 2020, unrestricted liquidity amounted to \$6,523 million (comprised of cash, cash equivalents and short-term investments of \$6,128 million and long-term investments of \$395 million). This compared to unrestricted liquidity of \$7,039 million at March 31, 2019 (comprised of cash, cash equivalents and short-term investments of \$5,876 million, undrawn lines of credit of \$1,001 million, and long-term investments of \$162 million).

Air Canada defines excess cash as total cash and investments in excess of the minimum cash required to support operations. This measure of liquidity includes cash, cash equivalents, short-term investments, short-term restricted cash and long-term investments. Air Canada uses 20% of trailing 12 months operating revenue as its estimate of the minimum cash required to support ongoing business operations. This estimate of minimum cash provides adequate coverage for advance ticket sales and to meet Air Canada's liquidity needs, as described above. Excess cash amounted to \$2,942 million at March 31, 2020. Excess cash is applied against shareholders' equity in the calculation of return on invested capital. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

In addition, Air Canada monitors its financial leverage as measured by the net debt to EBITDA ratio, as further described in section 6.3 "Net Debt" of this MD&A.

Impact of the COVID-19 Pandemic

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue as a result of the coronavirus (COVID-19) pandemic and the travel restrictions imposed in many countries around the world, including Canada and the United States. The impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash from operations. Refer to section 3 "Overview" of this MD&A for additional information.

As part of its ongoing efforts to mitigate the impact on Air Canada's liquidity position caused by the COVID-19 pandemic, Air Canada has taken or will take the following actions:

- Air Canada has reduced second quarter 2020 capacity by 85% to 90% when compared to 2019's second quarter. Third quarter 2020 capacity is expected to be reduced by approximately 75% when compared to the third quarter of 2019. The airline will continue to dynamically adjust capacity and take other measures as required to account for health warnings, travel restrictions, border closures globally and passenger demand.
- In March 2020, Air Canada drew down its US\$600 million and \$200 million revolving credit facilities for aggregate net proceeds of \$1.027 billion. As at March 31, 2020, Air Canada's unrestricted liquidity amounted to \$6.523 billion.
- In April 2020, Air Canada concluded a 364-day term loan in the amount of US\$600 million, secured by aircraft and spare engines, for net proceeds of \$829 million. After giving effect to this facility and estimated declines in asset valuations as a result of COVID-19, Air Canada's unencumbered asset pool (excluding the value of Aeroplan and Air Canada Vacations) amounts to approximately \$2.6 billion. As part of Air Canada's ongoing efforts to increase liquidity levels, additional financing arrangements continue to be pursued.
- In late April 2020, Air Canada concluded a bridge financing of \$788 million for 18 Airbus A220 aircraft which may be used for general corporate purposes and which Air Canada expects to replace with longer-term secured financing arrangements later in 2020 with the same lender.
- In addition to cost savings associated with the significant capacity reductions, workforce reductions and other mitigation programs, Air Canada has initiated a company-wide cost reduction and capital reduction and deferral program which has now reached approximately \$1,050 million, increased from an initial target of \$500 million, and continues to seek additional opportunities for cash preservation.
- Air Canada suspended share purchases under its share repurchase program in early March 2020.

Cash from operations in the first quarter of 2020 was negatively impacted by the COVID-19 pandemic and the expectation is for continuing considerable negative impact to cash flows and Air Canada's liquidity position as a result of the pandemic, including after taking into account the mitigation responses described above. In light of the ongoing uncertainty relating to the COVID-19 pandemic, the full extent and duration of any impact remains unknown.

6.2. Financial Position

The table below provides a condensed consolidated statement of financial position of Air Canada as at March 31, 2020 and as at December 31, 2019.

(Canadian dollars in millions)	March 31, 2020	December 31, 2019	\$ Change
Assets			
Cash, cash equivalents and short-term investments	\$ 6,128	\$ 5,889	\$ 239
Other current assets	1,150	1,627	(477)
Current assets	\$ 7,278	\$ 7,516	\$ (238)
Investments, deposits, and other assets	711	936	(225)
Property and equipment	12,872	12,834	38
Pension assets	3,112	2,064	1,048
Deferred income tax	37	134	(97)
Intangible assets	1,053	1,002	51
Goodwill	3,273	3,273	-
Total assets	\$ 28,336	\$ 27,759	\$ 577
Liabilities			
Current liabilities	\$ 6,428	\$ 7,775	\$ (1,347)
Long-term debt and lease liabilities	9,650	8,024	1,626
Aeroplan and other deferred revenue	3,863	3,136	727
Pension and other benefit liabilities	2,547	2,930	(383)
Maintenance provisions	1,275	1,240	35
Other long-term liabilities	136	181	(45)
Deferred income tax	176	73	103
Total liabilities	\$ 24,075	\$ 23,359	\$ 716
Total shareholders' equity	\$ 4,261	\$ 4,400	\$ (139)
Total liabilities and shareholders' equity	\$ 28,336	\$ 27,759	\$ 577

Movements in current assets and current liabilities are described in section 6.4 "Working Capital" of this MD&A. Long-term debt and lease liabilities are discussed in sections 6.3 "Net Debt" and 6.5 "Consolidated Cash Flow Movements" of this MD&A.

At March 31, 2020, net pension assets of \$565 million (comprised of pension assets of \$3,112 million net of pension and other benefit liabilities of \$2,547 million) increased \$1,431 million from December 31, 2019. The increase was due to a net gain on remeasurements on employee liabilities of \$1,508 million (\$1,108 million, net of tax) recorded in Air Canada's consolidated statement of comprehensive income. This gain included the impact of a 108-basis point increase in the discount rate used to value the liabilities, partly offset by a lower return on plan assets.

6.3. Net Debt

The table below reflects Air Canada's net debt balances as at March 31, 2020 and as at December 31, 2019.

(Canadian dollars in millions, except where indicated)	March 31, 2020	December 31, 2019	\$ Change
Total long-term debt and lease liabilities	\$ 9,650	\$ 8,024	\$ 1,626
Current portion of long-term debt and lease liabilities	1,043	1,218	(175)
Total long-term debt and lease liabilities (including current portion)	\$ 10,693	\$ 9,242	\$ 1,451
Less cash, cash equivalents and short and long-term investments	(6,523)	(6,401)	(122)
Net debt ⁽¹⁾	\$ 4,170	\$ 2,841	\$ 1,329
EBITDA (trailing 12 months)	\$ 3,124	\$ 3,636	\$ (512)
Net debt to EBITDA ratio ⁽²⁾	1.3	0.8	0.5

(1) Net debt is an additional GAAP financial measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness.

(2) Net debt to trailing 12-month EBITDA ratio (also referred to as "leverage ratio" in this MD&A) is a non-GAAP financial measure and is used by Air Canada to measure financial leverage. Leverage ratio is calculated by dividing net debt by trailing 12-month EBITDA. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

At March 31, 2020, net debt of \$4,170 million increased \$1,329 million from December 31, 2019, reflecting the drawdown of Air Canada's US\$600 million and \$200 million revolving credit facilities, partially offset by debt repayments of \$509 million. The unfavourable impact of a weaker Canadian dollar, as at March 31, 2020 compared to December 31, 2019, increased foreign currency denominated debt (mainly U.S. dollars) by \$692 million.

At March 31, 2020, Air Canada's leverage ratio (net debt to trailing 12-month EBITDA ratio) was 1.3 versus a leverage ratio of 0.8 at December 31, 2019.

At March 31, 2020, Air Canada's weighted average cost of capital ("WACC"), on a pre-tax basis, was 7.6%. WACC is based on an estimate by management and consists of an estimated cost of equity of 19.9% and a blended average cost of debt and lease liabilities of 4.6% (comprised of an average cost of debt of 3.7% and an average cost of lease liabilities of 6.3%). This compared to WACC, on a pre-tax basis, of 7.0% at December 31, 2019 which consisted of an estimated cost of equity of 15.0% and a blended average cost of debt and lease liabilities of 5.0% (comprised of an average cost of debt of 4.1% and an average cost of lease liabilities of 6.5%).

6.4. Working Capital

The table below provides information on Air Canada's working capital balances as at March 31, 2020 and as at December 31, 2019.

(Canadian dollars in millions)	March 31, 2020	December 31, 2019	\$ Change
Cash, cash equivalents and short-term investments	\$ 6,128	\$ 5,889	\$ 239
Accounts receivable	567	926	(359)
Other current assets	583	701	(118)
Total current assets	\$ 7,278	\$ 7,516	\$ (238)
Accounts payable and accrued liabilities	2,260	2,456	(196)
Advance ticket sales	2,614	2,939	(325)
Aeroplan and other deferred revenue	511	1,162	(651)
Current portion of long-term debt and lease liabilities	1,043	1,218	(175)
Total current liabilities	\$ 6,428	\$ 7,775	\$ (1,347)
Net working capital	\$ 850	\$ (259)	\$ 1,109

Net working capital of \$850 million at March 31, 2020 represented an increase of \$1,109 million from December 31, 2019. Working capital was favourably impacted by net cash proceeds of \$1,027 million from drawdowns of the revolving credit facilities and the reclassification of a portion of Aeroplan deferred revenues from current into long-term, reflecting an estimated reduction in Aeroplan redemptions over the next 12 months. These factors, which increased net working capital, were partially offset by lower cash flows from operating activities, reflecting the decline in earnings and advance ticket sales during the period due to the COVID-19 pandemic. Advance ticket sales generally increase in the first and second quarters prior to the summer peak travel season. However, as a result of the COVID-19 pandemic and the abrupt decline in travel demand, coupled with an increase in refunds to customers, the advance ticket sales liability decreased during the first quarter of 2020. In addition, the unused amounts of non-refundable tickets in respect of flights cancelled due to the COVID-19 pandemic are preserved for up to 24 months, which may further result in lower advance sales in future periods as these unused amounts are applied to new ticket purchases.

6.5. Consolidated Cash Flow Movements

The table below provides the cash flow movements for Air Canada for the periods indicated.

(Canadian dollars in millions)	First Quarter		
	2020	2019	\$ Change
Net cash flows from (used in) operating activities	\$ (20)	\$ 3,111	\$ (3,131)
Proceeds from borrowings	1,027	-	1,027
Reduction of long-term debt and lease liabilities	(509)	(252)	(257)
Shares purchased for cancellation	(132)	(51)	(81)
Issue of shares	1	1	-
Net cash flows from (used in) financing activities	\$ 387	\$ (302)	\$ 689
Investments, short-term and long-term	408	(380)	788
Additions to property, equipment, and intangible assets	(373)	(920)	547
Proceeds from sale of assets	2	2	-
Acquisition of Aeroplan	-	(497)	497
Investment in Chorus	-	(97)	97
Other	31	36	(5)
Net cash flows from (used in) investing activities	\$ 68	\$ (1,856)	\$ 1,924
Effect of exchange rate changes on cash and cash equivalents	\$ 63	\$ (1)	\$ 64
Increase in cash and cash equivalents	\$ 498	\$ 952	\$ (454)

Net Cash Flows from (used in) Operating Activities

In the first quarter of 2020, net cash flows used in operating activities amounted to \$20 million, a decrease of \$3,131 million from the same quarter in 2019 on lower cash from working capital as a result of lower advance ticket sales and a deterioration in operating results in March, both reflecting the impact of the COVID-19 pandemic. Cash flows from operating activities in the first quarter of 2019 were favourably impacted by receipts amounting to \$1,612 million in conjunction with Air Canada's acquisition of Aeroplan.

Net Cash Flows from Financing Activities

In the first quarter of 2020, net cash inflows from financing activities amounted to \$387 million, an increase of \$689 million from the first quarter of 2019. Proceeds from borrowings of \$1,027 million in the first quarter of 2020 reflected the drawdown of Air Canada's US\$600 million and \$200 million revolving credit facilities in March 2020. Reduction of long-term debt and lease liabilities amounted to \$509 million.

Net Cash Flows from Investing Activities

In the first quarter of 2020, net cash flows from investing activities amounted to \$68 million, an improvement of \$1,924 million, reflecting, in large part, movements between cash and short and long-term investments, as well as a lower level of net additions to property and equipment. Additions to property and equipment is also net of an additional settlement payment received from Boeing related to the grounding of the 737 MAX fleet. The first quarter of 2019 included the impact of Air Canada's acquisition of Aeroplan on January 10, 2019.

Refer to sections 6.4 "Working Capital", 6.2 "Financial Position", 6.3 "Net Debt" and 6.9 "Share Information" of this MD&A for additional information.

Free Cash Flow

The table below provides the calculation of free cash flow for Air Canada for the periods indicated.

(Canadian dollars in millions)	First Quarter		
	2020	2019	\$ Change
Net cash flows from (used in) operating activities	\$ (20)	\$ 3,111	\$ (3,131)
Additions to property, equipment and intangible assets, net of proceeds from sale and leaseback transactions	(373)	(920)	547
One-time proceeds related to the acquisition of Aeroplan (as described above)	-	(1,612)	1,612
Free cash flow ⁽¹⁾	\$ (393)	\$ 579	\$ (972)

(1) Free cash flow is a non-GAAP financial measure used by Air Canada as an indicator of the financial strength and performance of its business, indicating how much cash it can generate from operations after capital expenditures and after one-time proceeds related to the acquisition of Aeroplan. 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 and leaseback transactions. The one-time proceeds related to the acquisition of Aeroplan in 2019 were also excluded from Air Canada's calculation of free cash flow. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Negative free cash flow of \$393 million deteriorated by \$972 million from the first quarter of 2019, reflecting lower cash flows from operating activities due to the impact of the COVID-19 pandemic, partially offset by a lower level of capital expenditures year-over-year.

6.6. Capital Expenditures and Related Financing Arrangements

Boeing 737 MAX Aircraft

Air Canada's agreement with Boeing for the purchase of Boeing 737 MAX aircraft provides for:

- Firm orders for 50 Boeing 737 MAX 8 aircraft.
- Purchase options for 18 Boeing 737 MAX aircraft.
- Certain rights to purchase an additional 30 Boeing 737 MAX aircraft.

Twenty-four Boeing 737 MAX 8 aircraft have been delivered. The delivery schedule for the remaining 26 Boeing 737 Max 8 aircraft and their return to service is uncertain. The capital commitments table below reflects Air Canada's assumptions surrounding the delivery schedule, which may change in light of the duration and any related impact of the grounding of the Boeing 737 MAX aircraft.

Air Canada has concluded its discussions with Boeing to settle the terms of an arrangement in relation to the grounding of the Boeing 737 MAX aircraft. The settlement payments contemplated by the arrangement were made to Air Canada during the fourth quarter of 2019 and during the first quarter of 2020. The compensation is accounted for as an adjustment to the purchase price of current and future deliveries and will flow through Air Canada's consolidated statement of operations as reduced depreciation expense over the life of the aircraft, and as a reduction to additions to property and equipment on the consolidated statement of cash flow.

Airbus A220-300 Aircraft

Under a purchase agreement concluded by Air Canada and Bombardier Inc. ("Bombardier") in June 2016, Air Canada has a firm order for 45 Airbus A220-300 aircraft (formerly called Bombardier C-Series CS300 aircraft) and options for an additional 30 Airbus A220-300 aircraft. The first Airbus A220 was delivered in late 2019, an additional three were delivered in the first quarter of 2020 and an additional 14 are expected in 2020.

Capital Commitments

As outlined in the table below, the estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments as at March 31, 2020 approximates \$4,334 million. The table below includes the impact of a capital reduction and deferral program (discussed above) initiated in the first quarter of 2020.

(Canadian dollars in millions)	Remainder of 2020	2021	2022	2023	2024	Thereafter	Total
Projected committed expenditures	\$ 1,085	\$ 2,030	\$ 1,023	\$ 196	\$ -	\$ -	\$ 4,334
Projected planned but uncommitted expenditures	265	460	473	675	706	Not available	Not available
Projected planned but uncommitted capitalized maintenance ⁽¹⁾	143	346	440	421	421	Not available	Not available
Total projected expenditures ⁽²⁾	\$ 1,493	\$ 2,836	\$ 1,936	\$ 1,292	\$ 1,127	Not available	Not available

(1) Future capitalized maintenance amounts for 2023 and beyond are not yet determinable, however an estimate of \$421 million has been made for 2023 and 2024.

(2) U.S. dollar amounts are converted using the March 31, 2020 closing exchange rate of US\$1=C\$1.4062. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation and, where applicable, deferred price delivery payment interest calculated based on the 90-day U.S. LIBOR rate at March 31, 2020.

6.7. Pension Funding Obligations

Air Canada maintains several defined benefit pension plans, including domestic registered pension plans, supplemental pension plans and pension plans for foreign employees. Air Canada also has several defined contribution pension plans as well as plans providing other retirement and post-employment benefits to its employees.

As at April 1, 2020, the aggregate solvency surplus in Air Canada's domestic registered pension plans was \$2.7 billion. As permitted by applicable legislation and subject to applicable plan rules, amounts in excess of 105% on a solvency basis may be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan.

Total employer defined benefit pension funding contributions (including the international and supplemental plans) are forecasted to be \$100 million in 2020.

As at March 31, 2020, approximately 82.5% of Air Canada's pension assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk. Air Canada seeks to maintain a high percentage of long-term fixed income products to hedge pension liabilities.

6.8. Contractual Obligations

The table below provides Air Canada's contractual obligations as at March 31, 2020, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and lease liabilities and committed capital expenditures. The committed capital expenditures in the table below may change once the duration and related impact of the grounding of the Boeing 737 MAX aircraft is known. The contractual obligations reported below do not reflect the impact of the fleet changes being implemented subsequent to March 31, 2020 and which impacts are still being determined.

(Canadian dollars in millions)	Remainder of 2020	2021	2022	2023	2024	Thereafter	Total
<i>Principal</i>							
Long-term debt	\$ 276	\$ 1,028	\$ 549	\$ 2,330	\$ 311	\$ 2,499	\$ 6,993
Lease liabilities	525	549	468	459	417	1,369	3,787
Total principal obligations	\$ 801	\$ 1,577	\$ 1,017	\$ 2,789	\$ 728	\$ 3,868	\$ 10,780
<i>Interest</i>							
Long-term debt	198	218	181	146	92	252	1,087
Lease liabilities	159	171	139	111	84	357	1,021
Total interest	\$ 357	\$ 389	\$ 320	\$ 257	\$ 176	\$ 609	\$ 2,108
Total long-term debt and lease liabilities	\$ 1,158	\$ 1,966	\$ 1,337	\$ 3,046	\$ 904	\$ 4,477	\$ 12,888
Committed capital expenditures	\$ 1,085	\$ 2,030	\$ 1,023	\$ 196	\$ -	\$ -	\$ 4,334
Total contractual obligations ⁽¹⁾	\$ 2,243	\$ 3,996	\$ 2,360	\$ 3,242	\$ 904	\$ 4,477	\$ 17,222

(1) Total contractual obligations exclude commitments for goods and services required in the ordinary course of business. Also excluded are long-term liabilities other than long-term debt and lease liabilities due to reasons of uncertainty of timing of cash flows and items that are non-cash in nature.

6.9. Share Information

The issued and outstanding shares of Air Canada, along with shares potentially issuable, as of the dates indicated below, are as follows:

	March 31, 2020	December 31, 2019
Issued and outstanding shares		
Variable voting shares	123,723,049	126,664,740
Voting shares	137,210,123	137,151,838
Total issued and outstanding shares	260,933,172	263,816,578
Class A variable voting and Class B voting shares potentially issuable		
Stock options	6,059,428	4,890,095
Total shares potentially issuable	6,059,428	4,890,095
Total outstanding and potentially issuable shares	266,992,600	268,706,673

Normal Course Issuer Bid

In May 2019, Air Canada received approval from the Toronto Stock Exchange for the renewal of its normal course issuer bid for its Class A variable voting shares and Class B voting shares (collectively the "shares"), authorizing, between May 31, 2019 and May 30, 2020, the purchase of up to 24,130,551 shares, representing 10% of Air Canada's public float of 241,305,518 shares as at May 17, 2019.

In the first quarter of 2020, Air Canada purchased, for cancellation, a total of 2,910,800 shares at an average cost of \$43.76 per share for aggregate consideration of \$127 million.

In response to the COVID-19 pandemic, purchases under the share repurchase program were suspended in March 2020.

7. QUARTERLY FINANCIAL DATA

The table below summarizes quarterly financial results for Air Canada for the last eight quarters.

(Canadian dollars in millions, except where indicated)	2018			2019				2020
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Operating revenues	\$ 4,324	\$ 5,395	\$ 4,227	\$ 4,434	\$ 4,739	\$ 5,529	\$ 4,429	\$ 3,722
Operating expenses	4,016	4,472	4,048	4,307	4,317	4,573	4,284	4,155
Operating income	308	923	179	127	422	956	145	(433)
Non-operating income (expense)	(414)	31	(570)	158	18	(78)	27	(843)
Income (loss) before income taxes	(106)	954	(391)	285	440	878	172	(1,276)
Income tax (expense) recovery	4	(252)	31	60	(97)	(242)	(20)	227
Net income (loss)	(102)	702	(360)	345	343	636	152	(1,049)
Diluted earnings (loss) per share	\$ (0.37)	\$ 2.55	\$ (1.33)	\$ 1.26	\$ 1.26	\$ 2.35	\$ 0.56	\$ (4.00)
Adjusted pre-tax income (loss) ⁽¹⁾	\$ 185	\$ 815	\$ 68	\$ 24	\$ 326	\$ 857	\$ 66	\$ (520)
Adjusted net income (loss) ⁽¹⁾	\$ 129	\$ 580	\$ 55	\$ 17	\$ 240	\$ 613	\$ 47	\$ (392)
Adjusted earnings (loss) per share – diluted ⁽¹⁾	\$ 0.47	\$ 2.10	\$ 0.20	\$ 0.06	\$ 0.88	\$ 2.27	\$ 0.17	\$ (1.49)

(1) Adjusted pre-tax income (loss), adjusted net income (loss) and adjusted earnings (loss) per share – diluted are non-GAAP financial measures. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

The table below provides a breakdown of the most significant items included in regional airlines expense for the last five quarters.

(Canadian dollars in millions)	2019 ⁽¹⁾				2020
	Q1	Q2	Q3	Q4	Q1
Capacity purchase fees ⁽¹⁾	\$ 252	\$ 247	\$ 266	\$ 277	\$ 253
Airport and navigation	69	74	78	71	63
Sales and distribution costs	36	41	43	38	33
Other	118	113	114	119	122
Total regional airlines expense	\$ 475	\$ 475	\$ 501	\$ 505	\$ 471

(1) Capacity purchase fees exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16 – Leases.

The table below provides major quarterly operating statistics for Air Canada for the last five quarters.

System	2019				2020
	Q1	Q2	Q3	Q4	Q1
Passenger PRASM (cents)	14.6	15.5	15.8	15.0	13.6
CASM (cents)	16.6	15.5	14.1	16.2	17.7
Adjusted CASM (cents) ⁽¹⁾	11.6	11.1	10.1	11.9	13.1
Fuel cost per litre (cents) ⁽²⁾	75.5	79.2	74.7	75.0	69.2

(1) Adjusted CASM is a non-GAAP financial measure. A reconciliation of this measure to a comparable GAAP measure can be found in section 16 "Non-GAAP Financial Measures" of this MD&A and in Air Canada's MD&A reports, available at aircanada.com.

(2) Includes aircraft fuel expense related to regional airline operations and fuel handling expenses.

The table below provides Air Canada's revenue passenger miles (RPMs), available seat miles (ASMs) and passenger load factors, on a system-basis and by market, for the last eight quarters.

System	2018			2019				2020
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
RPMs (millions)	22,654	28,465	20,801	21,293	23,463	27,954	21,403	17,507
ASMs (millions)	27,269	33,137	25,598	26,016	27,910	32,457	26,431	23,511
Passenger load factor (%)	83.1	85.9	81.3	81.8	84.1	86.1	81.0	74.5
Domestic								
RPMs (millions)	5,003	6,339	4,684	4,251	5,097	6,298	4,682	3,604
ASMs (millions)	6,026	7,482	5,667	5,274	6,068	7,474	5,861	4,930
Passenger load factor (%)	83.0	84.7	82.7	80.6	84.0	84.3	79.9	73.1
U.S. Transborder								
RPMs (millions)	3,848	4,172	3,734	4,296	3,845	4,010	3,695	3,322
ASMs (millions)	4,673	4,962	4,662	5,341	4,686	4,764	4,700	4,741
Passenger load factor (%)	82.3	84.1	80.1	80.4	82.0	84.2	78.6	70.1
Atlantic								
RPMs (millions)	7,084	10,642	5,813	4,943	7,496	10,580	6,265	4,369
ASMs (millions)	8,571	12,231	7,206	6,177	8,882	12,068	7,710	5,964
Passenger load factor (%)	82.7	87.0	80.6	80.0	84.4	87.7	81.3	73.3
Pacific								
RPMs (millions)	4,936	5,630	4,514	4,486	5,072	5,364	4,504	3,026
ASMs (millions)	5,829	6,484	5,541	5,367	5,971	6,217	5,456	3,957
Passenger load factor (%)	84.7	86.8	81.5	83.6	84.9	86.3	82.6	76.5
Other								
RPMs (millions)	1,783	1,682	2,056	3,317	1,953	1,702	2,257	3,186
ASMs (millions)	2,170	1,978	2,522	3,857	2,303	1,934	2,704	3,919
Passenger load factor (%)	82.1	85.0	81.6	86.0	84.8	88.0	83.5	81.3

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Air Canada's financial instruments and risk management practices are summarized in section 13 "Financial Instruments and Risk Management" of Air Canada's 2019 MD&A. There have been no material changes to Air Canada's financial instruments and risk management practices from that which was disclosed at that time. Additional information on Air Canada's risk management practices and financial instruments is discussed in Note 10 of Air Canada's interim unaudited condensed consolidated financial statements for the first quarter of 2020.

9. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in section 14 "Accounting Policies" of Air Canada's 2019 MD&A. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time. Additional information on Air Canada's accounting policies is discussed in Note 2 of Air Canada's interim unaudited condensed consolidated financial statements for the first quarter of 2020.

10. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Air Canada's critical accounting estimates and judgments are summarized in section 15 "Critical Accounting Estimates and Judgments" of Air Canada's 2019 MD&A. There have been no material changes to this section from what was disclosed at that time with the exception as to the impact of the COVID-19 pandemic which is a fluidly evolving situation and discussed further in Note 3 of Air Canada's interim unaudited condensed consolidated financial statements for the first quarter of 2020.

11. OFF-BALANCE SHEET ARRANGEMENTS

Air Canada's off-balance sheet arrangements are summarized in section 16 "Off-Balance Sheet Arrangements" of Air Canada's 2019 MD&A. There have been no material changes to Air Canada's off-balance sheet arrangements from what was disclosed at that time.

12. RELATED PARTY TRANSACTIONS

At March 31, 2020, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

13. SENSITIVITY OF RESULTS

In its 2019 MD&A, Air Canada provided the financial impact that changes in fuel prices and the value of the Canadian dollar would generally have had on Air Canada's past operating results. In light of the COVID-19 pandemic and its impact on Air Canada's financial results, the information provided at that time is not indicative of future trends or results and, given the uncertainty, it is not possible for Air Canada to predict any such trends or results.

14. RISK FACTORS

For a description of risk factors associated with Air Canada and its business, refer to section 20 "Risk Factors" of Air Canada's 2019 MD&A. Except as otherwise discussed in this MD&A and the following update, there have been no material changes to Air Canada's risk factors from what was disclosed at that time

Air Canada, along with the rest of the global airline industry, is facing a severe and abrupt drop in traffic and a corresponding decline in revenue as a result of the coronavirus ("COVID-19") pandemic and the travel restrictions imposed in many countries around the world, including Canada and the United States. The system-wide impact of the COVID-19 pandemic began to be felt in traffic and sales figures commencing in early March 2020. These impacts include drastic declines in earnings and cash from operations. There is very limited visibility on travel demand given government restrictions in place and concerns about travel due to the COVID-19 virus and passenger expectations about the need for certain precautions, such as physical distancing. Air Canada cannot predict the full impact or the timing for when conditions improve. Air Canada is actively monitoring the situation and will respond as the impact of the COVID-19 pandemic evolves, which will depend on a number of factors including the course of the virus, government actions, and passenger reaction, none of which can be predicted with any degree of certainty.

Air Canada's operations could also be adversely impacted further if our employees (or third party employees such as those of airports or suppliers) are unable or restricted in their ability to work, including by reasons of being quarantined or becoming ill as a result of exposure to COVID-19, or if they are subject to government or other restrictions.

As a result of the COVID-19 pandemic, Air Canada has reduced capacity by 85% to 90% in the second quarter of 2020 and by approximately 75% in the third quarter of 2020 and will continue to adjust its schedule and seek other measures to mitigate the impact. For customers affected by cancellations, Air Canada is refunding refundable fares according to the terms and conditions that govern them and is offering a travel voucher valid for 24-months to customers holding non-refundable tickets. Air Canada may be required to refund non-refundable fares depending on the laws of the jurisdictions applicable to such flights. Not refunding non-refundable tickets may expose Air Canada to litigation, including class actions, as well as enforcement action by regulators in certain jurisdictions. Requirements are in flux as emergency legislation to dampen refund obligations is being considered in a number of jurisdictions, including in Europe. In countries where refund requirements are or will be maintained or enforced, ensuing refunds would impact Air Canada's liquidity and the impact of all these risks could be material.

15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Corporation have been designed to provide reasonable assurance that all relevant information is identified to its President and Chief Executive Officer ("CEO"), its Deputy Chief Executive Officer and Chief Financial Officer ("CFO") and its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of the Corporation's CEO and CFO, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

In the Corporation's 2019 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of the Corporation's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

In the Corporation's first quarter 2020 filings, the Corporation's CEO and CFO certified, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting.

The Corporation's Audit, Finance and Risk Committee reviewed this MD&A and the interim unaudited condensed consolidated financial statements and notes, and the Corporation's Board of Directors approved these documents prior to their release.

Changes in Internal Controls over Financial Reporting

There have been no material changes to the Corporation's internal controls over financial reporting during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

16. NON-GAAP FINANCIAL MEASURES

Below is a description of certain non-GAAP financial measures used by Air Canada 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.

EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortization) is commonly used in the airline industry and is used by Air Canada as a means to view operating results before interest, taxes, depreciation and amortization 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.

EBITDA is reconciled to GAAP operating income (loss) as follows:

(Canadian dollars in millions)	First Quarter		
	2020	2019	\$ Change
Operating income (loss) – GAAP	\$ (433)	\$ 127	\$ (560)
Add back:			
Depreciation and amortization	504	456	48
EBITDA	\$ 71	\$ 583	\$ (512)

Adjusted CASM

Air Canada uses adjusted CASM as a means to assess the operating and cost performance of its ongoing airline business without the effects of aircraft fuel expense, the cost of ground packages at Air Canada Vacations, and special items as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

In calculating adjusted CASM, 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.

Excluding aircraft fuel expense, the cost of ground packages at Air Canada Vacations and special items from operating expenses generally allows for a more meaningful analysis of Air Canada's operating expense performance and a more meaningful comparison to that of other airlines.

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)	First Quarter		
	2020	2019	\$ Change
Operating expense - GAAP	\$ 4,155	\$ 4,307	\$ (152)
Adjusted for:			
Aircraft fuel expense	(836)	(997)	161
Ground package costs	(234)	(294)	60
Operating expense, adjusted for the above-noted items	\$ 3,085	\$ 3,016	\$ 69
ASMs (millions)	23,511	26,016	(9.6%)
Adjusted CASM (cents)	¢ 13.12	¢ 11.59	13.2%

Adjusted Pre-tax 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 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.

Adjusted pre-tax income (loss) is reconciled to GAAP income before income taxes as follows:

(Canadian dollars in millions)	First Quarter		
	2020	2019	\$ Change
Income (loss) before income taxes - GAAP	\$ (1,276)	\$ 285	\$ (1,561)
Adjusted for:			
Foreign exchange (gain) loss	711	(263)	974
Net financing expense related to employee benefits	11	10	1
(Gain) loss on financial instruments recorded at fair value	34	(8)	42
Adjusted pre-tax income (loss)	\$ (520)	\$ 24	\$ (544)

Adjusted Net Income (loss) and Adjusted Earnings (Loss) per Share - Diluted

Air Canada uses adjusted net income (loss) and adjusted earnings (loss) per share - diluted 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 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 net income (loss) is reconciled to GAAP net income as follows:

(Canadian dollars in millions, except where indicated)	First Quarter		
	2020	2019	\$ Change
Net income (loss)– GAAP	\$ (1,049)	\$ 345	\$ (1,394)
Adjusted for:			
Foreign exchange (gain) loss	624	(221)	845
Net financing expense related to employee benefits	8	7	1
(Gain) loss on financial instruments recorded at fair value	25	(6)	31
Special net income tax recovery	-	(108)	108
Adjusted net income (loss)	\$ (392)	\$ 17	\$ (409)
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	263	274	(11)
Adjusted earnings (loss) per share - diluted	\$ (1.49)	\$ 0.06	\$ (1.55)

The table below reflects the share amounts used in the computation of basic and diluted earnings per share on an adjusted earnings per share basis.

(in millions)	First Quarter	
	2020	2019
Weighted average number of shares outstanding – basic	263	271
Effect of dilution	2	3
Remove anti-dilutive impact	(2)	-
Weighted average number of shares outstanding – diluted	263	274

Return on Invested Capital

Air Canada uses return on invested capital ("ROIC") 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, average year-over-year shareholders' equity, net of excess cash. Air Canada defines excess cash as total cash and investments in excess of the minimum cash required to support operations. This measure of liquidity includes cash, cash equivalents, short-term investments, short-term restricted cash and long-term investments. Air Canada uses 20% of trailing 12 months operating revenue as its estimate of the minimum cash required to support ongoing business operations. This estimate of minimum cash provides adequate coverage for advance ticket sales and to meet Air Canada's liquidity needs, as described in section 6.1 "Liquidity" of this MD&A. 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.

Return on invested capital is reconciled to GAAP income before income taxes as follows:

	12 Months Ended	
	March 31, 2020	December 31, 2019
(Canadian dollars in millions, except where indicated)		
Income before income taxes - GAAP	\$ 214	\$ 1,775
Remove:		
Foreign exchange (gain) loss	475	(499)
Net financing expense relating to employee benefits	40	39
(Gain) loss on financial instruments recorded at fair value	19	(23)
Gain on debt settlements and modifications	(6)	(6)
Gain on disposal of assets	(13)	(13)
Adjusted pre-tax income	\$ 729	\$ 1,273
Adjusted for:		
Interest expense	511	515
Adjusted pre-tax income before interest	\$ 1,240	\$ 1,788
Invested capital:		
Average long-term debt and lease liabilities	10,195	9,582
Average shareholders' equity, net of excess cash	1,075	1,951
Invested capital	\$ 11,270	\$ 11,533
Return on invested capital (%)	11.0%	15.5%

Free Cash Flow

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 and leaseback transactions. Free cash flow in 2019 also excludes the one-time proceeds related to the Aeroplan acquisition. Refer to section 6.5 "Consolidated Cash Flow Movements" of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP.

Net Debt to Trailing 12-Month EBITDA (Leverage Ratio)

Net debt to trailing 12-month EBITDA ratio (also referred to as "leverage ratio" in this MD&A) 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. Refer to section 6.3 "Net Debt" of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP.

17. GLOSSARY

Adjusted CASM – Refers to operating expense per ASM adjusted to remove the effects of aircraft fuel expense, ground packages costs at Air Canada Vacations and special items. Adjusted CASM is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Adjusted net income (loss) – Refers to the consolidated net income (loss) of Air Canada adjusted to remove the after-tax effects of foreign exchange gains or losses, net financing 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. Adjusted net income (loss) is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Adjusted pre-tax income (loss) – Refers to the consolidated income (loss) of Air Canada before income taxes and adjusted to remove the effects of foreign exchange gains or losses, net financing 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. Adjusted pre-tax income (loss) is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Aeroplan – Refers to Aeroplan Inc.

Atlantic passenger and cargo revenues – Refers to revenues from flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa.

Available seat miles or ASMs – Refers to a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the miles flown.

Average stage length – Refers to the average mile per departure seat and is calculated by dividing total ASMs by total seats dispatched.

Boeing – Refers to The Boeing Company.

Bombardier – Refers to Bombardier Inc.

CASM – Refers to operating expense per ASM.

Domestic passenger and cargo revenues – Refers to revenues from flights within Canada.

EBITDA – Refers to earnings before interest, taxes, depreciation and amortization. EBITDA is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information. Air Canada excludes special items from EBITDA.

Free cash flow – Refers to net cash flows from operating activities minus additions to property, equipment and intangible assets, and is net of proceeds from sale and leaseback transactions. Free cash flow in 2019 also excludes the one-time proceeds related to the Aeroplan acquisition. Free cash flow is a non-GAAP financial measure. Refer to sections 6.5 "Consolidated Cash Flow Movements" and 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Jazz – Refers to Jazz Aviation LP.

Jazz CPA – Refers to the capacity purchase agreement between Air Canada and Jazz.

Leverage ratio – Refers to the ratio of net debt to trailing 12-month EBITDA (calculated by dividing net debt by trailing 12-month EBITDA). Leverage ratio is a non-GAAP financial measure. Refer to sections 0 "Net Debt" and 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Loss (gain) on debt settlements and modifications – Refers to gains or losses related to debt settlements and modifications that, in management's view, are to be separately disclosed by virtue of their size or incidence to enable a fuller understanding of the Corporation's financial performance.

Other passenger and cargo revenues – Refers to revenues from flights with origins and destinations principally in Central and South America, the Caribbean and Mexico.

Pacific passenger and cargo revenues – Refers to revenues from flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia.

Passenger load factor – Refers to a measure of passenger capacity utilization derived by expressing Revenue Passenger Miles as a percentage of Available Seat Miles.

Passenger revenue per available seat mile or PRASM – Refers to average passenger revenue per ASM.

Percentage point (pp) – Refers to a measure for the arithmetic difference of two percentages.

Return on invested capital or ROIC – Refers to return on invested capital and is a measure used to assess the efficiency with which a company allocates its capital to generate returns. ROIC is a non-GAAP financial measure. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

Revenue passenger carried – Refers to the International Air Transport Association's (IATA) definition of passenger carried whereby passengers are counted on a flight number basis rather than by journey/itinerary or by leg.

Revenue passenger miles or RPMs – Refers to a measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the miles they are carried.

Seats dispatched – Refers to the number of seats on non-stop flights. A non-stop flight refers to a single takeoff and landing.

Sky Regional – Refers to Sky Regional Airlines Inc.

Special items – Refers to those items that, in management's view, are to be separately disclosed by virtue of their significance to the financial statements, to enable a fuller understanding of the Corporation's financial performance.

Weighted average cost of capital or WACC – Refers to management's estimate of its cost of capital, in which each category of capital is proportionately weighted.

Yield – Refers to average passenger revenue per RPM.