AIR CANADA

News Release

Air Canada Reports Second Quarter 2020 Results

- **Total revenue decline of 89 per cent over second quarter of 2019 due to COVID-19 and government-imposed travel restrictions; cargo revenue up in the quarter**
- **Total passengers carried decline of 96 per cent compared to the second quarter of 2019**
- **Liquidity of $9.120 billion at June 30, 2020**
- **Operating loss of $1.555 billion**

MONTREAL, July 31, 2020 – Air Canada today reported unrestricted liquidity of $9.120 billion at June 30, 2020, in line with Air Canada's expectations, compared to unrestricted liquidity of $7.380 billion at December 31, 2019. Total revenues fell from $4.738 billion in the second quarter of 2019 to $527 million in the second quarter this year, a decline of $4.211 billion or 89 per cent. Cargo revenue increased 52 per cent to $269 million. The airline reported second quarter 2020 negative EBITDA(1) (excluding special items) or (earnings before interest, taxes, depreciation and amortization) of $832 million compared to second quarter 2019 EBITDA of $916 million. Air Canada reported an operating loss of $1.555 billion in the second quarter of 2020 compared to operating income of $422 million in the second quarter of 2019.

"As with many other major airlines worldwide, Air Canada's second quarter results confirm the devastating and unprecedented effects of the COVID-19 pandemic and government-imposed travel and border restrictions and quarantine requirements. Canada's federal and inter-provincial restrictions have been among the most severe in the world, effectively shutting down most commercial aviation in our country, which, together with otherwise fragile demand, resulted in Air Canada carrying less than four per cent of the passengers carried during last year's second quarter. In the face of such an impossible operating environment, I am extremely proud of the outstanding efforts our team is making, doing everything possible to successfully navigate this crisis, leveraging our strong balance sheet and the many other assets we developed or acquired over the last decade," said Calin Rovinescu, President and Chief Executive Officer of Air Canada.

"Since mid-March, we have raised $5.5 billion in new equity, debt and aircraft financings in the capital markets, providing us with over $9 billion in liquidity as of June 30th to help weather the COVID-19 crisis. In addition, we have taken decisive action to cut spending and preserve liquidity - including a major management and front-line workforce reduction, a $1.3 billion reduction of our fixed costs and capital investments, the permanent retirement of 79 aircraft (representing more than 30 per cent of our combined mainline and Air Canada Rouge fleet), the indefinite suspension of certain domestic routes and station closures, and a reduction in our network seat capacity of 92 per cent in the quarter. These were some of the painful but necessary steps we have taken to stabilize our airline and preserve cash in these uncertain times. We will now look to the future using this unprecedented challenge as an equally unprecedented opportunity to rebuild a smaller but even more nimble airline, with a simplified and younger fleet and a lower cost structure coming out of the crisis.

“Above all, today’s reported declines in revenue of nearly 90 per cent and in passengers of over 96 per cent, should reinforce the tremendous urgency for governments in Canada to take reasonable steps to safely reopen our country and restore economic activity. Other jurisdictions globally are showing it is possible to safely and responsibly manage the complementary priorities of public health, economic recovery and job preservation and creation. This is why Air Canada recently added its voice to that of many business and union leaders, including more than 140 major Canadian corporations and travel and tourism companies, employing nearly three million Canadians, in calling on the Government of Canada to take prudent steps to replace current blanket travel restrictions and quarantines with targeted evidence-based measures that reflect current circumstances.

“For our part, Air Canada is laser-focused on business continuity and in positioning ourselves to emerge competitively as the pandemic recedes. To promote customer safety and confidence, we introduced Air Canada CleanCare+, a comprehensive, multi-layered approach to biosafety at all phases of the journey. As well, we have slowly begun to rebuild our network, recalling a small number of employees and selectively restoring the award-winning services that have placed Air Canada among the world’s great airlines. For this I thank our employees for all of their incredible efforts and dedication and together we look forward to greeting our returning customers,” said Mr. Rovinescu.

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

Customer Service and Safety

- Air Canada makes safety its first consideration in all that it does and has been continually updating its health and safety policies and procedures for travellers and employees in all workplaces, airports, and onboard aircraft to account for new information about COVID-19 as it becomes available. This now includes a requirement for customers to wear a protective face covering, as well as enhanced protective personal equipment for airport agents and crews, the reinforcement of safe practices such as frequent hand-washing and collaborating with the Canadian federal government to screen passengers to help determine fitness for flying. For more details on preventative measures and policies, please see:

  https://www.aircanada.com/covid19updates

- To underscore its commitment to customer and employee safety, Air Canada introduced 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 preflight customer temperature checks in addition to required health questionnaires and providing all customers with care kits for hand cleaning and hygiene.

- Air Canada has undertaken several medical collaborations to continue advancing biosafety across its business, including with Cleveland Clinic Canada in Toronto, a renowned global healthcare leader to provide additional science-based evidence in our ongoing COVID-19 response; with Ottawa-based Spartan Bioscience to explore rapid COVID-19 testing in an aviation environment; and, since last year, with Toronto-based BlueDot, a company that monitors infectious diseases globally in real time to give us accurate, relevant information to make business and safety decisions quickly.

- To assist with global requirements of goods and personal protective equipment during the pandemic, Air Canada operated more than 2,000 all-cargo international flights since March 22, 2020, and plans to operate up to 100 all-cargo flights per week in the third quarter using a combination of Boeing 787 and Boeing 777 aircraft as well as four recently converted Boeing 777 and three converted Airbus A330 aircraft where it has doubled available cargo space by removing seats from the passenger cabin.

- 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.

Capacity

- Air Canada reduced second quarter 2020 capacity by 92 per cent compared to the second quarter of 2019 and plans to reduce its third quarter 2020 capacity by approximately 80 per cent compared to the third quarter of 2019. This compares to a prior estimated reduction of 75 per cent, the larger reduction resulting from the continued extension of blanket travel restrictions in Canada. The airline will continue to dynamically adjust capacity and take other measures as required to adjust for demand including as a result of health warnings, travel restrictions, border closures and passenger demand.

- Air Canada suspended service indefinitely on 30 domestic regional routes and closed eight stations at regional airports in Canada.

Financing and Liquidity

- 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.

- 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.

- In April 2020, Air Canada concluded a bridge financing of $788 million for 18 Airbus A220 aircraft which Air Canada expects to replace with longer-term secured financing arrangements later in 2020. The longer-term financing is expected to be secured by the 18 Airbus A220 aircraft.

- In June 2020, Air Canada concluded an underwritten marketed public offering of 35,420,000 Class A variable voting shares and/or Class B voting shares of the company at a price to the public of $16.25 per share, for aggregate proceeds of $576 million, and a concurrent marketed private placement of convertible senior unsecured notes due 2025 for aggregate proceeds of US$748 million ($1.011 billion).

- In June 2020, Air Canada completed a private offering of $840 million aggregate principal amount of 9.00 per cent Second Lien Secured Notes due 2024 (the "2024 Notes"), which were sold at 98 per cent of par. The 2024 Notes are secured obligations of Air Canada, secured on a second lien basis by certain real estate interests, ground service equipment, certain airport slots and gate leaseholds, and certain routes and the airport slots and gate leaseholds utilized in connection with those routes.

- In June 2020, Air Canada completed a private offering of one tranche of Class C EETCs with a combined aggregate face amount of approximately US$315 million ($426 million), which were sold at 95.002 per cent of par. The Class C tranche ranks junior to the previously issued Series 2015-1, Series 2015-2, and Series 2017-1 EETCs, and is secured by liens on the 27 aircraft financed under the Series 2015-1, Series 2015-2, and Series 2017-1 EETCs. The Class C EETCs have an interest rate of 10.500 per cent per annum, and a final expected distribution date of July 15, 2026.

- As a result of the above financing activities, unrestricted liquidity amounted to $9.120 billion and excess cash amounted to $6.820 billion as at June 30, 2020. Air Canada updated its definition of excess cash in the second quarter of 2020 to better reflect the current operating environment. Air Canada was previously using 20 per cent of trailing 12 months operating revenue as its estimate of the minimum cash required to support ongoing business operations. The minimum cash estimate has now been updated to a fixed amount of $2.4 billion. This minimum cash estimate considers Air Canada's various financial covenants, provides adequate coverage for advance ticket sales, and supports Air Canada's liquidity needs.

- Air Canada's unencumbered asset pool (excluding the value of Aeroplan and Air Canada Vacations) amounted to approximately $2.5 billion as at June 30, 2020. As part of Air Canada's ongoing efforts to increase liquidity levels, additional financing arrangements continue to be assessed.

- Air Canada suspended share purchases under its Normal Course Issuer Bid in early March 2020 and did not renew its issuer bid upon its expiry in the second quarter of 2020.

Cost Reduction and Capital Reduction and Deferral Program

- Air Canada initiated a company-wide cost reduction and capital reduction and deferral program as a result of COVID-19, which has now reached approximately $1.3 billion, increased from an initial target of $500 million. Excluding depreciation, amortization, and special items, second quarter 2020 operating expenses decreased $2.462 billion or 64 per cent from the same quarter in 2019. Air Canada continues to seek additional opportunities for cash preservation.

- Air Canada announced a workforce reduction of approximately 20,000 employees, representing more than 50 per cent of its workforce. This was achieved through layoffs, terminations of employment, voluntary separations, early retirements, and special leaves.

- Air Canada adopted the Canada Emergency Wage Subsidy (CEWS) for most of its workforce effective March 15, 2020. On July 17, 2020, the Government of Canada announced that the program would be redesigned and extended to December 2020. Air Canada intends to continue its participation in the CEWS program, subject to meeting the eligibility requirements.

- Air Canada is retiring 79 older aircraft from its fleet – consisting of Boeing 767, Airbus A319 and Embraer 190 aircraft. Their retirement will simplify the airline's overall fleet, reduce its cost structure, and lower its carbon footprint.

Second Quarter Summary

Air Canada recorded a net loss of $1.752 billion or $6.44 per diluted share, compared to net income of $343 million or $1.26 per diluted share in the second quarter of 2019.

At June 30, 2020, net debt of $4.564 billion increased $1.723 billion from December 31, 2019, reflecting the impact of net cash used for operating and investing activities in the first six months of 2020. The unfavourable impact of a weaker Canadian dollar, as at June 30, 2020 compared to December 31, 2019, increased foreign currency denominated debt (mainly U.S. dollars) by $350 million.

In the second quarter of 2020, net cash flows used in operating activities of $1.251 billion deteriorated by $2.341 billion from the same quarter in 2019 on lower operating results and lower cash from working capital as a result of lower advance ticket sales, reflecting the severe impact of the COVID-19 pandemic. In the second quarter of 2020, net cash inflows from financing activities amounted to $4.089 billion, an increase of $4.470 billion from the second quarter of 2019.

Net proceeds from debt and equity financings of $4.358 billion in the second quarter of 2020 reflected the impact of the financings discussed above.

Outlook and Major Assumptions

As indicated above, Air Canada plans to reduce its third quarter 2020 capacity by approximately 80 per cent from the same quarter in 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.

Air Canada projects a net cash burn(1) of between $1.35 billion and $1.6 billion (or between $15 million and $17 million per day, on average) in the third quarter of 2020. This net cash burn projection includes $4 million per day in capital expenditures and $5 million per day in lease and debt service costs. This compares to a net cash burn of $1.724 billion (or approximately $19 million per day, on average) in the second quarter of 2020. The projected improvement in net cash burn in the third quarter of 2020 reflects the significant measures taken to reduce cash burn (as discussed above) and a modestly improving demand environment, partially offset by higher capital expenditures, including aircraft deliveries. The projected net cash burn for the third quarter of 2020 assumes that certain international borders will be reopened, that travel restrictions in a number of markets will be lifted and that passenger demand will continue to improve.

[1] Non-GAAP 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. Readers are advised to review the section entitled Non-GAAP Financial Measures in Air Canada's Second Quarter 2020 MD&A for a further discussion of such non-GAAP measures and a reconciliation of such measures to Canadian GAAP.

- 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.

- Net cash burn is commonly used in the airline industry and is used by Air Canada as a measure of cash used to maintain operations, support capital expenditures, and settle normal debt repayments, all before the net impact of new financing proceeds. Net cash burn is defined as net cash flows from operating, financing, and investing activities, and excludes proceeds from new financings, a lump sum debt maturity made in March 2020 of $255 million and any future lump sum debt maturities where the Corporation has refinanced or replaced the amount. Net cash burn also excludes movements between cash and short and long-term investments.

Air Canada's Second Quarter 2020 Consolidated Financial Statements and Notes and its Second Quarter 2020 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 30, 2020, consult SEDAR at **www.sedar.com**.

Second Quarter Analyst Conference Call

Air Canada will host its quarterly analysts' call today, July 31st, 2020 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.

Media and the public may access this call on a listen-in basis. Details are as follows:

Dial 416-340-2217 or 1-800-806-5484 Passcode: 3795785#

Live audio webcast: **https://bell.media-server.com/mmc/p/dctdriqx**

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 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, among 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, and particularly in Canada as well as 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 changing government restrictions in place around the world and the severity of the restrictions in Canada; 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. The COVID-19 pandemic is also having significant economic impacts, including on business and consumer spending, which may in turn significantly impact demand for travel. 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, as well as timing of a recovery in international and business travel which are important segments of Air Canada's market, none of which can be predicted with any degree of certainty.

Other factors that 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 into 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 Air Canada's Second Quarter 2020 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 Air Canada's 2019 MD&A or at all. The forward-looking statements contained or incorporated by reference in this news release represent Air Canada's expectations as of the date of this news release (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as required under applicable securities regulations.

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INFORMATION

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HIGHLIGHTS

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

(Canadian dollars in millions, except where indicated)	Second Quarter			First Six Months		
	2020	2019	$ Change	2020	2019	$ Change
Financial Performance Metrics						
Operating revenues	527	4,738	(4,211)	4,249	9,172	(4,923)
Operating income (loss)	(1,555)	422	(1,977)	(1,988)	549	(2,537)
Income (loss) before income taxes	(1,481)	440	(1,921)	(2,757)	725	(3,482)
Net income (loss)	(1,752)	343	(2,095)	(2,801)	688	(3,489)
Adjusted pre-tax income (loss) (1)	(1,438)	326	(1,764)	(1,958)	350	(2,308)
EBITDA (excluding special items) (1)	(832)	916	(1,748)	(761)	1,499	(2,260)
Unrestricted liquidity (2)	9,120	7,160	1,960	9,120	7,160	1,960
Net cash flows from (used in) operating activities	(1,251)	1,090	(2,341)	(1,271)	4,201	(5,472)
Free cash flow (1)	(1,493)	537	(2,000)	(1,856)	1,116	(2,972)
Net debt (1)	4,564	3,277	1,287	4,564	3,277	1,287
Diluted earnings (loss) per share	(6.44)	1.26	(7.70)	(10.48)	2.51	(12.99)
Operating Statistics (3)			**% Change**			**% Change**
Revenue passenger miles ("RPM") (millions)	783	23,463	(96.7)	18,290	44,756	(59.1)
Available seat miles ("ASM") (millions)	2,243	27,910	(92.0)	25,754	53,927	(52.2)
Passenger load factor %	34.9%	84.1%	(49.1) pp	71.0%	83.0%	(12.0) pp
Passenger revenue per RPM ("Yield") (cents)	26.4	18.4	43.3	18.6	18.1	2.5
Passenger revenue per ASM ("PRASM") (cents)	9.2	15.5	(40.5)	13.2	15.1	(12.3)
Operating revenue per ASM (cents)	23.5	17.0	38.4	16.5	17.0	(3.0)
Operating expense per ASM ("CASM") (cents)	92.9	15.5	NM	24.2	16.0	NM
Adjusted CASM (cents) (1)	76.9	11.1	NM	18.7	11.3	NM
Average number of full-time equivalent ("FTE") employees (thousands) (4)	16.4	33.1	(50.4)	24.7	32.6	(24.3)
Aircraft in operating fleet at period-end (5)	348	400	(13.0)	348	400	(13.0)
Seats dispatched (thousands)	1,347	15,955	(91.6)	15,510	31,367	(50.6)
Aircraft frequencies (thousands)	15.1	136.6	(88.9)	130.3	270.1	(51.8)
Average stage length (miles) (6)	1,664	1,749	(4.9)	1,660	1,719	(3.4)
Fuel cost per litre (cents)	51.8	79.2	(34.7)	66.3	77.4	(14.4)
Fuel litres (thousands)	240,783	1,410,466	(82.9)	1,448,902	2,731,231	(47.0)
Revenue passengers carried (thousands) (7)	480	12,837	(96.3)	10,407	24,868	(58.2)

(1) Adjusted pre-tax income (loss), EBITDA (excluding special items) (earnings before interest, taxes, depreciation and amortization), free cash flow 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 Second Quarter 2020 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 June 30, 2020, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of $8,644 million, and long-term investments of $476 million. At June 30, 2019, unrestricted liquidity was comprised of cash, cash equivalents and short-term investments of $5,921 million, long-term investments of $253 million and undrawn lines of credit of $986 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 June 30, 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 Air Canada's Second *Quarter 2020 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.