# AIR CANADA

# News Release

## Air Canada Reports First Quarter 2023 Financial Results

- *Record first quarter passenger revenues of $4.088 billion, more than double the first quarter of 2022, on a 53 per cent increase in operated capacity*
- *Record first quarter operating revenues of $4.887 billion, 90 per cent higher than first quarter 2022 and about 10 per cent higher than first quarter 2019*
- *Operating loss of $17 million,* improved from an operating loss of $550 million in the first quarter of 2022
- *Adjusted EBITDA* * *of $411 million with adjusted EBITDA margin* * *of 8.4 per cent*
- *Cash flows from operations of $1.437 billion*
- *Total liquidity of over $10.5 billion at March 31, 2023*

MONTREAL, May 12, 2023 – Air Canada today reported its first quarter 2023 financial results.

"Air Canada's impressive first quarter performance reflects the strength of our brand, the very strong demand environment across all markets and the effective execution of our strategic plan. When compared to the same quarter in 2022, passenger revenues more than doubled and hit a first quarter record of close to $4.1 billion, supported by our diversified network and our strong international franchise. Adjusted EBITDA surged by $554 million to $411 million, and our adjusted CASM* fell nearly seven per cent from a year ago," said Michael Rousseau, President and Chief Executive Officer of Air Canada.

"Our first quarter financial results exceeded both internal and external expectations and we expect demand to persist, supported by strong advance bookings for the remainder of the year. For this reason, as well as lower-than-expected fuel costs, we increased our 2023 adjusted EBITDA guidance last week. I thank all employees for their continued focus on improving all aspects of our company through effective and positive teamwork, and our customers for their loyalty.

*Adjusted CASM, adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), adjusted EBITDA margin, leverage ratio, net debt, adjusted pre-tax income (loss), adjusted net income (loss), adjusted earnings (loss) per share, and free cash flow are referred to in this news release. Such measures are non-GAAP financial measures, non-GAAP ratios, or supplementary financial 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. Refer to the "Non-GAAP Financial Measures" section of this news release for descriptions of these measures, and for a reconciliation of Air Canada non-GAAP measures used in this news release to the most comparable GAAP financial measure.

4 STAR AIRLINE SKYTRAX
The only Four-Star international network carrier in North America

"All areas of the business contributed meaningfully during the quarter. Air Canada Cargo is expanding its network and fleet, Aeroplan is gaining more members and gross billings have increased 50% when compared to the first quarter of 2022, and Air Canada Vacations produced remarkable results. System yields improved approximately 9 per cent compared to the first quarter of 2022. We achieved a strong free cash flow* of nearly $1 billion. This will allow us to continue investing in our future, including by further deleveraging our balance sheet," said Mr. Rousseau.

**<u>First Quarter 2023 Financial Results</u>**

- First quarter operating revenues of $4.887 billion increased $2.314 billion from the same quarter in 2022, primarily from higher passenger revenues due to increased travel demand. Compared to the first quarter of 2019, operating revenues increased about 10 per cent. Operated capacity increased about 53 per cent from the first quarter of 2022 (about 84 per cent of first quarter 2019 ASMs), in line with the projection provided in Air Canada's February 17, 2023 news release.
- Operating expenses of $4.904 billion increased $1.781 billion or 57 per cent from the first quarter of 2022. The increase included the impact of the year-over-year capacity increase, an increase of about 83 per cent in passengers carried and an approximate 30 per cent increase in jet fuel prices.
- Operating loss of $17 million, improved from an operating loss of $550 million in the first quarter of 2022.
- Net income of $4 million, increased $978 million from the first quarter of 2022. Diluted loss per share of $0.03 compared to a diluted loss per share of $2.72 in the first quarter of 2022.
- Adjusted net loss* of $188 million improved $559 million from the first quarter of 2022. Adjusted loss per share* of $0.53 compared to an adjusted loss per share of $2.09 in the first quarter of 2022.
- Adjusted CASM (adjusted cost per available seat mile) of 14.52 cents improved 6.9 per cent from the first quarter of 2022. The unit cost improvement resulting from higher operated capacity was partially offset by a favourable maintenance cost adjustment of $159 million recorded in the first quarter of 2022. First quarter 2023 CASM of 20.38 cents increased 2.5% from the first quarter of 2022 due to significantly higher fuel prices, higher ground package costs and higher passenger service costs due to higher traffic and higher selling costs, which are largely driven by revenues.
- Adjusted EBITDA of $411 million, with an adjusted EBITDA margin of 8.4 per cent, improved from a negative adjusted EBITDA of $143 million in the first quarter of 2022.
- Net cash flows from operating activities of $1.437 billion increased $1.070 billion from the first quarter of 2022.
- Free cash flow of $987 million increased $896 million from the first quarter of 2022.

**Outlook**

For the second quarter of 2023, Air Canada plans to increase its ASM capacity by about 22 per cent from the same quarter in 2022. On May 4, 2023, Air Canada updated its 2023 guidance:

| Metric | FY 2023 guidance |
|---|---|
| **ASM capacity** | About 23 per cent increase versus 2022 (approximately 90 per cent of 2019 levels) |
| **Adjusted CASM** | About 0.5 to 2.5 per cent below 2022 levels |
| **Adjusted EBITDA** | About $3.5 - $4.0 billion |

*Major Assumptions*

Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its assumptions, Air Canada assumes moderate Canadian GDP growth for 2023, that the Canadian dollar will trade, on average, at C$1.34 per U.S. dollar for the full year 2023 and that the price of jet fuel will average C$1.09 per litre for the full year 2023.

The revised guidance for adjusted EBITDA reflects expected earnings resulting from an improvement in traffic and yield from a stronger-than-anticipated demand environment and lower-than expected fuel price. The revised guidance for adjusted CASM reflects adjustments to various expense items including those resulting from the higher-than-expected traffic. Air Canada's 2023 capacity guidance remains substantially unchanged.

Air Canada also modified the baseline comparison for its 2023 adjusted CASM guidance, comparing it to a 2022 instead of a 2019 baseline.  Given the new cost environment, prior comparisons to the 2019 baseline are no longer as meaningful, and comparisons to 2022 are more appropriate.

Air Canada is not updating its 2024 targets at this time and will continue evaluating them as it progresses with its plans and executes on its strategic priorities.

4 STAR AIRLINE SKYTRAX
The only Four-Star international network carrier in North America

## Non-GAAP Financial Measures

Below is a description of certain non-GAAP financial measures and ratios 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.

### Adjusted CASM

Air Canada uses adjusted CASM 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, impairment of assets, and freighter costs as these items may distort the analysis of certain business trends and render comparative analysis across periods less meaningful and generally allows for a more meaningful analysis of Air Canada's operating expense performance and a more meaningful comparison to that of other airlines.

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.

Air Canada also incurs expenses related to the operation of freighter aircraft which some airlines, without comparable cargo businesses, may not incur. Air Canada had six Boeing 767 dedicated freighter aircraft in its operating fleet as at March 31, 2023 compared to one Boeing 767 dedicated aircraft as at March 31, 2022. These costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison of the passenger airline business across periods.

Adjusted CASM is reconciled to GAAP operating expense as follows:

| (Canadian dollars in millions, except where indicated) | First Quarter | | |
|---|---|---|---|
| | 2023 | 2022 | Change |
| **Operating expense – GAAP** | **$ 4,904** | **$ 3,123** | **$ 1,781** |
| **Adjusted for:** | | | |
| Aircraft fuel | (1,375) | (750) | (625) |
| Ground package costs | (318) | (129) | (189) |
| Impairment of assets | - | (4) | 4 |
| Freighter costs (excluding fuel) | (31) | (11) | (20) |
| **Operating expense, adjusted for the above-noted items** | **$ 3,180** | **$ 2,229** | **$ 951** |
| **ASMs (millions)** | **21,907** | **14,297** | **53.2%** |

The only Four-Star international network carrier in North America

| | | | |
|---|---|---|---|
| **Adjusted CASM (cents)** | **¢ 14.52** | **¢ 15.59** | **¢ (1.07)** |

## EBITDA and Adjusted 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. In calculating adjusted EBITDA, Air Canada excludes impairment of assets as this may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

## Adjusted EBITDA Margin

Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenues) is commonly used in the airline industry and is used by Air Canada as a means to measure the operating margin 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.

EBITDA, adjusted EBITDA and adjusted EBITDA margin are reconciled to GAAP operating income (loss) as follows:

| | **First Quarter** | | |
|---|---|---|---|
| **(Canadian dollars in millions, except where indicated)** | **2023** | **2022** | **Change** |
| **Operating loss – GAAP** | **$ (17)** | **$ (550)** | **$ 533** |
| **Add back:** | | | |
| Depreciation and amortization | 428 | 403 | 25 |
| **EBITDA** | **$ 411** | **$ (147)** | **$ 558** |
| **Remove:** | | | |
| Impairment of assets | - | 4 | (4) |
| **Adjusted EBITDA** | **$ 411** | **$ (143)** | **$ 554** |
| **Operating revenues** | **$ 4,887** | **$ 2,573** | **$ 2,314** |
| **Operating margin (%)** | **(0.3)** | **(21.4)** | **21.1 pp** |
| **Adjusted EBITDA margin (%)** | **8.4** | **(5.6)** | **14.0 pp** |

## 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 impairment of assets, 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 the sale and leaseback of assets, gains or losses on debt settlements and modifications, and gains or losses on disposal of assets as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

Adjusted net income (loss) and adjusted earnings (loss) per share are reconciled to GAAP net income as follows:

| (Canadian dollars in millions) | First Quarter 2023 | 2022 | $ Change |
|---|---|---|---|
| **Net income (loss) – GAAP** | **$ 4** | **$ (974)** | **$ 978** |
| **Adjusted for:** | | | |
| Impairment of assets | - | 4 | (4) |
| Foreign exchange gain | (127) | (99) | (28) |
| Net interest relating to employee benefits | (6) | (4) | (2) |
| (Gain) loss on financial instruments recorded at fair value | (38) | 173 | (211) |
| Income tax, including for the above reconciling items (1) | (21) | 153 | (174) |
| **Adjusted net loss** | **$ (188)** | **$ (747)** | **$ 559** |
| Weighted average number of outstanding shares used in computing diluted income per share (in millions) | 358 | 358 | - |
| **Adjusted loss per share – diluted** | **$ (0.53)** | **$ (2.09)** | **$ 1.56** |

(1) *In 2023, the deferred income tax expense recorded in other comprehensive income related to remeasurements on employee benefit liabilities is offset by a deferred income tax recovery that was recorded through Air Canada's consolidated statement of operations. This recovery is removed from adjusted net income (loss). In comparison, a deferred income tax expense was removed from adjusted net income (loss) for the year 2022.*

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 2023 | 2022 |
|---|---|---|
| **Weighted average number of shares outstanding – basic** | **358** | **358** |
| Effect of dilution | - | - |
| **Weighted average number of shares outstanding – diluted** | **358** | **358** |

## Free Cash Flow

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. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment, and intangible assets, net of proceeds from sale and leaseback transactions. Such measure is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results.

The table below reconciles free cash flow to net cash flows from (used in) operating activities for the periods indicated.

| (Canadian dollars in millions) | First Quarter 2023 | 2022 | $ Change |
|---|---|---|---|
| **Net cash flows from operating activities** | **$ 1,437** | **$ 367** | **$ 1,070** |
| Additions to property, equipment, and intangible assets | (450) | (276) | (174) |

| | | | |
|---|---|---|---|
| **Free cash flow** | **$ 987** | **$ 91** | **$ 896** |

## Net Debt

Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. It refers to total long-term debt liabilities (including current portion) less cash, cash equivalents. and short- and long-term investments.

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

Net debt to trailing 12-month adjusted EBITDA ratio (also referred to as "leverage ratio") 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 adjusted EBITDA.

| (Canadian dollars in millions) | March 31, 2023 | December 31, 2022 | Change |
|---|---|---|---|
| Total long-term debt and lease liabilities | $ 14,901 | $ 15,043 | $ (142) |
| Current portion of long-term debt and lease liabilities | 1,163 | 1,263 | (100) |
| **Total long-term debt and lease liabilities (including current portion)** | **16,064** | **16,306** | **(242)** |
| Less cash, cash equivalents and short and long-term investments | (9,532) | (8,811) | (721) |
| **Net debt** | **$ 6,532** | **$ 7,495** | **$ (963)** |
| **Adjusted EBITDA (trailing 12 months)** | **$ 2,011** | **1,457** | **554** |
| **Net debt to adjusted EBITDA ratio** | **3.2x** | **5.1x** | **(1.9)** |

For further information on Air Canada's public disclosure file, including Air Canada's 2022 Annual Information Form dated March 29, 2023, consult SEDAR at **www.sedar.com**.

## First Quarter 2023 Conference Call

Air Canada will host its quarterly analysts' call today, Friday, May 12, 2023, at 8:00 a.m. ET. Michael Rousseau, Air Canada President and Chief Executive Officer, Amos Kazzaz, Executive Vice President and Chief Financial Officer, Mark Galardo, Executive Vice President, Revenue and Network Planning, will present the results and be available for analysts' questions. Immediately following the analysts' Q&A session, Mr. Kazzaz and Pierre Houle, Vice President and Treasurer, will be available to answer questions from term loan B lenders and holders of Air Canada bonds.

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

Webcast: https://bell.media-server.com/mmc/p/nvdcm9nf

Note: This is a listen-in audio webcast.

By telephone: 416-340-2217 or 1-800-898-3989 (toll-free), passcode 9229567#

Please allow 10 minutes to be connected to the conference call.

***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 of Air Canada. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including those discussed below.*

*Factors that may cause results to differ materially from results indicated in forward-looking statements include economic and geopolitical conditions such as the military conflict between Russia and Ukraine, Air Canada's ability to successfully achieve or sustain positive net profitability, industry and market conditions and the demand environment, competition, the remaining effects from the COVID-19 pandemic, Air Canada's dependence on technology, cybersecurity risks, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), energy prices, Air Canada's ability to pay its indebtedness and maintain or increase liquidity, interruptions of service, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from anthropogenic sources), Air Canada's dependence on key suppliers (including government agencies and other stakeholders supporting airport and airline operations), Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, the availability and onboarding of Air Canada's workforce, other epidemic diseases, changes in laws, regulatory developments or proceedings, employee and labour relations and costs, terrorist acts, war, Air Canada's ability to successfully operate its loyalty program, casualty losses, Air Canada's dependence on Star Alliance® and joint ventures, Air Canada's ability to preserve and grow its brand, pending and future litigation and actions by third parties, currency exchange fluctuations, limitations due to restrictive covenants, insurance issues and costs, and pension plan obligations, as well as the factors identified in Air Canada's public disclosure file available at www.sedar.com and, in particular, those identified in section 18 "Risk Factors" of Air Canada's 2022 MD&A and in section 14 "Risk Factors" of Air Canada's first quarter 2023 MD&A.*

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

**INFORMATION**

---

| | |
|---|---|
| **Investor Relations:** | (514) 422-7849 |
| | **investors.investisseurs@aircanada.ca** |
| **Internet:** | **investors.aircanada.com** |

4 STAR AIRLINE SKYTRAX
The only Four-Star international network carrier in North America

# Selected Financial Metrics and Statistics

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

| (Canadian dollars in millions, except per share data or where indicated) | First Quarter | | |
|---|---|---|---|
| **Financial Performance Metrics** | **2023** | **2022** | **$ Change** |
| Operating revenues | 4,887 | 2,573 | 2,314 |
| Operating loss | (17) | (550) | 533 |
| Operating margin [1] (%) | (0.3) | (21.4) | 21.1 pp [8] |
| Adjusted EBITDA [2] | 411 | (143) | 554 |
| Adjusted EBITDA margin [2] (%) | 8.4 | (5.6) | 14.0 pp |
| Loss before income taxes | (23) | (814) | 791 |
| Net income (loss) | 4 | (974) | 978 |
| Adjusted pre-tax loss [2] | (194) | (740) | 546 |
| Adjusted net loss [2] | (188) | (747) | 559 |
| Total liquidity [3] | 10,543 | 10,361 | 182 |
| Net cash flows from operating activities | 1,437 | 367 | 1,070 |
| Free cash flow [2] | 987 | 91 | 896 |
| Net debt [2] | 6,532 | 7,031 | (499) |
| Diluted loss per share | (0.03) | (2.72) | 2.69 |
| Adjusted loss per share – diluted [2] | (0.53) | (2.09) | 1.56 |
| **Operating Statistics [5]** | **2023** | **2022** | **Change %** |
| Revenue passenger miles (RPMs) (millions) | 18,578 | 9,481 | 96.0 |
| Available seat miles (ASMs) (millions) | 21,907 | 14,297 | 53.2 |
| Passenger load factor % | 84.8% | 66.3% | 18.5 pp |
| Passenger revenue per RPM (Yield) (cents) | 22.0 | 20.2 | 8.8 |
| Passenger revenue per ASM (PRASM) (cents) | 18.7 | 13.4 | 39.2 |
| Operating revenue per ASM (TRASM) (cents) | 22.3 | 18.0 | 23.9 |
| Operating expense per ASM (CASM) (cents) | 22.4 | 21.8 | 2.5 |
| Adjusted CASM (cents) [2] | 14.5 | 15.6 | (6.9) |
| Average number of full-time-equivalent (FTE) employees (thousands) [5] | 34.5 | 27.3 | 26.1 |
| Aircraft in operating fleet at period-end [6] | 352 | 332 | 6 |
| Seats dispatched (thousands) | 12,293 | 8,653 | 42.1 |
| Aircraft frequencies (thousands) | 85.2 | 65.0 | 31.0 |
| Average stage length (miles) [7] | 1,782 | 1,652 | 7.9 |
| Fuel cost per litre (cents) | 128.5 | 98.6 | 30.4 |
| Fuel litres (thousands) | 1,067,085 | 760,862 | 40.2 |
| Revenue passengers carried (thousands) [7] | 9,969 | 5,435 | 83.4 |

*(1) Operating margin is a supplementary financial measure and is defined as operating income (loss) as a percentage of operating revenues.*

*(2) Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), adjusted EBITDA margin, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share, and adjusted CASM are non-GAAP financial measures, capital management measures, non-GAAP ratios or supplementary financial measures. 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. Refer to section "Non-GAAP Financial Measures" of this news release for descriptions of Air Canada's non-GAAP financial measures and for a quantitative reconciliation of Air Canada's non-GAAP financial measures to the most comparable GAAP measure.*

*(3) Total liquidity refers to the sum of cash, cash equivalents, short and long-term investments, and the amounts available under Air Canada's credit facilities. Total liquidity, as at March 31, 2023, of $10,543 million consisted of $9,532 million in cash, cash equivalents, short and long-term investments and $1,011 million available under undrawn credit facilities. As at March 31, 2022, total liquidity of $10,361 million consisted of $9,411 million in cash and cash equivalents, short and long-term investments, and $950 million available under undrawn credit facilities. Cash and cash equivalents also include funds ($231 million as at March 31, 2023 and $199 million as at March 31, 2022) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.*

*(4) Except for the reference to average number of FTE employees, operating statistics in this table include Jazz operating under its capacity purchase agreement with Air Canada.*

4 STAR AIRLINE SKYTRAX
The only Four-Star international network carrier in North America

*(5) Reflects average FTE employees at Air Canada and its subsidiaries, excluding FTE employees at Jazz operating under the capacity purchase agreements with Air Canada.*

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

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

*(8) "pp" denotes percentage points and refers to a measure of the arithmetic difference between two percentages.*