AIR CANADA

News Releases

Air Canada Establishes New Targets for 2018-2020 and Provides Update on its Loyalty Business

- Annual EBITDAR margin of 17 to 20 per cent
- Annual ROIC of 13 to 16 per cent
- Cumulative free cash flow of $2.0 billion to $3.0 billion
- Leverage ratio of 1.2 by the end of 2020

Loyalty Business Update

- NPV from planned loyalty business of $2.0 billion to $2.5 billion
- RFP for co-branded credit card loyalty partner launched

MONTRÉAL, Sept. 19, 2017 /CNW Telbec/ - Air Canada will set new financial targets at its 2017 Investor Day to be held today in Toronto from 08:30 to 11:30 ET.

From 2018 until 2020, Air Canada is targeting an annual EBITDAR(1) margin (earnings before interest, taxes, depreciation, amortization, impairment, and aircraft rent, as a percentage of operating revenue) of 17 to 20 per cent and an annual return on invested capital (ROIC) (1) of 13 to 16 per cent. Air Canada is also projecting cumulative free cash flow(1) of $2.0 billion to $3.0 billion over the same period and a leverage ratio(1) of 1.2 (measured by adjusted net debt over EBITDAR) by the end of 2020.

"We have made significant progress in executing our business plan over the last several years, as evidenced by our share price appreciation of approximately 3,000 per cent since early 2009," said Calin Rovinescu, President and Chief Executive Officer of Air Canada.

"As our business strategy continues to evolve, we have expanded margins, increased adjusted net income and improved our return on invested capital. We have strengthened the balance sheet and improved our competitive position. We have significantly reduced the company's overall risk profile by aggressively managing our financial leverage and effectively transforming our pension plans from a large deficit to a significant surplus position. We have also built tremendous flexibility into our fleet, allowing us to effectively react to different economic environments and avail ourselves of more opportunities.

"Having achieved all of this, we are now ready to take it to a next level, building on this positive momentum with more ambitious objectives, which reflect our confidence in our strategic plan. Our business strategy that has yielded the success it has is centered on four core priorities and they remain: leveraging our international network, reducing costs and enhancing revenues, engaging our customers and fostering a positive culture within our workforce.

"We see many opportunities ahead, including the introduction of more efficient narrow-body aircraft into the mainline fleet, incremental benefits from our amended and extended capacity purchase agreement with Jazz and from the planned launch of our own loyalty program in 2020. In this respect, we are today initiating a comprehensive Request for Proposal (RFP) for a co-branded credit card partner and will be inviting key financial institutions to participate. We expect the net present value of the loyalty program over a 15-year period to range between $2.0 billion and $2.5 billion. We also anticipate realizing benefits from our investments in new technology, including a new passenger services system scheduled to deploy in 2019, and we continue to invest in tools and training for employees to better serve our customers," concluded Mr. Rovinescu.

The estimated NPV of the loyalty program of $2.0 billion to $2.5 billion over a 15-year period is on a pre-tax basis, assumes the current regulatory environment remains unchanged, and is calculated using a discount rate that approximates Air Canada's weighted average cost of capital of 7.6 per cent.

The outlook provided in this news release constitutes forward-looking statements within the meaning of applicable securities laws, is based on a number of assumptions, including those discussed below, and is subject to a number of risks and uncertainties. Please see the section below entitled "Caution Regarding Forward-Looking Information".

Attendance at Air Canada's 2017 Investor Day is by invitation only. A live, listen-only audio webcast of the event, along with accompanying presentation slides will be available through a link on Air Canada's website at www.aircanada.com (Investor

Relations section).

Major Assumptions

Assumptions were made by Air Canada in preparing and making forward-looking statements.

As part of its assumptions, during the 2018 to 2020 period, Air Canada assumes moderate Canadian GDP growth, Canadian Consumer Price Index (CPI) growth of approximately 2 per cent, and an average annual wage rate increase of 2 per cent. Air Canada also assumes that the Canadian dollar will trade, on average, atC$1.32 per U.S. dollar and that the price of jet fuel will average 62 CAD cents per litre for 2018, 65 CAD cents per litre for 2019 and 67 CAD cents per litre for 2020.

The following table summarizes Air Canada's major annual assumptions:

Major Annual Assumptions	**2018**	**2019**	**2020**
GDP - Canada	Moderate Growth		
CPI - Canada	Approximately 2%		
Average Annual Wage Rate Increase	2%		
Canadian dollar per U.S. dollar	1.32		
Jet fuel price – CAD cents per litre	62	65	67

(1) **Non-GAAP Measures**

Below is a description of certain non-GAAP 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 refer to Air Canada's Management's Discussion and Analysis reports for the relevant periods for reconciliation of non-GAAP measures to comparable Canadian GAAP measures.

- Adjusted net income (loss) and adjusted earnings (loss) per share – diluted are used by Air Canada as a means to assess the overall financial performance of its business without the effects of foreign exchange, net financing income (expense) relating to employee benefits, mark-to-market adjustments on derivatives and other financial instruments recorded at fair value, gain on sale and leaseback of assets, loss on debt settlements and special items as these may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful. Air Canada also uses adjusted net income as a measure to determine return on invested capital.

- EBITDAR is commonly used in the airline industry and is used by Air Canada as a means to view operating results before interest, taxes, depreciation, amortization, impairment and aircraft rent as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. Air Canada excludes special items from EBITDAR as such items would distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

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

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

- Return on invested capital (ROIC) is used by Air Canada as a means to assess the efficiency with which it allocates its capital to generate returns. Return is based on adjusted pre-tax income (loss), excluding interest expense and implicit interest on operating leases. Invested capital includes average year-over-year long-term debt, average year-over-year finance lease obligations, average year-over-year shareholders' equity and the value of capitalized operating leases (calculated by multiplying annualized aircraft rent by 7). Air Canada previously calculated invested capital based on an asset less operating liabilities approach. Following a significant increase in Air Canada's invested capital and book value of its equity, Air Canada has decided to change the methodology to a book value-based method of calculating ROIC, as described above.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This news release includes forward-looking statements within the meaning of applicable securities laws. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to preliminary results, guidance, strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "preliminary", "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including without limitation, our ability to successfully achieve or sustain positive net profitability or to realize our initiatives and objectives, currency exchange, industry, market, credit, economic and geopolitical conditions, energy prices, competition, our ability to successfully implement appropriate strategic initiatives or reduce operating costs, our dependence on technology, cybersecurity risks, our ability to pay our indebtedness and secure financing, war, terrorist acts, epidemic diseases, our dependence on key suppliers including regional carriers and Aimia Inc., our success in transitioning from the Aeroplan program and launching our new loyalty program, casualty losses, employee and labour relations and costs, our ability to preserve and grow our brand, pension issues, environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), limitations due to restrictive covenants, insurance issues and costs, our dependence on Star Alliance, interruptions of service, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties and our ability to attract and retain required personnel, as well as the factors identified throughout this news release and those identified in section 17 "Risk Factors" of Air Canada's 2016 MD&A dated February 17, 2017 and section 12 of Air Canada's Second Quarter 2017 MD&A dated August 1, 2017. The forward-looking statements contained 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 as a result of new information, future events or otherwise, except as required under applicable securities regulations.

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