



AIR CANADA

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Air Canada reports 2009 first quarter results

FIRST QUARTER OVERVIEW

- Operating loss of \$188 million compared to an operating loss (before a provision for cargo investigations and proceedings) of \$12 million in the first quarter of 2008.
- Passenger revenue decreased \$300 million or 13 per cent from the first quarter of 2008 due to a 10.9 per cent decrease in traffic and, to a lesser extent, a 2.3 per cent decline in yield.
- RASM decreased 3 per cent from the first quarter of 2008, primarily due to the decline in yield.
- Unit cost increased 5 per cent from the first quarter of 2008, largely due to the negative impact of the weaker Canadian dollar versus the U.S. dollar.
- Net loss of \$400 million compared to a net loss of \$288 million in the first quarter of 2008. The net loss in the first quarter of 2008 included a provision of \$125 million related to cargo investigations and proceedings.
- EBITDAR of \$57 million, a decrease of \$165 million from EBITDAR (before the provision for cargo investigations and proceedings) of \$222 million in the same quarter of 2008.
- Cash, cash equivalents and short-term investments of \$1.1 billion at March 31, 2009.

MONTREAL, May 8 /CNW Telbec/ - Air Canada today reported an operating loss of \$188 million for the first quarter of 2009 compared to an operating loss (before a provision for cargo investigations and proceedings) of \$12 million in the first quarter of 2008. A net loss of \$400 million in the first quarter of 2009 included losses on foreign exchange of \$101 million. A net loss of \$288 million in the first quarter of 2008 included a provision for cargo investigations and proceedings of \$125 million and losses on foreign exchange of \$89 million.

Compared to the first quarter of 2008, passenger revenues decreased \$300 million or 13 per cent to \$2,011 million in the first quarter of 2009 due to a decrease in traffic and, to a lesser extent, a decline in yield. A weakened economy, a significant reduction in business travel, and competitive pricing activities were factors in the decrease in system passenger revenues. In the first quarter of 2009, the airline reduced overall capacity by 10.3 per cent compared to the previous year's quarter. However, traffic declined by 10.9 per cent in the quarter, resulting in a passenger load factor 0.5 percentage points lower than the previous year's quarter.

System yield decreased 2.3 per cent from the first quarter of 2008, reflecting weak passenger demand, reduced high-yield business travel and discounting activities to stimulate traffic. System revenue per available seat mile (RASM) decreased 3.0 per cent from the first quarter of 2008 mainly due to the yield decline.

Compared to the first quarter of 2008, operating expenses decreased \$160 million or 6 per cent from the first quarter of 2008. This reduction in operating expenses was achieved in spite of \$170 million in additional expense related to a weaker Canadian dollar versus the US dollar.

Unit cost in the first quarter of 2009, as measured by operating expense per available seat mile (CASM), increased 5.0 per cent over the first quarter of 2008. Excluding fuel expense, CASM increased 9.4 per cent year-over-year, in large part due to the significantly weaker Canadian dollar versus the US dollar compared to the first quarter of 2008. The capacity reduction was also a factor in the year-over-year increase in CASM as Air Canada's cost structure is such that its fixed costs do not fluctuate proportionately with changes in capacity in the short term. Another factor was the higher ownership costs reflecting Air Canada's investment in new aircraft.

The 9.4 per cent increase in CASM for the first quarter of 2009, excluding fuel expense, was less than the projected increase of between 13.5 to 14.5 per cent compared to the same period in 2008 that was provided in the Corporation's news release dated February 13, 2009. The difference is primarily attributable to the fact that certain operating expenses recorded in the first quarter of 2009 were lower than anticipated. These expenses included pension and post-retirement benefits, aircraft maintenance, aircraft rent, capacity purchase fees paid to Jazz, commissions and expenses related to ground packages at Air Canada Vacations.

The net loss for the first quarter of \$400 million included losses on foreign exchange of \$101 million. This compared to a net loss of \$288 million in the first quarter of 2008 which included the provision for cargo investigations and proceedings of \$125 million and losses on foreign exchange of \$89 million. EBITDAR amounted to \$57 million, a decrease of \$165 million from the first quarter of 2008.

Air Canada reported a loss per share (basic and diluted) of \$4.00 on an unadjusted basis. On an adjusted basis, the airline reported a loss per share (basic and diluted) of \$2.99. Loss per share is adjusted to remove the losses on foreign exchange of \$101 million.

Said Calin Rovinescu, President and Chief Executive Officer, "While fuel prices have declined from last year's record levels to provide some relief from falling demand, the airline industry in general, and certainly Air Canada, continue to face a very difficult economic environment.

"Since taking the helm of Air Canada as CEO just five weeks ago, I have been focused on Air Canada's immediate priorities over and above the impact of this long and unrelenting recession. We have a strong management team in place

and together, we are tackling each priority one by one. They are: obtaining pension funding relief, building liquidity, finding creative revenue generation while working hard to earn customer loyalty, reducing unit costs to reach competitive cost levels and, in the longer term, achieving acceptable margins by creating value for customers and shareholders through profitable growth.

"First, we must obtain pension funding relief. We are firmly committed to finding a way to maintain Air Canada's defined benefit pension plans without restructuring the pension benefit formula. However, an interim pension funding solution is necessary until the federal government enacts permanent changes to pension regulations. We are in discussions with our unions and the federal government to find an alternative funding solution.

"Our second priority is to rebuild cash levels to see us through the downturn. We are in on-going discussions with potential lenders on new sources of financing. There is no doubt that credit markets remain very tight. However, Air Canada has significant assets of interest to lenders as well as a number of key corporate and commercial partners that derive benefit from a financially strong Air Canada.

"Our third priority is finding creative sources of revenue generation. The drop in higher yielding business traffic calls for a different strategy and that means looking at new route opportunities, product offerings and fares. We will also be further leveraging our partnership with Aeroplan, such as through the recent agreement to make an additional 250,000 seats available to Aeroplan members with the triple objectives of raising revenue, earning customer loyalty and differentiating our brand from the competition. Other recent customer-focused measures we have taken include the introduction of our Low Fare Guarantee and the elimination of call centre fees. We may be in a low-fare environment but that does not mean we will concede market share to our competitors without looking for value added ways to preserve it.

"Fourth, Air Canada's unit costs are simply not competitive. While progress has already been made in identifying more than \$250 million in cost reduction opportunities throughout the company, more work remains to be done. Our unit revenues have always been much higher than that of our competitors and while premium customers will continue to be a priority market for us, we cannot rely on this market segment to fully cover the higher costs in the future.

"Looking forward, our longer-term objective is a transformation of the company to ensure that we create and provide products that customers value and deliver a level of service that secures their loyalty, all at a cost that supports profitability and growth and rewards our shareholders. This means engaging our employees in this transformation. My intention is to foster a culture where individual initiative is both encouraged and rewarded, where an empowering "just do it" attitude is at the core of every employee.

"The global economy will inevitably rebound. My role as CEO is to ensure that Air Canada manages through this economic downturn, is well positioned to prosper when growth resumes, has access to adequate liquidity and is able to deliver solid investment performance for shareholders. Air Canada has many strengths. We have a powerful brand franchise, a newly refurbished fleet - one of the youngest in North America - a far-reaching network anchored by well-positioned hubs, strong international Star Alliance partners, employees with a solid reputation for professionalism, not to mention the value of our partnership with Aeroplan, one of the premier loyalty programs in the world. These are strong assets which can be deployed to help us through the short term and position us for long-term success," concluded Mr. Rovinescu.

Pension Update

As at December 31, 2008, the Corporation reported that the solvency deficit as at January 1, 2009 in the registered pension plans, which is used to determine funding requirements, was estimated to be approximately \$3,200 million. During the first quarter of 2009, as a result of updated information regarding the annuity rate to be applied in discounting the pension obligations, this estimate has been revised to \$2,850 million.

In March 2009, the Government of Canada proposed regulations to implement pension measures for the purpose of providing temporary solvency funding relief for federally regulated defined benefit pension plans. The proposals as currently drafted include increasing the current limit of 110% for smoothing asset valuation fluctuations over five years to 115% for 2009 and increasing the period for funding a solvency deficiency from five years to ten years, subject to certain conditions, including the imposition of deemed trusts over deferred funding provided through such temporary relief.

The Corporation continues to assess the impact of these measures which are expected to be adopted through final regulations not yet in place. However, there can be no assurance that the proposed relief will be implemented at all or in a manner which would permit the Corporation to benefit from temporary solvency funding relief. The Corporation continues to monitor the government's actions and to dialogue with government officials on this matter. Until the government finalizes and implements its proposal and the funding valuation is completed during the second quarter of 2009, uncertainty as to the amount and timing of additional pension funding continues to exist. Any increase in funding obligations for 2009 would be paid in the second half of the year as the funding in the first half of the year is based on the January 1, 2008 actuarial valuation reports.

In addition, management is in ongoing discussions with its Canadian-based unions to consider certain funding alternatives including a moratorium and other conditions on funding the pension deficits. These may require government and/or regulatory approval and there can be no assurance that an agreement will be reached between the Corporation and the unions on this matter or that government and/or regulatory approval would be obtained, including in a timely manner so as to provide the Corporation with required funding relief.

Liquidity Update

The challenges that Air Canada faced in 2008 and which continue in 2009 include the weakened demand for air travel as a result of the recession, continuing interest payments and debt payments and the funding of the Corporation's pension plans. During the first quarter of 2009, demand for the Corporation's air travel and cargo services continued to weaken in both domestic and international markets, and the Corporation expects demand to continue to be a challenge for the remainder of the year. In 2009, the Corporation's major collective agreements expire and uncertainties exist with respect to the outcome of these negotiations. In addition, the credit markets continue to be constrained raising concerns about available funding for a number of companies, including Air Canada. The H1N1 virus is a new factor that may affect demand for air travel. To date, the impact on the Corporation's operations has been minimal. The Corporation is monitoring this risk; however, it is unable to predict if the impact on its operations will be significant. These factors have had an impact on the liquidity risk of Air Canada.

During 2008, management undertook various initiatives and developed a plan to manage its operating and liquidity risks taking into account the prevailing economic conditions, including cost containment initiatives, capacity adjustments with the objective of matching capacity to passenger demand and new financing arrangements. In 2009, Air Canada is continuing to pursue its strategy to improve its liquidity position. During the first quarter of 2009, Air Canada received aggregate net proceeds of \$177 million under a spare parts financing, spare engine financing and sale and leaseback transaction.

The Corporation has certain assets including aircraft such as its Boeing 777 aircraft and Embraer aircraft, real estate, airport slots and accounts receivable, certain of which have estimated fair values in excess of the respective loan values, and which may be available to support additional financings or other similar transactions. Management has commenced discussions with certain suppliers, financial institutions, leasing companies, government agencies and other stakeholders on alternatives for obtaining additional financing.

Given the current and continuing instability of credit markets and economic conditions, there can be no assurance that the Corporation will be able to conclude further financing or other similar transactions, including on acceptable terms or that the Corporation's assets will generate the expected proceeds. The Corporation may be required to obtain consent from current lenders and/or other third parties for certain such transactions.

At March 31, 2009, Air Canada had cash and cash equivalents and short-term investments of \$1,087 million (\$1,005 million as at December 31, 2008), which represents approximately 10 per cent of Air Canada's 2008 annual operating revenues. At April 30, 2009, Air Canada had cash and cash equivalents and short-term investments of approximately \$1 billion. Management continues to closely monitor the cash flows to ensure that Air Canada has adequate cash resources to meet its obligations and commitments when they become due.

The Corporation has various agreements for the processing of customer credit card transactions, as further described in Note 1 to the 2008 annual consolidated financial statements of the Corporation. Under the terms of credit card processing agreements with one of its principal credit card processors, the credit card processing company may withhold payment of funds to Air Canada ("the deposit") upon the occurrence of certain events ("triggering events"). Under these triggering events, beginning at the end of the second quarter 2009, the unrestricted cash required in order to avoid a deposit could be as much as \$1.3 billion. Unless sufficient new financing is secured and pension relief is obtained and the credit card processing company and Air Canada agree to revised triggers, the Corporation expects that the Cash and cash equivalents and Short-term investments would be substantially reduced over the next 12 months as a result of required deposits under the current terms of the agreement with the credit card processing company. The Corporation is currently renegotiating certain terms and conditions, including relating to triggering events, with the credit card processing company. There can be no assurance that an agreement will be reached between the Corporation and the credit card processing company, including in a timely manner.

Current Outlook

Air Canada expects its full year 2009 system capacity, as measured in available seat miles (ASM), to decline by between 4 per cent and 5 per cent compared to the full year 2008 (as opposed to the system ASM capacity reduction of 2.5% to 3.5% previously projected in Air Canada's press release dated February 13, 2009). The airline further reduced its projected system ASM capacity from what it had previously projected in order to better match its capacity with passenger demand. Full year 2009 domestic ASM capacity is expected to decline by between 3 per cent and 4 per cent compared to the full year 2008 consistent with the domestic ASM capacity decline projected in Air Canada's press release dated February 13, 2009. For the second quarter of 2009, Air Canada expects its system ASM capacity to decline by between 4 per cent and 5 per cent compared to the second quarter of 2008. Air Canada has identified over \$250 million in reduction opportunities which it expects to realize over the next 18 months through more efficient operational processes, better vendor contract management and more effective manpower planning. It also expects to identify additional savings initiatives over the next two months. Air Canada expects its full year 2009 CASM, excluding fuel expense, to increase between 5.5 per cent and 6.5 per cent compared to the full year 2008, as opposed to the full year 2009 CASM increase (excluding fuel expense) of between 6 per cent and 7 per cent previously projected in Air Canada's press release dated February 13, 2009. This differs from what was projected in Air Canada's press release of February 13, 2009 as certain expenses, such as pension and post-retirement benefits, commissions, credit card fees and other expenses, are anticipated to be lower than previously estimated despite a weaker than anticipated Canadian dollar and an expected further reduction in

ASM capacity. For the second quarter of 2009, Air Canada expects CASM, excluding fuel expense, to increase between 5 per cent and 6 per cent compared to the second quarter of 2008.

The above guidance reflects Air Canada's assumption that the North American economy will remain weak for the second quarter and remainder of 2009. In addition, Air Canada expects that the Canadian dollar will trade, on average, at Cdn \$1.23 per US dollar in the second quarter of 2009 and Cdn \$1.21 per US dollar for the full year 2009 and that the price of fuel will average 64 cents per litre in the second quarter of 2009 and will average 65 cents per litre for the full year 2009 (both net of fuel hedging positions).

The outlook provided constitutes forward-looking statements within the meaning of applicable securities laws and is based on a number of assumptions and subject to a number of risks. Please see section below entitled "Caution Regarding Forward-Looking Information." First Quarter 2009 Accomplishments

- With the introduction of one Boeing 777-300ER aircraft in the quarter, Air Canada has taken delivery of 17 Boeing 777 aircraft to date. The 18th and final Boeing 777 is scheduled to be delivered in the third quarter of 2009. Air Canada is the first North American carrier to operate this newest generation, fuel efficient aircraft.
- Completed the refurbishment of all of its planned operating aircraft, with the exception of one Airbus A330 and three Boeing 767-300ER aircraft.
- Achieved on-time arrivals performance of 72.6 per cent in the quarter, a 4.2 percentage point increase from the previous year, based on Air Canada's domestic Canada arrivals as measured by the U.S. Department of Transportation's standards.
- Received tentative approval from the U.S. DOT to form a transatlantic joint venture with Continental Airlines, United Airlines and Lufthansa. Continental Airlines has also received tentative approval to join the anti-trust immunized alliance of Air Canada and eight other Star Alliance carriers.
- 48 per cent of domestic customers chose a higher branded fare than the lowest Tango fare available, unchanged versus the first quarter of 2008.
- Revenues from Flight Pass products increased 17 per cent over the first quarter of 2008, and represented approximately 6.1 per cent of North American revenues.
- Web penetration for domestic Canada sales in the first quarter of 2009 was 68 per cent - an increase of three percentage points over the first quarter of 2008. Web penetration for combined Canada and U.S. transborder sales was 56 per cent - an increase of two percentage points from the same quarter in 2008.
- 76 per cent of domestic Canada sales, or 66 per cent when combined with U.S. sales, were made directly with Air Canada, either online or through call centres in the first quarter of 2009, compared to 75 per cent of domestic Canada sales, or 65 per cent when combined with U.S. sales, in the first quarter of 2008.
- 59 per cent of Air Canada's customers used self-service check-in products in Canada in the first quarter of 2009 - a one percentage point increase from the same quarter in 2008.
- Paid out \$6 million in the first quarter of 2009 to Air Canada employees under the company's 'Sharing Our Success' monthly incentive program.
- Air Canada contributed \$112 million to funding its employees' defined benefit pension plans, of which \$55 million represented funding of past service costs in accordance with Air Canada's agreement with the Office of the Superintendent of Financial Institutions (OSFI).
- Since launching a carbon offset program in May 2007, Air Canada customers have funded the planting of more than 2,480 trees to offset 12,400 tonnes of carbon emissions, the equivalent of taking over 3,000 cars off the road for a year.(1) Non-GAAP Measures

Air Canada uses adjusted earnings (loss) per share to assess share performance without the effects of foreign exchange gains (losses). This measure is not a recognized measure for financial statement presentation under Canadian GAAP and does not have a standardized meaning and is therefore not likely to be comparable to similar measures presented by other public companies.

EBITDAR is a non-GAAP financial measure commonly used in the airline industry to assess earnings before interest, taxes, depreciation, amortization and aircraft rent. EBITDAR is used to view operating results before aircraft rent, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. EBITDAR is not a recognized measure for financial statement presentation under GAAP and does not have a standardized meaning and is therefore not comparable to similar measures presented by other public companies.

Readers should refer to Air Canada's First Quarter 2009 Management's Discussion and Analysis (MD&A), which will be filed on SEDAR, and made available on Air Canada's website at www.aircanada.com, for a reconciliation of EBITDAR before the provision for cargo investigations and proceedings to

operating income (loss) and EBITDAR to operating income (loss).

For further information on Air Canada's public disclosure file, including Air Canada's Annual Information Form dated March 28, 2009, consult SEDAR at www.sedar.com or www.aircanada.com.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Air Canada's public communications may include written or oral forward looking statements within the meaning of applicable securities laws. Such statements are included in this press release and may be included in other filings with regulatory authorities and securities regulators. 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 strategies, expectations, planned operations or future actions. These forward-looking statements are identified by the use of 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 below, and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or 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, industry, market, credit and economic conditions, the ability to reduce operating costs and secure financing, pension issues, energy prices, currency exchange and interest rates, employee and labour relations, competition, war, terrorist acts, epidemic diseases, insurance issues and costs, changes in demand due to the seasonal nature of the business, supply issues, changes in laws, regulatory developments or proceedings, pending and future litigation and actions by third parties as well as the factors identified throughout this press release and the MD&A and, in particular, those identified in section 18 "Risk Factors" of Air Canada's 2008 MD&A dated February 13, 2009. The forward-looking statements contained in this press release represent the Corporation's expectations as of the date of this press release and are subject to change after such date. However, the Corporation 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.

Assumptions were made by Air Canada in preparing and making forward-looking statements. Air Canada assumes that the North American economy will remain weak for the second quarter of 2009 and for the remainder of 2009. In addition, Air Canada expects that the Canadian dollar will trade, on average, at Cdn \$1.23 per US dollar in the second quarter of 2009 and Cdn \$1.21 per US dollar for the full year 2009 and that the price of fuel will average 64 cents per litre in the second quarter of 2009 and will average 65 cents per litre for the full year 2009 (both net of fuel hedging positions).

Highlights

The financial and operating highlights for the Corporation for the periods indicated are as follows.

	First Quarter		
(Canadian dollars in millions except per share figures)	2009	2008	Change \$
Financial			
Operating revenues	2,391	2,727	(336)
Operating loss before a special provision(1)	(188)	(12)	(176)
Operating loss	(188)	(137)	(51)
Non-operating expense	(109)	(107)	(2)
Loss before non-controlling interest, foreign exchange and income taxes		(297)	(244) (53)
Loss for the period	(400)	(288)	(112)
Operating margin before a special provision %(1)	(7.9%)	(0.4%)	(7.5)pp
Operating margin %	(7.9%)	(5.0%)	(2.9)pp
EBITDAR before a special provision(1)(2)	57	222	(165)
EBITDAR(2)	57	97	(40)
EBITDAR margin before a special provision %(1)(2)	2.4%	8.1%	(5.7)pp
EBITDAR margin %(2)	2.4%	3.6%	(1.2)pp
Cash, cash equivalents and short-term investments	1,087	1,394	(307)

Free cash flow	61	(173)	234
Adjusted debt/equity ratio	93.3%	68.8%	24.5 pp
Loss per share - basic and diluted	(\$4.00)	(\$2.88)	(\$1.12)
Operating Statistics	Change %		
Revenue passenger miles (millions) (RPM)	10,984	12,331	(10.9)
Available seat miles (millions) (ASM)	13,821	15,407	(10.3)
Passenger load factor	79.5%	80.0%	(0.5)pp
Passenger revenue per RPM (cents)	18.2	18.7	(2.3)
Passenger revenue per ASM (cents)	14.5	15.0	(3.0)
Operating revenue per ASM (cents)	17.3	17.7	(2.3)
Operating expense per ASM ("CASM") (cents)	18.7	17.8	5.0
CASM, excluding fuel expense (cents)	14.4	13.1	9.4
Average number of full-time equivalent (FTE) employees (thousands)(3)	22.7	24.0	(5.4)
Aircraft in operating fleet at period end(4)	334	341	(2.1)
Average fleet utilization (hours per day)(5)	9.1	9.9	(8.2)
Average aircraft flight length (miles)(5)	841	876	(4.0)
Fuel price per litre (cents)(6)	71.4	75.2	(5.1)
Fuel litres (millions)	827	947	(12.7)

- (1) A provision related to investigations of alleged anti-competitive cargo pricing activities of \$125 million was recorded in the first quarter of 2008.
- (2) See section 15 "Non-GAAP Financial Measures" in Air Canada's First Quarter 2009 MD&A dated May 8, 2009 for a reconciliation of EBITDAR before the provision for cargo investigations to operating income (loss) and EBITDAR to operating income (loss).
- (3) Reflects FTE employees at Air Canada. Excludes FTE employees at Jazz.
- (4) Includes Jazz aircraft covered under the Jazz CPA.
- (5) Excludes third party carriers operating under capacity purchase arrangements, other than Jazz aircraft covered under the Jazz CPA.
- (6) Includes fuel handling and is net of fuel hedging results.%SEDAR: 00001324EF

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