



Second Quarter 2019
INTERIM UNAUDITED
Condensed Consolidated
Financial Statements and Notes
July 30, 2019



A STAR ALLIANCE MEMBER 

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited (Canadian dollars in millions)	June 30, 2019	December 31, 2018 Restated - Note 2	January 1, 2018 Restated - Note 2
ASSETS			
Current			
Cash and cash equivalents	\$ 1,591	\$ 630	\$ 642
Short-term investments	4,330	4,077	3,162
Total cash, cash equivalents and short-term investments	5,921	4,707	3,804
Restricted cash	79	161	148
Accounts receivable	1,050	796	811
Aircraft fuel inventory	107	109	91
Spare parts and supplies inventory	107	111	115
Prepaid expenses and other current assets	348	417	425
Total current assets	7,612	6,301	5,394
Investments, deposits and other assets	707	401	402
Property and equipment	Note 6 13,076	12,183	11,827
Pension assets	Note 8 1,609	1,969	1,583
Deferred income tax	518	314	684
Intangible assets	Note 4 850	404	318
Goodwill	Note 4 3,288	311	311
Total assets	\$ 27,660	\$ 21,883	\$ 20,519
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$ 2,404	\$ 1,911	\$ 1,927
Advance ticket sales	3,729	2,717	2,469
Aeroplane and other deferred revenue	Note 4 1,093	-	-
Current portion of long-term debt and lease liabilities	Note 7 1,249	1,048	1,186
Total current liabilities	8,475	5,676	5,582
Long-term debt and lease liabilities	Note 7 8,202	8,873	8,190
Aeroplane and other deferred revenue	Note 4 3,240	-	-
Pension and other benefit liabilities	Note 8 2,974	2,547	2,592
Maintenance provisions	1,174	1,307	1,151
Other long-term liabilities	156	151	159
Deferred income tax	73	52	49
Total liabilities	\$ 24,294	\$ 18,606	\$ 17,723
SHAREHOLDERS' EQUITY			
Share capital	789	798	799
Contributed surplus	81	75	69
Hedging reserve	(4)	-	-
Accumulated other comprehensive income	Note 5 20	-	-
Retained earnings	2,480	2,404	1,928
Total shareholders' equity	3,366	3,277	2,796
Total liabilities and shareholders' equity	\$ 27,660	\$ 21,883	\$ 20,519

The accompanying notes are an integral part of the condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited (Canadian dollars in millions except per share figures)	Three months ended June 30		Six months ended June 30		
	2019	2018 Restated - Note 2	2019	2018 Restated - Note 2	
Operating revenues					
Passenger	Note 14	\$ 4,338	\$ 3,921	\$ 8,154	\$ 7,410
Cargo	Note 14	177	200	354	368
Other		242	212	702	626
Total revenues		4,757	4,333	9,210	8,404
Operating expenses					
Aircraft fuel		991	964	1,872	1,789
Wages, salaries and benefits	Note 8	781	711	1,580	1,411
Regional airlines expense		604	642	1,198	1,248
Depreciation, amortization and impairment	Note 6	494	431	950	849
Airport and navigation fees		248	237	476	458
Aircraft maintenance		255	214	500	420
Sales and distribution costs		219	199	432	388
Ground package costs		116	114	410	390
Catering and onboard services		112	108	215	204
Communications and information technology		91	67	192	146
Other		424	338	836	707
Total operating expenses		4,335	4,025	8,661	8,010
Operating income		422	308	549	394
Non-operating income (expense)					
Foreign exchange gain (loss)		117	(82)	380	(279)
Interest income		41	24	79	44
Interest expense	Note 7	(131)	(143)	(264)	(285)
Interest capitalized		9	7	17	20
Net financing expense relating to employee benefits	Note 8	(9)	(13)	(19)	(25)
Gain (loss) on financial instruments recorded at fair value	Note 13	6	(9)	14	(8)
Gain (loss) on debt settlements and modifications	Note 7	-	(1)	-	10
Loss on disposal of assets	Note 15	-	(186)	-	(186)
Other		(15)	(11)	(31)	(20)
Total non-operating income (expense)		18	(414)	176	(729)
Income (loss) before income taxes		440	(106)	725	(335)
Income tax (expense) recovery	Note 9	(97)	4	(37)	30
Net income (loss) for the period		\$ 343	\$ (102)	\$ 688	\$ (305)
Net income (loss) per share	Note 11				
Basic earnings (loss) per share		\$ 1.28	\$ (0.37)	\$ 2.55	\$ (1.12)
Diluted earnings (loss) per share		\$ 1.26	\$ (0.37)	\$ 2.51	\$ (1.12)

The accompanying notes are an integral part of the condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited (Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2019	2018 Restated - Note 2	2019	2018 Restated - Note 2
Comprehensive income (loss)				
Net income (loss) for the period	\$ 343	\$ (102)	\$ 688	\$ (305)
Other comprehensive income (loss), net of tax expense:				
Items that will not be reclassified to net income				
Remeasurements on employee benefit liabilities	Note 8 & 9 (170)	697	(466)	751
Remeasurements on equity investments	Note 5 & 9 9	-	20	-
Items that will be reclassified to net income				
Fuel derivatives designated as cash flow hedges, net	Note 13 & 9 (4)	(2)	(4)	(2)
Total comprehensive income	\$ 178	\$ 593	\$ 238	\$ 444

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited (Canadian dollars in millions)	Share capital	Contributed surplus	Hedging reserve	Accumulated OCI	Retained earnings	Total shareholders' equity
January 1, 2018 ⁽¹⁾	\$ 799	\$ 69	\$ -	\$ -	\$ 1,928	\$ 2,796
Net income (loss) ⁽¹⁾	-	-	-	-	(305)	(305)
Remeasurements on employee benefit liabilities	-	-	-	-	751	751
Fuel derivatives designated as cash flow hedges, net	-	-	(2)	-	-	(2)
Total comprehensive income	-	-	(2)	-	446	444
Share-based compensation	-	4	-	-	-	4
Shares issued	3	(1)	-	-	-	2
Shares purchased and cancelled under issuer bid	(3)	-	-	-	(20)	(23)
June 30, 2018 ⁽¹⁾	\$ 799	\$ 72	\$ (2)	\$ -	\$ 2,354	\$ 3,223
January 1, 2019 ⁽¹⁾	\$ 798	\$ 75	\$ -	\$ -	\$ 2,404	\$ 3,277
Net income (loss)	-	-	-	-	688	688
Remeasurements on employee benefit liabilities	-	-	-	-	(466)	(466)
Remeasurements on equity investments	-	-	-	20	-	20
Fuel derivatives designated as cash flow hedges, net	-	-	(4)	-	-	(4)
Total comprehensive income	-	-	(4)	20	222	238
Share-based compensation	-	7	-	-	-	7
Shares issued	4	(1)	-	-	-	3
Shares purchased and cancelled under issuer bid	(13)	-	-	-	(146)	(159)
June 30, 2019	\$ 789	\$ 81	\$ (4)	\$ 20	\$ 2,480	\$ 3,366

(1) Amounts for prior periods as restated – Refer to Note 2

The accompanying notes are an integral part of the condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

Unaudited (Canadian dollars in millions)	Three months ended June 30		Six months ended June 30	
	2019	2018 Restated - Note 2	2019	2018 Restated - Note 2
Cash flows from (used for)				
Operating				
Net income (loss) for the period	\$ 343	\$ (102)	\$ 688	\$ (305)
Adjustments to reconcile to net cash from operations				
Deferred income tax	81	(4)	7	(30)
Depreciation, amortization and impairment	494	431	950	849
Foreign exchange (gain) loss	(68)	71	(309)	246
Card agreement proceeds	Note 4	-	1,212	-
Aeroplan Miles prepayment proceeds	Note 4	-	400	-
Loss (gain) on debt settlements and modifications	-	1	-	(10)
Loss on disposal of assets	Note 15	-	-	186
Employee benefit funding less than expense	Note 8	47	108	137
Financial instruments recorded at fair value	Note 13	(20)	(42)	-
Change in maintenance provisions	38	43	81	85
Changes in non-cash working capital balances	184	393	1,122	1,204
Other	(9)	(7)	(16)	10
Net cash flows from operating activities	1,090	1,081	4,201	2,372
Financing				
Proceeds from borrowings	-	521	-	1,210
Reduction of long-term debt and lease obligations	(280)	(495)	(532)	(846)
Shares purchased for cancellation	Note 10	(103)	(154)	(23)
Issue of shares	2	1	3	2
Financing fees	-	(4)	-	(8)
Net cash flows from (used in) financing activities	(381)	1	(683)	335
Investing				
Investments, short-term and long-term	(139)	(504)	(519)	(625)
Additions to property, equipment and intangible assets	(553)	(957)	(1,473)	(1,930)
Proceeds from sale of assets	1	5	3	6
Acquisition of Aeroplan	Note 4	(20)	(517)	-
Investment in Chorus	Note 5	-	(97)	-
Other	15	30	51	45
Net cash flows used in investing activities	(696)	(1,426)	(2,552)	(2,504)
Effect of exchange rate changes on cash and cash equivalents	(4)	3	(5)	11
Increase (decrease) in cash and cash equivalents	9	(341)	961	214
Cash and cash equivalents, beginning of period	1,582	1,197	630	642
Cash and cash equivalents, end of period	\$ 1,591	\$ 856	\$ 1,591	\$ 856
Cash payments of interest	Note 7	\$ 133	\$ 255	\$ 257
Cash payments of income taxes		\$ 22	\$ 29	\$ 27

The accompanying notes are an integral part of the condensed consolidated financial statements.



Notes to the interim condensed consolidated financial statements (unaudited)
(Canadian dollars in millions – except per share amounts)

1. GENERAL INFORMATION

The accompanying unaudited interim condensed consolidated financial statements (the “financial statements”) are of Air Canada (the “Corporation”). The term “Corporation” also refers to, as the context may require, Air Canada and/or one or more of its subsidiaries, including its principal wholly-owned operating subsidiaries, Touram Limited Partnership doing business under the brand name Air Canada Vacations® (“Air Canada Vacations”) Air Canada Rouge LP doing business under the brand name Air Canada Rouge® (“Air Canada Rouge”), and effective January 10, 2019, Aeroplan Inc. (“Aeroplan”). Refer to Note 4 for information on the Aeroplan acquisition.

Air Canada is incorporated and domiciled in Canada. The address of its registered office is 7373 Côte-Vertu Boulevard West, Saint-Laurent, Quebec.

The Corporation historically experiences greater demand for its services in the second and third quarters of the calendar year and lower demand in the first and fourth quarters of the calendar year. This demand pattern is principally a result of the high number of leisure travelers and their preference for travel during the spring and summer months. The Corporation has substantial fixed costs in its cost structure that do not meaningfully fluctuate with passenger demand in the short term.



2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the CPA Canada Handbook – Accounting ("CPA Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 "Interim Financial Reporting". In accordance with GAAP, these financial statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Corporation's annual consolidated financial statements for the year ended December 31, 2018. In management's opinion, the financial statements reflect all adjustments that are necessary for a fair presentation of the results for the interim period presented.

These financial statements were approved for issue by the Board of Directors of the Corporation on July 29, 2019.

These financial statements are based on the accounting policies consistent with those disclosed in Note 2 to the 2018 annual consolidated financial statements, except as described below for the adoption of IFRS 16 Leases, those applicable following the acquisition of Aeroplan on January 10, 2019 and IFRIC 23 Uncertainty over income tax treatments.

IFRS 16 – Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The core principle is that a lessee recognizes assets and liabilities for all leases with a lease term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement of the lease liability includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. Purchase options which are reasonably certain of being exercised are also included in the measurement of the lease liability. Lease payments do not include variable lease payments other than those that depend on an index or rate. The right-of-use asset is derived from the calculation of the lease liability and also includes any provisions the lessee is reasonably certain to owe for return conditions on leased assets.

The Corporation adopted the standard effective January 1, 2019 using the full retrospective approach which requires each prior reporting period presented to be restated. The Corporation has elected to use the package of practical expedients to not reassess prior conclusions related to contracts containing leases and to apply the recognition exemption for short term leases and contracts for which the underlying asset has a low value. The main changes of IFRS 16 are explained below.

Aircraft Leases

As at December 31, 2018 the Corporation had 126 aircraft under operating leases (111 aircraft as at December 31, 2017), and Air Canada recorded such aircraft as right-of-use assets and lease liabilities of Air Canada in accordance with the requirements of the new standard. Additionally, the Corporation had identified that, under IFRS 16, Air Canada is the lessee in respect of aircraft used by regional carriers providing services under the respective capacity purchase agreements ("CPA"), and recorded such aircraft as right-of-use assets and lease liabilities of Air Canada. As at December 31, 2018, there were 132 aircraft (134 aircraft as at December 31, 2017) operating under these arrangements on behalf of Air Canada.

Property Leases

The Corporation has leases related to airport terminal operations space and other real estate leases. For leases related to terminal operations space, there are generally effective substitution rights in the hands of the lessor and therefore these are not considered lease contracts under the standard. Leases with reciprocal termination rights with a notice period of less than 12 months are considered short-term



leases and therefore excluded from balance sheet recognition under the practical expedient. Finally, those airport terminal contracts with entirely variable lease payments are also excluded since variable lease payments, other than those based on an index or rate, are excluded from the measurement of the lease liability. This results in a portfolio of property leases that are recorded as right-of-use assets and lease liabilities under the standard which relate to dedicated space in Air Canada's hub locations of Toronto, Montreal and Vancouver, lease contracts on building space dedicated to the Corporation for offices, airport and maintenance operations, Maple Leaf Lounges and land leases.

Accounting for Leases and Right-of-Use Assets

Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Corporation. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the consolidated statement of operations over the lease period to produce a constant rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are accounted for under IAS 16 Property, Plant and Equipment. Aircraft recorded as right-of-use assets have the same accounting policies as directly owned aircraft, meaning the right-of-use assets are componentized and depreciated over the lease term. Consistent with owned aircraft, any qualifying maintenance events are capitalized and depreciated over the lesser of the lease term and expected maintenance life.

Maintenance provisions for end-of-lease return obligations are recorded, as applicable, on aircraft leases as a maintenance expense over the term of the lease. Any changes to the provision for end-of-lease conditions are recognized as an adjustment to the right-of-use asset and subsequently amortized to the income statement over the remaining term of the lease.

Refer to Note 3 Critical Accounting Estimates – Leases for information on the most significant estimates and judgements applicable to the measurement of right-of-use assets and lease liabilities.

Income Statement Impacts

The impacts on the income statement are an elimination of aircraft rent and building rent, which was recorded in other operating expenses, for those contracts which are recognized as leases, and instead are replaced by an amortization of the right-of-use asset and interest costs on the lease liability. Qualifying maintenance events for the former operating leases are capitalized as part of the right-of-use asset and depreciated over their expected maintenance life. This is partially offset by higher maintenance provision expense recorded on all aircraft right-of-use assets which contain end of lease maintenance return conditions. Regional airlines expense decreases to the extent aircraft rent is removed and recorded in depreciation and interest expense outside of the Regional airlines expense.

Since all the aircraft lease contracts are denominated in US dollars, the foreign exchange recognized in the income statement includes the revaluation of the lease liabilities and maintenance provisions to the rate of exchange in effect at the date of the balance sheet.

Presentation

Rent on aircraft operated by regional carriers was previously included in Regional airlines expense. With the adoption of IFRS 16 and the elimination of aircraft rent, the depreciation on right-of-use assets associated with aircraft operated by regional carriers is presented within Depreciation, amortization and impairment on the consolidated statement of operations. Maintenance provisions for end-of-lease obligations related to regional carriers remains in the Regional airlines expense.

Impact to previously reported results

Select adjusted financial statement information, which reflect the adoption of IFRS 16 is presented below. Line items that were not affected by the change in accounting policy have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. In summary, the following adjustments were made to the amounts recognized in the consolidated statement of financial position for the date of initial application on January 1, 2018 and at the end of the comparative period, December 31, 2018.

	Dec. 31, 2017 as previously reported	Air Canada aircraft	Regional aircraft	Property leases	January 1, 2018 as restated
(Canadian dollars in millions)					
Accounts receivable	\$ 814	\$ (3)	\$ -	\$ -	\$ 811
Investments, deposits and other assets	465	(63)	-	-	402
Property and equipment	9,252	1,649	766	160	11,827
Deferred income tax	456	71	144	13	684
Total assets	\$ 17,782	\$ 1,654	\$ 910	\$ 173	\$ 20,519
Accounts payable and accrued liabilities	1,961	(22)	(12)	-	1,927
Current portion of long-term debt and lease liabilities	671	357	146	12	1,186
Total current liabilities	5,101	335	134	12	5,582
Long-term debt and lease liabilities	5,448	1,452	1,092	198	8,190
Maintenance provisions	1,003	70	78	-	1,151
Other long-term liabilities	167	(8)	-	-	159
Total liabilities	\$ 14,360	\$ 1,849	\$ 1,304	\$ 210	\$ 17,723
Retained earnings	2,554	(195)	(394)	(37)	1,928
Total shareholders' equity	\$ 3,422	\$ (195)	\$ (394)	\$ (37)	\$ 2,796
Total liabilities and shareholders' equity	\$ 17,782	\$ 1,654	\$ 910	\$ 173	\$ 20,519

	Dec. 31, 2018 as previously reported	Air Canada aircraft	Regional aircraft	Property leases	Dec. 31, 2018 as restated
(Canadian dollars in millions)					
Investments, deposits and other assets	\$ 444	\$ (43)	\$ -	\$ -	\$ 401
Property and equipment	9,729	1,599	673	182	12,183
Deferred income tax	39	98	163	14	314
Total assets	\$ 19,197	\$ 1,654	\$ 836	\$ 196	\$ 21,883
Accounts payable and accrued liabilities	1,927	(13)	(3)	-	1,911
Current portion of long-term debt and lease liabilities	455	403	179	11	1,048
Total current liabilities	5,099	390	176	11	5,676
Long-term debt and lease liabilities	6,197	1,446	1,005	225	8,873
Maintenance provisions	1,118	89	100	-	1,307
Other long-term liabilities	151	-	-	-	151
Total liabilities	\$ 15,164	\$ 1,925	\$ 1,281	\$ 236	\$ 18,606
Retained earnings	3,160	(271)	(445)	(40)	2,404
Total shareholders' equity	\$ 4,033	\$ (271)	\$ (445)	\$ (40)	\$ 3,277
Total liabilities and shareholders' equity	\$ 19,197	\$ 1,654	\$ 836	\$ 196	\$ 21,883

Adoption of the standard impacted the Corporation's previously reported consolidated statement of operations as follows.

(Canadian dollars in millions)	Three months ended June 30, 2018 as previously reported	Air Canada aircraft	Regional aircraft	Property leases	Three months ended June 30, 2018 as restated
Total revenues	\$ 4,333	\$ -	\$ -	\$ -	\$ 4,333
Operating expenses					
Regional airlines expense	742	-	(100)	-	642
Aircraft maintenance	220	(6)	-	-	214
Depreciation, amortization and impairment	278	101	48	4	431
Aircraft rent	123	(123)	-	-	-
Other	344	-	-	(6)	338
Total operating expenses	4,107	(28)	(52)	(2)	4,025
Operating income	226	28	52	2	308
Foreign exchange gain (loss)	(25)	(34)	(23)	-	(82)
Interest expense	(84)	(32)	(23)	(4)	(143)
Other	(10)	(1)	-	-	(11)
Total non-operating expense	(297)	(67)	(46)	(4)	(414)
Income (loss) before income taxes	(71)	(39)	6	(2)	(106)
Income tax (expense) recovery	(6)	11	(1)	-	4
Net income (loss) for the period	\$ (77)	\$ (28)	\$ 5	\$ (2)	\$ (102)
Basic earnings (loss) per share	\$ (0.28)	\$ (0.10)	\$ 0.02	\$ (0.01)	\$ (0.37)
Diluted earnings (loss) per share	\$ (0.28)	\$ (0.10)	\$ 0.02	\$ (0.01)	\$ (0.37)

(Canadian dollars in millions)	Six months ended June 30, 2018 as previously reported	Air Canada aircraft	Regional aircraft	Property leases	Six months ended June 30, 2018 as restated
Total revenues	\$ 8,404	\$ -	\$ -	\$ -	\$ 8,404
Operating expenses					
Regional airlines expense	1,417	-	(169)	-	1,248
Aircraft maintenance	476	(56)	-	-	420
Depreciation, amortization and impairment	545	202	94	8	849
Aircraft rent	248	(248)	-	-	-
Other	720	-	-	(13)	707
Total operating expenses	8,192	(102)	(75)	(5)	8,010
Operating income	212	102	75	5	394
Foreign exchange gain (loss)	(137)	(84)	(57)	(1)	(279)
Interest expense	(167)	(64)	(47)	(7)	(285)
Other	(18)	(1)	(1)	-	(20)
Total non-operating expense	(467)	(149)	(105)	(8)	(729)
Income (loss) before income taxes	(255)	(47)	(30)	(3)	(335)
Income tax (expense) recovery	8	13	8	1	30
Net income (loss) for the period	\$ (247)	\$ (34)	\$ (22)	\$ (2)	\$ (305)
Basic earnings (loss) per share	\$ (0.91)	\$ (0.12)	\$ (0.08)	\$ (0.01)	\$ (1.12)
Diluted earnings (loss) per share	\$ (0.91)	\$ (0.12)	\$ (0.08)	\$ (0.01)	\$ (1.12)

	Twelve months ended Dec. 31, 2018 as previously reported	Air Canada aircraft	Regional aircraft	Property leases	Twelve months ended Dec. 31, 2018 as restated
(Canadian dollars in millions)					
Total revenues	\$ 18,065	\$ -	\$ -	\$ -	\$ 18,065
Operating expenses					
Regional airlines expense	2,842	-	(323)	-	2,519
Aircraft maintenance	1,003	(100)	-	-	903
Depreciation, amortization and impairment	1,080	424	197	16	1,717
Aircraft rent	518	(518)	-	-	-
Other	1,506	9	-	(27)	1,488
Total operating expenses	16,891	(185)	(126)	(11)	16,569
Operating income	1,174	185	126	11	1,496
Foreign exchange gain (loss)	(317)	(155)	(105)	(1)	(578)
Interest expense	(331)	(131)	(91)	(14)	(567)
Other	(34)	(2)	-	-	(36)
Total non-operating expense	(769)	(288)	(196)	(15)	(1,268)
Income (loss) before income taxes	405	(103)	(70)	(4)	228
Income tax (expense) recovery	(238)	27	19	1	(191)
Net income (loss) for the period	\$ 167	\$ (76)	\$ (51)	\$ (3)	\$ 37
Basic earnings (loss) per share	\$ 0.61	\$ (0.28)	\$ (0.18)	\$ (0.01)	\$ 0.14
Diluted earnings (loss) per share	\$ 0.60	\$ (0.28)	\$ (0.18)	\$ (0.01)	\$ 0.13

The impact on the consolidated statement of cash flows is provided below. The interest portion of lease payments is classified under operating activities, while principal repayments on the lease liabilities are included within financing activities.

	Three months ended June 30, 2018 as previously reported	Air Canada aircraft	Regional aircraft	Property leases	Three months ended June 30, 2018 as restated
(Canadian dollars in millions)					
Cash flows from (used for)					
Operating					
Net income (loss) for the period	\$ (77)	\$ (28)	\$ 5	\$ (2)	\$ (102)
Deferred income tax	6	(11)	1	-	(4)
Depreciation, amortization and impairment	287	101	39	4	431
Foreign exchange (gain) loss	14	34	23	-	71
Change in maintenance provisions	(8)	46	5	-	43
Changes in non-cash working capital balances	384	10	(1)	-	393
Other	(9)	2	-	-	(7)
Net cash flows from operating activities	853	154	72	2	1,081
Financing					
Reduction of long-term debt and lease obligations	(358)	(92)	(43)	(2)	(495)
Net cash flows from (used in) financing activities	138	(92)	(43)	(2)	1
Investing					
Additions to property, equipment and intangible assets	(866)	(62)	(29)	-	(957)
Net cash flows used in investing activities	(1,335)	(62)	(29)	-	(1,426)
Effect of exchange rate on cash and cash equivalents	3	-	-	-	3
Cash and cash equivalents, beginning of period	1,197	-	-	-	1,197
Cash and cash equivalents, end of period	\$ 856	\$ -	\$ -	\$ -	\$ 856

(Canadian dollars in millions)	Six months ended June 30, 2018 as previously reported	Air Canada aircraft	Regional aircraft	Property leases	Six months ended June 30, 2018 as restated
Cash flows from (used for)					
Operating					
Net income (loss) for the period	\$ (247)	\$ (34)	\$ (22)	\$ (2)	\$ (305)
Deferred income tax	(8)	(13)	(8)	(1)	(30)
Depreciation, amortization and impairment	562	202	77	8	849
Foreign exchange (gain) loss	104	84	57	1	246
Change in maintenance provisions	20	55	10	-	85
Changes in non-cash working capital balances	1,211	(9)	2	-	1,204
Other	9	1	-	-	10
Net cash flows from operating activities	1,964	286	116	6	2,372
Financing					
Reduction of long-term debt and lease obligations	(584)	(184)	(72)	(6)	(846)
Net cash flows from (used in) financing activities	597	(184)	(72)	(6)	335
Investing					
Additions to property, equipment and intangible assets	(1,784)	(102)	(44)	-	(1,930)
Net cash flows used in investing activities	(2,358)	(102)	(44)	-	(2,504)
Effect of exchange rate on cash and cash equivalents	11	-	-	-	11
Cash and cash equivalents, beginning of period	642	-	-	-	642
Cash and cash equivalents, end of period	\$ 856	\$ -	\$ -	\$ -	\$ 856

	Twelve months ended Dec. 31, 2018 as previously reported	Air Canada aircraft	Regional aircraft	Property leases	Twelve months ended Dec. 31, 2018 as restated
(Canadian dollars in millions)					
Cash flows from (used for)					
Operating					
Net income (loss) for the period	\$ 167	\$ (76)	\$ (51)	\$ (3)	\$ 37
Deferred income tax	232	(27)	(19)	(1)	185
Depreciation, amortization and impairment	1,118	424	159	16	1,717
Foreign exchange (gain) loss	328	155	105	1	589
Change in maintenance provisions	98	51	19	-	168
Changes in non-cash working capital balances	267	10	9	-	286
Other	35	3	-	-	38
Net cash flows from operating activities	2,695	540	222	13	3,470
Financing					
Reduction of long-term debt and lease obligations	(1,170)	(373)	(150)	(13)	(1,706)
Net cash flows from (used in) financing activities	(40)	(373)	(150)	(13)	(576)
Investing					
Additions to property, equipment and intangible assets	(2,197)	(167)	(72)	-	(2,436)
Net cash flows used in investing activities	(2,694)	(167)	(72)	-	(2,933)
Effect of exchange rate on cash and cash equivalents	27	-	-	-	27
Cash and cash equivalents, beginning of period	642	-	-	-	642
Cash and cash equivalents, end of period	\$ 630	\$ -	\$ -	\$ -	\$ 630

ACQUISITION OF AEROPLAN - ACCOUNTING POLICY IMPACTS

The following are updates to Air Canada's accounting policies applicable prospectively following the acquisition of Aeroplan on January 10, 2019. In addition, refer to Note 3 for information on critical accounting estimates related to the acquisition.

Passenger Revenues – Update from Aeroplan Acquisition

Prior to the acquisition of Aeroplan, advance ticket sales included the proceeds from the sale of flight tickets to Aeroplan (formerly Aimia Canada Inc.), a corporation that provided loyalty program services to Air Canada and purchased seats from Air Canada pursuant to the Commercial Participation and Services Agreement between Aeroplan and Air Canada (the "CPSA"). Under the CPSA, Aeroplan purchased passenger tickets from Air Canada, which are accounted for as passenger revenues by Air Canada when transportation is provided.

Subsequent to the acquisition of Aeroplan on January 10, 2019, Advance ticket sales continue to include the value of Aeroplan Mile redemptions for flight tickets issued by Air Canada post-acquisition. For Aeroplan Miles issued after the acquisition date, the value of Aeroplan deferred revenue related to Aeroplan Miles issued but not yet redeemed is determined with reference to their Equivalent Ticket Value ("ETV") for Miles issued from qualifying air travel, or with reference to the consideration received for Aeroplan Miles sold to third party Aeroplan program partners. ETV is determined based on the value a passenger receives by redeeming Aeroplan Miles for a ticket rather than paying cash. The ETV is adjusted for Aeroplan Miles that are not expected to be redeemed ("breakage"). On the acquisition date, the outstanding Aeroplan Miles were recorded at fair value as Aeroplan deferred revenue.

Breakage represents the estimated Aeroplan Miles that are not expected to be redeemed by Aeroplan members. The amount of revenue recognized related to breakage is based on the number of Aeroplan Miles redeemed in a period in relation to the total number of Aeroplan Miles expected to be redeemed. The number of Aeroplan Miles redeemed in a period also factors into any revised estimate for breakage. Changes in breakage are accounted for as follows: in the period of change, the deferred revenue balance is adjusted as if the revised estimate had been used in prior periods with the offsetting amount recorded as an adjustment to passenger revenue; and for subsequent periods, the revised estimate is used.

Intangible assets

Contract based and marketing-based trade name intangible assets, with an acquisition fair value of \$225 and \$90, respectively, were recorded upon the acquisition of Aeroplan on January 10, 2019. The contract based intangible assets have an estimated useful life of 11.5 years, being the term of the primary commercial agreements with program partners, which expire in 2030. The marketing-based trade name is considered an indefinite life intangible asset.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 is effective for years beginning on or after January 1, 2019. IFRIC 23 provides a framework to consider, recognize and measure the accounting impact of tax uncertainties and provides specific guidance in several areas where previously IAS 12 Income Taxes was silent. The Corporation has adopted the interpretation of IFRIC 23 and concluded that it has no impact on previously reported results.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The significant estimates and judgements made are reviewed on an ongoing basis. Refer to Note 3 to the 2018 annual consolidated financial statements which is updated as described below to reflect the adoption of IFRS 16 Leases and the acquisition of Aeroplan on January 10, 2019.

Leases

Accounting for Leases and Right-of-Use Assets

The application of IFRS 16 Leases requires assumptions and estimates in order to determine the value of the right-of-use assets and the lease liabilities which mainly relate to the implicit and incremental rates of borrowing, as applicable. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised.

Business Combinations

The Corporation's acquisition of Aeroplan was accounted for using the acquisition method of accounting. Under the acquisition method, the estimated fair values of the acquired company's assets and assumed liabilities are added to the consolidated statement of financial position as at the acquisition date. There were various assumptions made when determining the fair values of Aeroplan's assets and assumed liabilities. The most significant assumptions and those requiring the most judgement involve the estimated fair values of intangible assets and the estimated fair values of deferred revenues related to the outstanding Aeroplan Miles obligation ("Aeroplan deferred revenue").

The intangible assets recognized on the acquisition of Aeroplan include technology based, contract based, and marketing based (trade name) intangible assets. To determine the fair value of technology based intangible assets, the Corporation applied a depreciated replacement cost methodology. For contract based intangible assets, the Corporation used the multi-period excess earnings method. This valuation technique values the intangible assets based on the capitalization of the excess earnings, which are calculated to be in excess of what a reasonable amount of earnings would be on the tangible assets used to generate the earnings. Significant assumptions include, among others, the determination of projected revenues, cash flows, customer retention rates, discount rates and anticipated average income tax rates. To determine the fair value of the trade name, the Corporation used the relief from royalty method. This valuation technique values the intangible assets based on the present value of the expected after-tax royalty cash flow stream using a hypothetical licensing arrangement. Significant assumptions include, among others, the determination of projected revenues, royalty rate, discount rates and anticipated average income tax rates.

The deferred revenues recognized on the acquisition of Aeroplan relate to the estimated fair value of outstanding Aeroplan Miles. The liability assumed was recorded based on the estimated fair value to service the Miles outstanding that are expected to be redeemed (see further discussion under Critical Accounting Estimates – Aeroplan Loyalty Program).

Aeroplan Loyalty Program

The Aeroplan loyalty program generates customer loyalty by rewarding customers to travel on Air Canada. This program allows program members to earn Aeroplan Miles by flying on Air Canada, Star Alliance partners and other airlines that participate in the Aeroplan loyalty program. When traveling, program members earn redeemable Miles based on a number of factors including the passenger's loyalty program status, distance traveled, booking class and travel fare paid. Members can also earn Aeroplan Miles through participating Aeroplan program partners such as credit card companies, hotels, car rental agencies and other program partners. Aeroplan Miles are redeemable by members for air travel on Air Canada and other participating airlines, and for other program awards, such as hotel, car rentals, gift cards, merchandise and other non-air rewards.

Aeroplan members can earn Aeroplan Miles: (1) through travel and (2) based on spending with program partners.

Miles Earned with Travel

Passenger ticket sales earning Miles under the Aeroplan loyalty program provide members with (1) air transportation and (2) Aeroplan Miles. As a revenue arrangement with multiple performance obligations, each performance obligation is valued on a relative standalone fair value basis. The value of Aeroplan Miles issued is determined based on the value a passenger receives by redeeming Miles for a ticket rather than paying cash, which is referred to as equivalent ticket value ("ETV"). The ETV is adjusted for Miles that are not expected to be redeemed ("breakage"). The consideration allocated to the ETV for Miles earned with travel is recorded in Aeroplan deferred revenue.

Miles Sold to Program Partners

Aeroplan members can earn Aeroplan Miles based on their spending with participating Aeroplan partners such as credit card companies, hotels and car rental agencies and other program partners. Aeroplan Miles issued under program partner agreements are accounted for as a single performance obligation being the future delivery of a redemption reward to the Aeroplan member. The consideration received for Aeroplan Miles issued to Aeroplan members under these agreements is recorded as Aeroplan deferred revenue. From the date of acquisition on January 10, 2019 to June 30, 2019, total consideration received for the issuance of Aeroplan Miles under these agreements was \$459 (\$261 for the second quarter of 2019).

Redemption Revenue

When Aeroplan Miles are redeemed for air travel, the value of Miles redeemed is removed from Aeroplan deferred revenue and recorded in Advance ticket sales. The revenue is then recognized in passenger revenue when the transportation is provided.

For non-air redemptions, the Corporation has determined that, for accounting purposes, it is not the principal in the transaction between the member and the ultimate supplier of the goods or service. When Miles are redeemed for non-air goods and services, the net margin is recorded in other revenue when the performance obligation is satisfied.

Breakage

Breakage represents the estimated Miles that are not expected to be redeemed by members. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, as adjusted for changes to any terms and conditions or other circumstances that may affect members' future redemption practices. Management uses statistical and simulation models to estimate breakage.

Subsequent to the January 10, 2019 acquisition date, the amount of revenue recognized related to breakage is based on the number of Miles redeemed in a period in relation to the total number of Miles expected to be redeemed, which factors in the Corporation's estimate for breakage. Changes in breakage are accounted for as follows: in the period of change, the deferred revenue balance is adjusted as if the revised estimate had been used in prior periods with the offsetting amount recorded as an adjustment to passenger revenue; and for subsequent periods, the revised estimate is used. A change in assumptions as to the number of Miles expected to be redeemed could have a material impact on revenue in the year in which the change occurs.

On a fair value basis as at the date of acquisition, the fair value of the Aeroplan deferred revenue incorporated the estimate of Miles to be redeemed in the future.

As at June 30, 2019, the Aeroplan Miles deferred revenue balance was \$2,786. For illustrative purposes, a hypothetical 1% change in the number of outstanding Miles estimated to be redeemed would result in an approximate impact of \$28 on revenue with a corresponding adjustment to Aeroplan deferred revenue.

4. ACQUISITION OF AEROPLAN

On January 10, 2019, Air Canada completed its purchase from Aimia Inc. ("Aimia") of all of the outstanding equity of Aeroplan (formerly Aimia Canada Inc.), owner and operator of the Aeroplan loyalty business. The aggregate purchase price for the acquisition consisted of \$450 in cash plus \$67 in cash for closing adjustments (total purchase consideration of \$517). The acquisition also included the assumption of the Aeroplan Miles liability.

Concurrently with the conclusion of the Aeroplan purchase, Air Canada, The Toronto-Dominion Bank ("TD Bank"), Canadian Imperial Bank of Commerce ("CIBC"), and Visa Canada Corporation ("Visa") finalized various commercial agreements relating to and in support of the acquisition, including credit card loyalty program and network agreements for future participation in the Aeroplan program. Similarly, in the first quarter of 2019, Air Canada and AMEX Bank of Canada ("AMEX") concluded agreements enabling AMEX's continued participation in the Aeroplan program. Air Canada received payments from TD Bank, CIBC, Visa, and AMEX in the aggregate amount of \$1,212. This consideration has been accounted for as deferred revenue and will be amortized into passenger revenue over the terms of the related agreements.

In addition, TD Bank and CIBC made payments to the Corporation in the aggregate amount of \$400 as prepayments to be applied towards future monthly payments in respect of Aeroplan Miles. This consideration is accounted for as a contract liability within Aeroplan and other deferred revenue.

Following the closing of the acquisition, Aimia Canada Inc. changed its name to Aeroplan Inc.

Air Canada, as the acquirer, performed business combination accounting as of the acquisition date, which generally requires that the acquirer measure the identifiable assets acquired and liabilities assumed at their fair values, subject to certain exceptions. The preliminary allocation of the purchase price to the fair value of assets and liabilities is summarized as follows:

Fair value of assets acquired	
Cash	\$ -
Accounts receivable	188
Prepaid expenses and other current assets	8
Property and equipment	55
Deferred income tax	42
Intangible assets – Technology-based	44
Intangible assets – Contract-based	225
Intangible assets – Trade name	90
	\$ 652
Fair value of liabilities assumed	
Accounts payable and accrued liabilities	229
Deferred revenue (current and long-term)	2,779
Long-term debt (lease liabilities)	41
Pension and other benefit liabilities	39
Deferred income tax	24
	\$ 3,112
Fair value of net assets acquired	(2,460)
Goodwill	2,977
Total purchase consideration	\$ 517

Refer to the Critical Accounting Estimates – Business Combinations section of Note 3 for the most significant estimates used in determining the acquisition date fair values.

The contract based intangible asset is subject to amortization over the term of the related commercial agreements with program partners, while the trade name is considered to have an indefinite life. The goodwill is attributable to synergies with Air Canada related to the servicing of the deferred revenue liabilities, the skilled workforce, expansion capabilities into other geographies and the profitability of the acquired business.

As the acquisition was completed on January 10, 2019, the net earnings for the stub period from January 1 to January 9, 2019 were not significant for the purpose of disclosing the combined results of operations had the acquisition been completed at the beginning of the period.

During the second quarter of 2019, the purchase price allocation was adjusted for a final post-closing payment of \$20 and an increase to the fair value of the Aeroplan deferred revenue liability of \$53. Certain ongoing reviews of the purchase price allocation have not yet concluded and, as a result, the initial accounting for the business combination is not final. Until these reviews are final, adjustments are possible to the fair value of assets acquired and the liabilities assumed.

Indemnity

The share purchase agreement with Aimia provides for customary indemnities between Aimia and Air Canada including in the event of misrepresentations and breaches of covenants. With respect to Aimia's general indemnification obligation, Aimia has no obligation to indemnify Air Canada unless and until the aggregate amount of the indemnifiable losses incurred exceeds \$2.25, in which case all losses above \$2.25 are indemnifiable. Aimia's liability for such indemnity claims shall not exceed \$55 in all cases except with respect to (i) Aimia's fundamental representations, where its liability shall not exceed the purchase price (ii) tax claims for pre-closing tax periods, where Aimia's liability is uncapped, and (iii) noncompliance with certain other provisions such as privacy and consumer protection laws, where Aimia's liability is uncapped. The agreement also provides for certain indemnities in respect of class action proceedings that existed at the closing of the acquisition, which are described below under "Litigation provisions".

With regard to Aimia's indemnification obligations, \$2.25 of the purchase price proceeds have been deposited with a third-party escrow agent to cover any potential valid general indemnity claims that may be made by Air Canada against Aimia under the agreement, and \$100 of the purchase price proceeds were deposited in a separate account jointly controlled by Aimia and Air Canada pending the final determination related to an Aeroplan income tax audit conducted by the Canada Revenue Agency ("CRA") for the taxation year 2013 as well as all correlative adjustments. As a result of notices of reassessment related to the audit from the CRA received during the second quarter of 2019, \$24 was paid from the jointly controlled account with the balance of \$76 in that account remaining subject to the terms of the share purchase agreement with Aimia and the final resolution of these tax matters.

Litigation provisions – Class actions related to certain passenger charges

On the January 10, 2019 acquisition date, Aimia Canada Inc. (as it was then called) had, amongst other proceedings, three class action proceedings outstanding related to claims by Aeroplan members residing in Quebec for 1) fuel surcharges paid by them since December 12, 2011 when redeeming Miles for flights operated by Air Canada, Air Canada Rouge and Air Canada Express within North America, 2) airport improvement fees for a number of Canadian airports paid by them since December 15, 2011 when redeeming Miles for affected flights and 3) passenger charges paid by them for a number of airports in Europe and Japan since June 9, 2012 when redeeming Miles for Air Canada flight tickets. Under the share purchase agreement with Aimia, Aimia will bear 50% of the liability and costs, if any, associated with these class action proceedings against Aimia Canada, up to a cap of \$25 for Aimia, after which Air Canada is solely responsible. The net liability to Air Canada in these actions, if any, is not expected to be material.

5. CAPACITY PURCHASE AGREEMENT WITH JAZZ AND EQUITY INVESTMENT IN CHORUS

In February 2019, Air Canada concluded an agreement to amend and extend its capacity purchase agreement ("CPA") with Jazz, a wholly-owned subsidiary of Chorus Aviation Inc. The amendments provide an extension of the CPA term by ten years from January 1, 2026 to December 31, 2035. The amendments include various minimum levels of covered aircraft at different points in time, providing Air Canada the flexibility to optimize its fleet within its network strategy. The amendments became effective retroactively as at January 1, 2019. With the extension of the CPA term, an increase of \$95 to the right-of-use asset and \$104 to the lease liability and a decrease of \$9 to the maintenance provision was recorded in the first quarter of 2019. The increases to the right-of-use asset and lease liability relates only to those aircraft that are specifically identified to be extended at this time. As additional aircraft are confirmed for extension during the term of the contract, additional right-of-use assets and lease liabilities will be recorded.

Concurrently with the CPA amendments, Air Canada subscribed for 15,561,600 class B voting shares in the capital of Chorus, representing, at time of issuance, approximately 9.99% of the issued and outstanding class A variable voting shares and class B voting shares of Chorus on a combined basis. This represents an investment of \$97 by Air Canada. The Chorus shares were issued to Air Canada at a price of \$6.25 per share, representing a 5% premium to the five-day volume weighted average price of the shares as of the close of trading on January 10, 2019. Air Canada and Chorus entered into an investor rights agreement under which, among other things, Air Canada will hold the investment shares for a period of at least 60 months, subject to certain limited exceptions. The equity investment in Chorus is accounted for at fair value, with all changes in fair value recorded through other comprehensive income. The fair value of the investment at June 30, 2019 was \$120 and is recorded in Investments, deposits and other assets. The change in fair value recorded through other comprehensive income for the three months ended June 30, 2019 was \$9, comprised of a gain of \$8 plus deferred income tax recovery of \$1 (gain of \$20 for the six months ended June 30, 2019, comprised of a gain of \$23 less deferred income tax expense of \$3).

6. PROPERTY AND EQUIPMENT

	June 30, 2019			December 31, 2018 Restated - Note 2		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Owned tangible assets						
Aircraft and flight equipment	\$ 12,995	\$ 4,233	\$ 8,762	\$ 11,934	\$ 3,825	\$ 8,109
Buildings and leasehold improvements	906	499	407	858	454	404
Ground and other equipment	587	386	201	567	370	197
Purchase deposits and assets under development	946	-	946	933	-	933
Owned tangible assets	\$ 15,434	\$ 5,118	\$ 10,316	\$ 14,292	\$ 4,649	\$ 9,643
Air Canada aircraft	\$ 5,044	\$ 3,336	\$ 1,708	\$ 4,739	\$ 3,119	\$ 1,620
Regional aircraft	1,841	1,053	788	1,679	972	707
Land and buildings	406	142	264	372	159	213
Right-of-use assets	\$ 7,291	\$ 4,531	\$ 2,760	\$ 6,790	\$ 4,250	\$ 2,540
Property and equipment	\$ 22,725	\$ 9,649	\$ 13,076	\$ 21,082	\$ 8,899	\$ 12,183

Additions to owned aircraft in the second quarter of 2019 include one new Boeing 787-9 (six new Boeing 737 MAX-8, two new Boeing 787-9, and four used A321 aircraft in the six months ended June 30, 2019).

Additions to the right-of-use assets during the three months ended June 30, 2019 were \$274 (\$473 for the six months ended June 30, 2019).

Depreciation, amortization and impairment recorded in the consolidated statement of operations is detailed as follows.

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Aircraft and flight equipment	\$ 262	\$ 253	\$ 507	\$ 492
Buildings and leasehold improvements	12	10	23	20
Ground and other equipment	9	10	18	21
Owned tangible assets	283	273	548	533
Air Canada aircraft	137	103	259	207
Regional aircraft	44	41	89	80
Land and buildings	6	5	12	10
Right-of-use assets	187	149	360	297
Intangibles	24	9	42	19
Depreciation, amortization and impairment	\$ 494	\$ 431	\$ 950	\$ 849

7. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	June 30, 2019	December 31, 2018 Restated - Note 2
Aircraft financing				
Fixed rate U.S. dollar financing	2020 – 2030	3.84	\$ 3,337	\$ 3,592
Floating rate U.S. dollar financing	2020 – 2027	4.20	613	676
Fixed rate CDN dollar financing	2026 – 2030	3.78	273	287
Floating rate CDN dollar financing	2026 – 2027	2.65	281	298
Fixed rate Japanese yen financing	2027	1.84	143	146
Floating rate Japanese yen financing	2027	3.09	10	42
Senior secured notes – CDN dollar	2023	4.75	200	200
Senior unsecured notes – U.S. dollar	2021	7.75	524	546
Other secured financing – U.S. dollar	2023	4.50	751	786
Long-term debt		4.20	6,132	6,573
Lease liabilities				
Air Canada aircraft	2019 – 2029	7.11	1,853	1,926
Regional aircraft	2019 – 2035	7.21	1,210	1,233
Land and buildings	2020 – 2072	6.48	354	297
Lease liabilities		7.08	3,417	3,456
Total debt and lease liabilities		5.23	9,549	10,029
Unamortized debt issuance costs			(98)	(108)
Current portion – Long-term debt			(613)	(408)
Current portion – Air Canada aircraft			(435)	(438)
Current portion – Regional aircraft			(179)	(187)
Current portion – Land and buildings			(22)	(15)
Long-term debt and lease liabilities			\$ 8,202	\$ 8,873

The above table provides terms of instruments disclosed in Note 7 to the 2018 annual consolidated financial statements of the Corporation as well as the impact of IFRS 16 lease liabilities as described in Note 2.

The Corporation has recorded Interest expense as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Interest on debt	\$ 73	\$ 79	\$ 145	\$ 157
Interest on lease liabilities	58	64	119	128
Interest expense	\$ 131	\$ 143	\$ 264	\$ 285

The consolidated statement of operations includes the followings amounts related to leases which have not been recorded as right-of-use assets and lease liabilities.

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Expense related to leases (included in Other operating expenses)				
Short-term leases	\$ 18	\$ 6	\$ 29	\$ 11
Variable lease payments not included in lease liabilities	8	8	15	16
	\$ 26	\$ 14	\$ 44	\$ 27

The value of low value assets that are not short-term leases is not significant.

Total cash outflows for payments on lease liabilities was \$224 for the three months ended June 30, 2019 (\$434 for the six months ended June 30, 2019; \$210 and \$410 for the three and six month periods ended June 30, 2018), of which \$166 was for principal repayments (\$315 for the six months ended June 30, 2019; \$147 and \$281 for the three and six month periods ended June 30, 2018).

Maturity Analysis

Principal and interest repayment requirements as at June 30, 2019 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the June 30, 2019 closing rate of CDN\$1.3095.

Principal	Remainder of 2019	2020	2021	2022	2023	Thereafter	Total
Long-term debt obligations	\$ 187	\$ 608	\$ 965	\$ 331	\$ 1,402	\$ 2,639	\$ 6,132
Air Canada aircraft	234	373	256	184	177	629	1,853
Regional aircraft	92	174	163	159	159	463	1,210
Land and buildings	10	24	21	21	19	259	354
Lease liabilities	\$ 336	\$ 571	\$ 440	\$ 364	\$ 355	\$ 1,351	\$ 3,417
Total long-term debt and lease liabilities	\$ 523	\$ 1,179	\$ 1,405	\$ 695	\$ 1,757	\$ 3,990	\$ 9,549

Interest	Remainder of 2019	2020	2021	2022	2023	Thereafter	Total
Long-term debt obligations	\$ 129	\$ 247	\$ 204	\$ 168	\$ 145	\$ 329	\$ 1,222
Air Canada aircraft	61	95	68	53	42	83	402
Regional aircraft	41	72	59	47	36	97	352
Land and buildings	11	20	19	18	17	213	298
Lease liabilities	\$ 113	\$ 187	\$ 146	\$ 118	\$ 95	\$ 393	\$ 1,052
Total long-term debt and lease liabilities	\$ 242	\$ 434	\$ 350	\$ 286	\$ 240	\$ 722	\$ 2,274

The Corporation is committed to additional aircraft and property leases which have yet to commence. The total commitment is approximately \$215 based on estimates regarding timing of deliveries and rent. The aircraft lease terms to maturity range from 6 to 8 years and the properties are 25-year leases.

Cash flows from financing activities

Information on the change in liabilities for which cash flows have been classified as financing activities in the statement of cash flows is presented below.

	Cash Flows			Non-Cash Changes			Jun. 30, 2019	
	Mar. 31, 2019	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments		New lease liabilities (new and renewed contracts)
Long term debt	\$ 6,347	\$ -	\$ (114)	\$ -	\$ (101)	\$ -	\$ -	\$ 6,132
Lease liabilities	3,452	-	(166)	-	(60)	-	191	3,417
Unamortized debt issuance costs	(103)	-	-	-	-	5	-	(98)
Total liabilities from financing activities	\$ 9,696	\$ -	\$ (280)	\$ -	\$ (161)	\$ 5	\$ 191	\$ 9,451

	Cash Flows			Non-Cash Changes			Jun. 30, 2019	
	Dec. 31, 2018	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments		New lease liabilities (new and renewed contracts)
Long term debt	\$ 6,573	\$ -	\$ (217)	\$ -	\$ (226)	\$ 2	\$ -	\$ 6,132
Lease liabilities	3,456	-	(315)	-	(126)	-	402	3,417
Unamortized debt issuance costs	(108)	-	-	-	-	10	-	(98)
Total liabilities from financing activities	\$ 9,921	\$ -	\$ (532)	\$ -	\$ (352)	\$ 12	\$ 402	\$ 9,451

8. PENSIONS AND OTHER BENEFIT LIABILITIES

Pension and Other Employee Future Benefit Expense

The Corporation has recorded net defined benefit pension and other employee future benefits expense as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Consolidated Statement of Operations				
Operating expenses				
Wages, salaries and benefits				
Pension benefits	\$ 67	\$ 79	\$ 140	\$ 158
Other employee benefits	9	8	17	11
	\$ 76	\$ 87	\$ 157	\$ 169
Non-operating income (expense)				
Net financing expense relating to employee benefit liabilities				
Pension benefits	\$ 3	\$ (1)	\$ 6	\$ (1)
Other employee benefits	(12)	(12)	(25)	(24)
	\$ (9)	\$ (13)	\$ (19)	\$ (25)
Consolidated Other Comprehensive Income (Loss)				
Remeasurements on employee benefit liabilities				
Pension benefits	\$ (170)	\$ 913	\$ (479)	\$ 975
Other employee benefits	(66)	40	(160)	51
	\$ (236)	\$ 953	\$ (639)	\$ 1,026

The funding of employee benefits as compared to the expense recorded in the consolidated statement of operations is summarized in the table below.

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Net defined pension and other future employee benefits expense recorded in the consolidated statement of operations				
Wages, salaries and benefits	\$ 76	\$ 87	\$ 157	\$ 169
Net financing expense relating to employee benefit liabilities	9	13	19	25
	\$ 85	\$ 100	\$ 176	\$ 194
Employee benefit funding by Air Canada				
Pension benefits	\$ 24	\$ 21	\$ 43	\$ 37
Other employee benefits	14	11	25	20
	\$ 38	\$ 32	\$ 68	\$ 57
Employee benefit funding less than expense	\$ 47	\$ 68	\$ 108	\$ 137

9. INCOME TAXES

Income Tax Expense

Income tax recorded in the consolidated statement of operations is presented below.

	Three months ended June 30		Six months ended June 30	
	2019	2018 Restated - Note 2	2019	2018 Restated - Note 2
Current income tax	\$ (16)	\$ -	\$ (30)	\$ -
Deferred income tax	(81)	4	(7)	30
Income tax (expense) recovery	\$ (97)	\$ 4	\$ (37)	\$ 30

Income tax expense is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full year.

The Corporation's effective tax rate for the three months ended June 30, 2019 was 22.0% (5.1% for the six months ended June 30, 2019; 3.8% and 9.0% for the three and six month periods ended June 30, 2018). The effective tax rate of 5.1% for the six months ended June 30, 2019 is a result of a permanent item in connection with the Aeroplan acquisition that occurred during the first quarter.

Income tax recorded in the consolidated statement of comprehensive income is presented below.

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Remeasurements on employee benefit liabilities - deferred income tax	\$ 66	\$ (256)	\$ 173	\$ (275)
Remeasurements on equity investments - deferred income tax	1	-	(3)	-
Fuel derivatives designated as cash flow hedges - deferred income tax	2	1	2	1
Income tax (expense) recovery	\$ 69	\$ (255)	\$ 172	\$ (274)

10. SHARE CAPITAL

Issuer Bid

In May 2019, Air Canada received approval from the Toronto Stock Exchange for the renewal of its normal course issuer bid for its Class A variable voting shares and Class B voting shares (collectively the "shares"), authorizing, between May 31, 2019 and May 30, 2020, the purchase of up to 24,130,551 shares, representing 10% of Air Canada's public float as at May 17, 2019. The renewal followed the conclusion of the 2018 normal course issuer bid which expired on May 30, 2019.

In the second quarter of 2019, the Corporation purchased, for cancellation, a total of 2,770,000 shares at an average cost of \$38.83 per share for aggregate consideration of \$108 (4,314,487 shares at an average cost of \$36.77 per share for aggregate consideration of \$159 for the six months ended June 30, 2019). The excess of the cost over the average book value of \$100 (\$146 for the six months ended June 30, 2019) was charged to Retained earnings. At June 30, 2019, a total of 22,645,551 shares remained available for repurchase under the existing issuer bid.

In the second quarter of 2018, the Corporation purchased, for cancellation, a total of 859,565 shares at an average cost of \$24.92 per share for aggregate consideration of \$22 (914,218 shares at an average cost of \$24.78 per share for aggregate consideration of \$23 for the six months ended June 30, 2018). The excess of the cost over the average book value of \$19 (\$20 for the six months ended June 30, 2018) was charged to Retained earnings.

11. EARNINGS PER SHARE

The following table outlines the calculation of basic and diluted earnings per share.

(in millions, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2019	2018 Restated - Note 2	2019	2018 Restated - Note 2
Numerator:				
Numerator for basic and diluted earnings per share:				
Net income (loss)	\$ 343	\$ (102)	\$ 688	\$ (305)
Denominator:				
Weighted-average shares	269	273	270	273
Effect of potential dilutive securities:				
Stock options	4	4	4	4
Total potential dilutive securities	4	4	4	4
Remove anti-dilutive impact	-	(4)	-	(4)
Adjusted denominator for diluted earnings per share	273	273	274	273
Basic earnings (loss) per share	\$ 1.28	\$ (0.37)	\$ 2.55	\$ (1.12)
Diluted earnings (loss) per share	\$ 1.26	\$ (0.37)	\$ 2.51	\$ (1.12)

The calculation of earnings per share is based on whole numbers and not on rounded millions. As a result, the above amounts may not be recalculated to the per share amount disclosed above.

Excluded from the calculation of diluted earnings per share were outstanding options where the options' exercise prices were greater than the average market price of the shares for the period.

12. COMMITMENTS

Capital Commitments

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation and, where applicable, deferred price delivery payment interest calculated based on the 90-day U.S. LIBOR rate at June 30, 2019. U.S. dollar amounts are converted using the June 30, 2019 closing rate of CDN\$1.3095. Minimum future commitments under these contractual arrangements are shown below.

	Remainder of 2019	2020	2021	2022	2023	Thereafter	Total
Capital commitments	\$ 573	\$ 1,996	\$ 762	\$ 703	\$ 359	\$ 188	\$ 4,581

Boeing has advised that deliveries of its 737 MAX aircraft are currently suspended. The remaining 37 Boeing 737 Max aircraft scheduled for delivery from 2019 to 2024, is subject to change which may result in certain commitments being deferred to later periods. Given the grounding of the Boeing 737 MAX aircraft and the uncertainty surrounding their return to service, the Corporation now assumes, in the table above, that the remaining 12 Boeing 737 MAX aircraft scheduled for delivery in 2019 will be delivered in 2020.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Refer also to Note 15 to the 2018 annual consolidated financial statements for information on the Corporation's risk management strategy.

Summary of gain (loss) on financial instruments recorded at fair value

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Share forward contracts	\$ 6	\$ (9)	\$ 14	\$ (8)
Gain (loss) on financial instruments recorded at fair value	\$ 6	\$ (9)	\$ 14	\$ (8)

Fuel Price Risk Management

During the second quarter of 2019, the Corporation purchased crude-oil call options covering approximately 50% of the Corporation's anticipated purchases of jet fuel for the third quarter of 2019. The cash premium related to these contracts was \$14 (\$10 for the three month period ended June 30, 2018 for 2018 exposures). No hedging ineffectiveness was recorded. Associated premium costs and any hedging gains will be reclassified from other comprehensive income to Aircraft fuel expense on settlement of the derivatives (loss of \$2 reclassified from other comprehensive income to Aircraft fuel expense for the three month period ended June 30, 2018). There was no fuel hedging activity during the first quarter of 2019 or the first quarter of 2018.

The Corporation's contracts to hedge anticipated jet fuel purchases are comprised of call options with notional volumes of 5,210,000 barrels and an average West Texas Intermediate equivalent capped price of US\$60 per barrel. The fair value of the fuel derivatives portfolio at June 30, 2019 is \$8 in favour of the Corporation and is recorded within Prepaid expenses and other current assets. There were no outstanding fuel derivatives as at December 31, 2018.

Foreign Exchange Risk Management

Based on the notional amount of currency derivatives outstanding at June 30, 2019, as further described below, approximately 71% of net U.S. cash outflows are hedged for the remainder of 2019 and 57% for 2020, resulting in derivative coverage of 62% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 70% coverage over the next 18 months.

As at June 30, 2019, the Corporation had outstanding foreign currency options and swap agreements, settling in 2019 and 2020, to purchase at maturity \$5,820 (US\$4,445) of U.S. dollars at a weighted average rate of \$1.2810 per US\$1.00 (as at December 31, 2018 - \$4,987 (US\$3,659) with settlements in 2019 and 2020 at a weighted average rate of \$1.2645 per \$1.00 U.S. dollar). The Corporation also has protection in place to sell a portion of its excess Euros, Sterling, YEN, Yuan, and AUD (EUR €291, GBP £216, JPY ¥47,999, CNH ¥752, and AUD \$192) which settle in 2019 and 2020 at weighted average rates of €1.1760, £1.3387, ¥0.0094, ¥0.1510, and \$0.7243 per \$1.00 U.S. dollar respectively (as at December 31, 2018 - EUR €103, GBP £208, JPY ¥25,922, and AUD \$105 with settlement in 2019 and 2020 at weighted average rates of €1.1910, £1.3567, ¥0.0092, and \$0.7448 respectively per \$1.00 U.S. dollar).

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at June 30, 2019 was \$93 in favour of the counterparties (as at December 31, 2018 - \$33 in favour of the counterparties). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During the second quarter of 2019, a loss of \$47 was recorded in Foreign exchange gain (loss) related to these derivatives (\$30 gain for the six month period ended June 30, 2019; gain of \$111 and \$174 respectively

for the three and six month periods ended June 30, 2018). In the second quarter of 2019, foreign exchange derivative contracts cash settled with a net fair value of \$54 in favour of the Corporation (\$91 for the six month period ended June 30, 2019 in favour of the Corporation; \$13 in favour of the Corporation and \$13 in favour of the counterparties respectively for the three and six month periods ended June 30, 2018).

The Corporation also holds U.S. cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash and short-term investment balances as at June 30, 2019 amounted to \$1,191 (US\$905) (\$863 (US\$635) as at December 31, 2018). During the three months ended June 30, 2019, a loss of \$15 (\$30 loss for the six month period ended June 30, 2019; gain of \$12 and \$28 for the three and six month periods ended June 30, 2018) was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash and short-term investment balances held.

Financial Instrument Fair Values in the Consolidated Statement of Financial Position

The carrying amounts reported in the consolidated statement of financial position for short term financial assets and liabilities, which includes Accounts receivable and Accounts payable and accrued liabilities, approximate fair values due to the immediate or short-term maturities of these financial instruments.

The carrying amounts of derivatives are equal to their fair value, which is based on the amount at which they could be settled based on estimated market rates at June 30, 2019.

Management estimated the fair value of its long-term debt based on valuation techniques including discounted cash flows, taking into account market information and traded values where available, market rates of interest, the condition of any related collateral, the current conditions in credit markets and the current estimated credit margins applicable to the Corporation based on recent transactions. Based on significant unobservable inputs (Level 3 in the fair value hierarchy), the estimated fair value of long-term debt approximates its carrying value.

The following is a classification of fair value measurements recognized in the consolidated statement of financial position using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. There are no changes in classifications or methods of measuring fair value from those disclosed in Note 15 to the 2018 annual consolidated financial statements. There were no transfers within the fair value hierarchy during the six months ended June 30, 2019.

	June 30, 2019	Fair value measurements at reporting date using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Financial Assets				
Held-for-trading securities				
Cash equivalents	\$ 343	\$ -	\$ 343	\$ -
Short-term investments	4,330	-	4,330	-
Long-term investments	253	-	253	-
Equity investment in Chorus	120	120	-	-
Derivative instruments				
Fuel derivatives	8	-	8	-
Share forward contracts	36	-	36	-
Foreign exchange derivatives	8	-	8	-
Total	\$ 5,098	\$ 120	\$ 4,978	\$ -
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	101	-	101	-
Total	\$ 101	\$ -	\$ 101	\$ -

Financial assets held by financial institutions in the form of cash and restricted cash have been excluded from the fair value measurement classification table above as they are not valued using a valuation technique.

14. GEOGRAPHIC INFORMATION

A reconciliation of the total amounts reported by geographic region for Passenger revenues and Cargo revenues on the consolidated statement of operations is as follows:

Passenger Revenues	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Canada	\$ 1,338	\$ 1,210	\$ 2,442	\$ 2,251
U.S. Transborder	959	865	1,906	1,712
Atlantic	1,159	1,035	1,926	1,721
Pacific	621	582	1,156	1,093
Other	261	229	724	633
	\$ 4,338	\$ 3,921	\$ 8,154	\$ 7,410

Cargo Revenues	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Canada	\$ 29	\$ 24	\$ 55	\$ 43
U.S. Transborder	13	10	25	19
Atlantic	57	70	119	132
Pacific	64	82	126	146
Other	14	14	29	28
	\$ 177	\$ 200	\$ 354	\$ 368

Passenger and cargo revenues are based on the actual flown revenue for flights with an origin and destination in a specific country or region. Atlantic refers to flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa. Pacific refers to flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia. Other passenger and cargo revenues refer to flights with origins and destinations principally in Central and South America and the Caribbean and Mexico.

15. SALE-LEASEBACK

In 2018, the Corporation entered into a sale and leaseback arrangement for 25 Embraer 190 aircraft for net proceeds of \$293, which resulted in the recognition of a loss on disposal. The aircraft, some of which have already exited the fleet in accordance with the Corporation's current fleet plans, will continue to be operated under leases entered into under such sale-leaseback agreement until they fully exit the fleet progressively through 2019 and 2020.

16. CAPITAL DISCLOSURES

The Corporation views capital as the sum of Long-term debt and lease liabilities, and the book value of Shareholders' equity, less excess cash. Effective the second quarter of 2019, the Corporation defines excess cash as total cash and investments in excess of the minimum cash required to support operations. This measure of liquidity includes cash, cash equivalents, short-term investments, short-term restricted cash and long-term investments. The Corporation uses 20% of trailing 12 months operating revenue as its estimate of the minimum cash required to support ongoing business operations. This estimate of minimum cash provides adequate coverage for advance ticket sales and to meet Air Canada's liquidity needs.

The Corporation also monitors its net debt and financial leverage ratio. Effective the second quarter of 2019, net debt is calculated as the sum of Long-term debt and lease liabilities less Cash and cash equivalents, Short-term investments, and Long-term investments. Financial leverage is calculated as net debt over 12 months trailing earnings before interest, taxes, depreciation, and amortization.

The Corporation's main objectives when managing capital are:

- To maintain financial leverage at or below targeted leverage ratios determined by management to be prudent;
- To ensure capital allocation decisions generate sufficient returns and to assess the efficiency with which the Corporation allocates its capital to generate returns;
- To structure repayment obligations in line with the expected life of the Corporation's principal revenue generating assets;
- To ensure the Corporation has access to capital to fund contractual obligations as they become due and to ensure adequate cash levels to withstand deteriorating economic conditions;
- To maintain an appropriate balance between debt supplied capital versus investor supplied capital; and
- To monitor the Corporation's credit ratings to facilitate access to capital markets at competitive interest rates.

In order to maintain or adjust the capital structure, the Corporation may adjust the type or amount of capital utilized, including purchase versus debt financing versus lease decisions, defer or cancel aircraft expenditures by not exercising available options or selling aircraft options, redeeming or issuing debt securities, issuing equity securities, and repurchasing outstanding shares, all subject to market conditions and the terms of the underlying agreements (or any consents required) or other legal restrictions.

The total capital and net debt are calculated as follows:

	June 30, 2019	December 31, 2018 Restated - Note 2
Long-term debt and lease liabilities	\$ 8,202	\$ 8,873
Current portion of long-term debt and lease liabilities	1,249	1,048
Total long-term debt and lease liabilities	9,451	9,921
Shareholders' equity, net of excess cash	887	2,022
Total Capital	\$ 10,338	\$ 11,943
Total long-term debt and lease liabilities	\$ 9,451	\$ 9,921
Less Cash and cash equivalents, Short-term investments, and Long-term investments	(6,174)	(4,707)
Net debt	\$ 3,277	\$ 5,214



17. DEFINITIVE ARRANGEMENT AGREEMENT FOR THE ACQUISITION OF TRANSAT

On June 27, 2019, Air Canada and Transat A.T. Inc. ("Transat") announced a definitive arrangement agreement that provides for Air Canada's acquisition of all issued and outstanding shares of Transat. Under the terms of the agreement, Air Canada will acquire all outstanding shares of Transat for \$13 per share. The value of the all-cash transaction is approximately \$520.

The acquisition of Transat remains subject to regulatory and shareholder approvals and other closing conditions usual in this type of transaction. If such approvals are obtained and conditions are met, the transaction is expected to be completed in early 2020.