



Annual Report

2022



 AIR CANADA

A STAR ALLIANCE MEMBER 



Caution Regarding Forward-Looking Information

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

Forward-looking statements, by their nature, are based on assumptions including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, among other things, changing external events and general uncertainties of the business of Air Canada. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including those discussed below.

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

intention or obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as required under applicable securities regulations.

Air Canada has and continues to establish targets, make commitments, and assess the impact regarding climate change, and related initiatives, plans and proposals that Air Canada and other stakeholders (including government, regulatory and other bodies) are pursuing in relation to climate change and carbon emissions. The achievement of our commitments and targets depends on many factors, including the combined actions and efforts of governments, industry, suppliers and other stakeholders and actors, as well as the development and implementation of new technologies. Air Canada has incurred, and expects to continue to incur, costs to achieve its goal of net-zero carbon emissions and to comply with environmental sustainability legislation and regulation and other standards and accords. The precise nature of future binding or non-binding legislation, regulation, standards and accords, which is receiving increased focus of multiple stakeholders locally and internationally, cannot be predicted with any degree of certainty nor can their financial, operational or other impact. There can be no assurance of the extent to which any of our climate goals will be achieved or that any future investments that we make in furtherance of achieving our climate goals will produce the expected results or meet increasing stakeholder environmental, social and governance expectations. Moreover, future events could lead Air Canada to prioritize other nearer-term interests over progressing toward our current climate goals based on business strategy, economic, regulatory and social factors, potential pressure from investors, activist groups or other stakeholders. If we are unable to meet or properly report on our progress toward achieving our climate change goals and commitments, we could face adverse publicity and reactions from other investors, customers, advocacy groups, or other stakeholders, which could result in reputational harm or other adverse effects to Air Canada.

Intellectual property

Air Canada owns or has rights to trademarks, service marks or trade names used in connection with the operation of its business. In addition, Air Canada's names, logos and website names and addresses are owned or licensed by Air Canada. Air Canada also owns or has the rights to copyrights that also protect the content of its products and/or services. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this annual report may be listed without the ®, ™ and © symbols, but Air Canada reserves all rights to assert, to the fullest extent under applicable law, its rights, or the rights of the applicable licensors to these trademarks, service marks, trade names and copyrights. This annual report may also include trademarks, service marks or trade names of other parties. Air Canada's use or display of other parties' trademarks, service marks, trade names or products is not intended to, and does not imply a relationship with, or endorsement or sponsorship of Air Canada by, the trademark, service mark or trade name owners or licensees.

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Message from the President and Chief Executive Officer, Michael Rousseau

Air Canada marked its 85th anniversary in 2022, and there was much to celebrate despite the challenges the global airline industry faced. We can take great pride in our accomplishments of the last year, strengthening our business and our financial position after the disruption of the COVID-19 pandemic.

The easing of COVID-19 travel restrictions brought a return of leisure travel in the second half of 2022. Our results progressively improved year over year each quarter, even exceeding some pre-COVID metrics in the fourth quarter. Our share price too, while buffeted by industry headwinds, nonetheless outperformed the NYSE ARCA Airlines Index for the year and ranked second-best relative to the six international airlines used to measure relative total shareholder return.

For 2022, we reported operating revenues of \$16.6 billion versus \$6.4 billion in 2021. We

reported an operating loss of \$187 million, down \$2.8 billion versus a \$3 billion operating loss in 2021. Adjusted EBITDA* was \$1.5 billion, an improvement of nearly \$3 billion from the previous year. Passenger revenues totalled \$14.2 billion compared to \$4.5 billion, and operating expenses reached \$16.7 billion against \$9.4 billion in 2021. We ended 2022 with a net debt of \$7.5 billion, up \$542 million from 2021, and total liquidity of more than \$9.8 billion declined about \$700 million from December 31, 2021, largely due to general capital expenditures and debt repayments,

* Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) is a non-GAAP financial measure and it is not recognized as a measure for financial statement presentation under GAAP, does not have standardized meaning, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 20 "Non-GAAP Financial Measures" of Air Canada's 2022 MD&A, which MD&A is incorporated in this annual report, for descriptions of Air Canada's non-GAAP financial measures and for a quantitative reconciliation of Air Canada's non-GAAP financial measures to the most comparable GAAP measure.

including the repurchase and cancellation of Convertible Senior Notes due in 2025 that we completed in 2022.

Our financial results from 2022 show we are growing stronger every day and position us to seize more opportunities, including through innovation, technological advancements and a customer-centric culture, to further our business. We aim to provide the very best experience for our customers, as we navigate the unprecedented resurgence of travel after the near collapse early in the pandemic.

We are the largest provider of scheduled passenger services in the Canadian market as well as in the Canada-U.S. transborder and the international markets to and from Canada. We reinstated routes and frequencies and expanded our network to new destinations, carrying more than 37 million customers in 2022, as compared to 13.7 million customers carried in 2021. Of the more than 37 million customers carried last year, over 25 million were carried between June and December 2022, which represents about 1.8 times the total passengers carried in 2021 in just a seven-month period. And, most importantly, we carried these customers safely, which is always our top priority. Moreover, our codeshare partnership with Emirates and our enhanced transborder partnership with United Airlines are helping us attract more traffic connecting through Canada via our hubs while opening more avenues for visitors and newcomers to Canada.

Our financial performance also affirms the deep resilience we have built into our company for long-term stability. In anticipation of the return of travel, Air Canada began actively preparing early in the year and demonstrated the care and class it is known for. We grew to close to 36,000 active employees in 2022, signalling our readiness and eagerness to rebuild our airline and improve our performance. With new employees onboarded and trained, our family grew and continued to embody our renowned empathy and kindness. Our belief in our colleagues as we expand, train and mentor our teams is central to our strategy as we prepare our company for anticipated future demand for travel, while always ensuring the safety of our

customers and our employees in the air and on the ground.

We made smart decisions, remained competitive and continued to focus on all aspects of the customer journey through investments in new and improved technology and product upgrades.

To further enhance the customer experience, we launched an exciting new program: Elevate the Customer Experience (ECX). The central focus of ECX is the service excellence we deliver to every customer. The program comprises the tools we design, the technology we use and the training we provide to our employees to ensure they have everything they need to support our operation and take care of our customers. This includes, for example, a digital identity concept that we introduced in December, under our biometric technology program.

Air Canada's Aeroplan program is key to capturing and retaining the loyalty of returning travellers. It continues to deliver robust results and has experienced unprecedented growth. The program welcomed more new members in 2022 than in any other year and is on track to reach its target of seven million members in 2023. Aeroplan is also fulfilling our goal of creating diversified revenue sources for our airline.

Similarly, Air Canada Cargo is delivering strong revenues, which reached \$1.3 billion in 2022 compared to \$717 million in 2019. At the end of 2022, we had three freighters in service and plan to operate four more in 2023, and we expect to have a total of 12 in the next couple of years.

Important elements of customer loyalty are stakeholder engagement and corporate reputation, particularly with respect to Environmental, Social and Governance (ESG) programs. In 2022, we significantly advanced our environmental performance and remained steadfast in our commitment to create a better, more sustainable airline industry, including through fleet renewal and by transitioning to more fuel-efficient aircraft. Our fleet expansion will enable us to lower emissions per seat while we deliver a modern, comfortable journey for our customers.

Air Canada's Climate Action Plan is our roadmap to a more sustainable airline and our contribution to a greener industry. ESG is top of mind for our customers, colleagues, shareholders, partners and other stakeholders. We are holding ourselves accountable, producing, in 2022, our first TCFD (Task Force on Climate-related Financial Disclosures) report and setting ambitious goals for addressing climate change and achieving net-zero GHG emissions by 2050, including through wise investments. We critically rely on all actors in the climate action chain to reach our collective goals and are working with government, industry and others to encourage them to play their part.

We made smart decisions, remained competitive and continued to focus on all aspects of the customer journey through investments in new and improved technology and product upgrades.

We recognize we can make a difference because of our size and the global reach of our operations. Directly or through the Air Canada Foundation, we continually support communities in need with in-kind donations and contributions and employee volunteering opportunities to make positive, lasting changes. In 2022, over 600 Air Canada employees volunteered to several causes supported by the

Air Canada Foundation. About 100 Air Canada employees volunteered to send much-needed humanitarian goods, using Air Canada freighter aircraft, to support Ukrainians in the ongoing conflict between Ukraine and Russia. Our employees and the Foundation also contributed financially, donating \$170,000 for relief support. Our additional contribution of 100 million Aeroplan points helped about 2,500 Ukrainians reach Canada as well.

We continue to display the best of Canada's culture and identity. We have reinforced our commitment to diversity, equity and inclusion through a holistic approach that comprises four key components: community

outreach, accountability, representation and employee engagement.

Part of this is the continued integration of Canada's official languages in our corporate culture, which exemplifies our country's unique culture and characteristics. In this vein, we established an Official Languages branch in 2022 to oversee the implementation of Air Canada's Linguistic Action Plan, which focuses on governance, communication and awareness building, aligns with our business goals and meets our customers' needs. We also invested in helping employees improve their language skills and facilitating their effort to consistently serve our customers in their language of their choice. These are just a few examples of how we continue to showcase the best of our culture and its diversity.

Every component outlined in this report fuels our commitment to restore and rebuild and to pursue our ESG priorities, renewing our global champion ambition.

To conclude, I thank our employees for their commitment, tenacity and hard work as well as our customers for choosing Air Canada. We fly the flag proudly and their loyalty means the world to us. Thank you to our management team for their guidance as well as our shareholders for their continued support and trust in Air Canada. The last few years have not deterred us; rather, the challenges of the pandemic have motivated us to think of creative solutions and adapt to reach our goals. Finally, I would like to thank our Board of Directors for their confidence in our entire team.

I look forward to delivering more strong results for you throughout 2023 and reporting to you on our accomplishments next year.

Thank you.





2022 BUSINESS HIGHLIGHTS

FINANCIALS AND NUMBERS

Operating revenues	Adjusted EBITDA ⁽¹⁾	Passenger revenues	Total liquidity
\$16.6B 	\$1.46B an improvement of close to \$3B from 2021 Operating loss \$187M an improvement of close to \$2.9B from 2021	\$14.2B 	\$9.8B  CLOSE TO 36,000 EMPLOYEES

NETWORK REBUILT



ENVIRONMENT

- ES-30 hybrid aircraft
- CHOOSE
- Leave Less Travel Program
- Electric vehicles for ground operations

UKRAINE TO CANADA TRAVEL PROGRAM

Enabled travel to Canada for ~2,500 Ukrainians

ECX DIGITAL ENHANCEMENTS

- ✓ Stand by for earlier flights
- ✓ Live TV
- ✓ Onboard Wi-Fi
- ✓ In-flight dining experience
- ✓ Maple Leaf Lounges



BUSINESS DIVERSIFICATION

Cargo

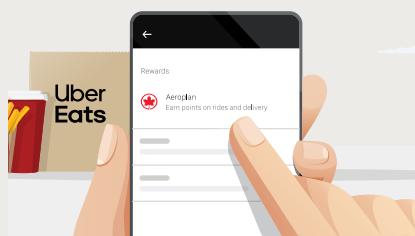
OVER
3,600
CARGO-ONLY FLIGHTS

3
FREIGHTERS IN OPERATIONS

\$1.3B
2022 REVENUES

Aeroplan

Partners with Starbucks, Uber, LCBO, HotelSavers



26 AWARDS AND RECOGNITIONS



⁽¹⁾ Adjusted EBITDA is a non-GAAP financial measure. Such measure is not a recognized measure for financial statement presentation under generally accepted accounting principles in Canada (GAAP), does not have standardized meaning, may not be comparable to similar measures presented by other entities and should not be considered a substitute for, or superior to, GAAP results. Please refer to the section 20 "Non-GAAP Financial Measures" of Air Canada's 2022 MD&A (which MD&A is incorporated in this annual report), which is available under the Corporation's profile on SEDAR at www.sedar.com, for an explanation of the composition of this non-GAAP measure, an explanation of how this non-GAAP financial measure provides useful information to investors and the additional purposes for which management uses this non-GAAP financial measure, as well as a reconciliation to the most directly comparable GAAP measure.

CORPORATE STRATEGY

Rise Higher

Air Canada's corporate strategy, **Rise Higher**, aims to elevate everything about our business as we move into an era of innovation and bold competition — domestically and internationally. **Rise Higher** is centred around revenue enhancement and cost transformation, leveraging our international network, customer engagement and culture change.

Every team concentrates on programs and projects that align with our four priorities: Fund Our Future, Reach New Frontiers, Elevate Our Customers and Lift Each Other Up.



Fund Our Future



We rose higher by staying vigilant on costs, seizing on opportunities and making the right strategic investments.

We all have a responsibility to remain vigilant about costs and ensure we are investing for growth and to yield sustainable returns. We will spend when it's genuinely needed, but we will be strategic and efficient in where we spend money and how we work.



THE A321XLR

Fleet renewal with more-efficient aircraft:

The Airbus A321XLR (30 aircraft) and the Airbus A220 (60 firm orders with options for another 15 aircraft) fuel our capacity to compete effectively in the North American and transatlantic markets, as we reintroduce or open new routes. Air Canada received its last firm Boeing 737 MAX order and has a total of 40 in its operating fleet. These sophisticated aircraft offer optimal performance and passenger comfort and support Air Canada's drive to reach our ambitious environmental goals and increase our overall cost efficiency.

The order of 30 ES- electric-hybrid aircraft (under development by Heart Aerospace of Sweden) into our fleet will help us push forward to achieve our ambitious net-zero emissions goal by 2050. Expected to enter service in 2028, these revolutionary regional aircraft are anticipated to generate fewer GHG emissions when flying on battery power, yield significant operational savings and benefits and provide low-emission connectivity to local communities over the medium to long term.

Air Canada finalized an agreement for the **purchase of two new Boeing 777 freighter aircraft** with deliveries expected in 2024.

Air Canada Cargo operated three Boeing 767 freighters in 2022 and expects to have 10 767 freighters and two 777 freighters in the next couple of years.

Technology investment:

Our \$6.75-million investment into Carbon Engineering (CE), a Canada-based climate solutions company, will help advance CE's Direct Air Capture technology that seeks to extract carbon dioxide directly out of the air at a large, industrial scale.



CARBON ENGINEERING

Enhanced Procurement policy:

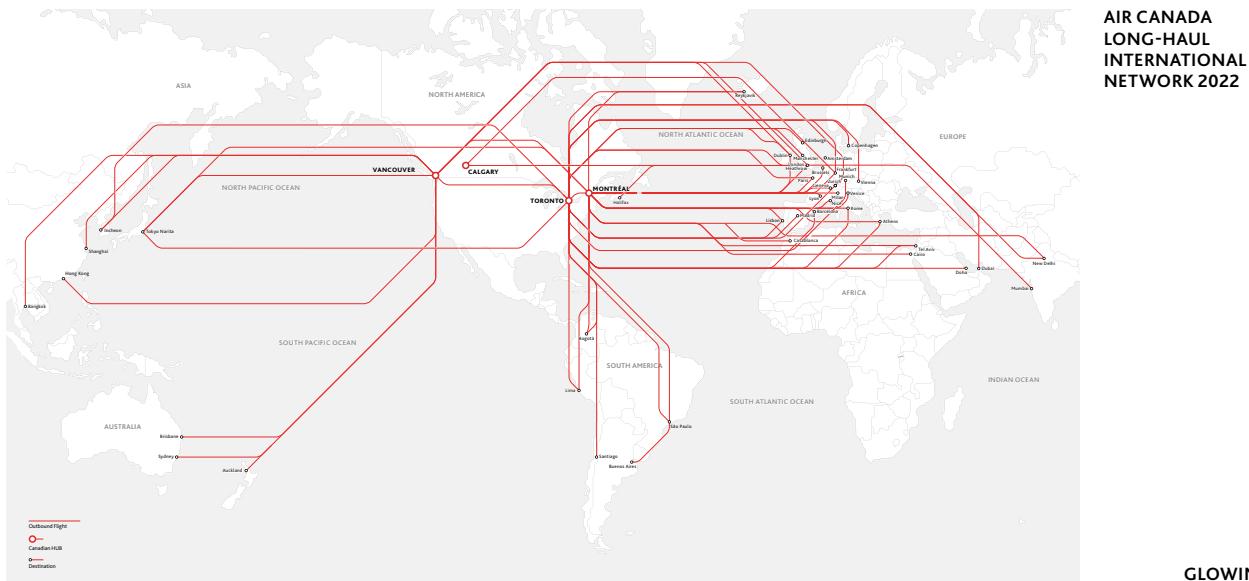
We enhanced our approach to procurement that is strategic and methodical while including sustainable procurement principles to ensure the Corporation obtains the **best value possible for goods and services while leveraging economies of scale and mitigating risks** in support of Air Canada's corporate strategy.

Reach New Frontiers



We continued to rise higher by embracing our competitive strengths to grow our business, restoring and expanding our North American and international reach and continually exploring new opportunities while navigating through the challenging operating environment of 2022.

We can use our competitive strengths in remarkable ways to diversify our business.



GLOWING-HEARTED
HOSPITALITY FOR
CUSTOMERS

Rebuilt and expanded network:

Air Canada operated **945 daily flights** to **185 direct destinations** on six continents. We bolstered our international reach by **relaunching 34 routes** across the Atlantic and Pacific oceans including to Paris, Amsterdam, Tel Aviv, and Tokyo from Toronto. Service to Casablanca, Algiers, Nice, Rome, Tel Aviv, and Tokyo, from Montréal, resumed as well. From Vancouver, we operated flights to Dublin, Frankfurt, and Zurich, and service between Halifax and London Heathrow was introduced in mid-spring. Other European and South Pacific destinations we reconnected our customers with, thus strategically expanding our reach, include Barcelona, Budapest, Copenhagen, Madrid, Milan, and Venice, and Sydney, Brisbane and Auckland, respectively.

We carried more than **37 million passengers**, offering them the largest network and the most travel options of any Canadian carrier.

We increased Available Seat Miles (ASM) capacity by about **2.5 times over 2021 levels**, representing roughly 73 per cent of 2019 ASM levels.

We introduced Air Canada's first non-stop service to Southeast Asia in December: a four-times-weekly flight between Vancouver and Bangkok, Thailand, giving customers travel options with optimized connections to and from our transpacific hub at Vancouver airport. We also resumed service to Mumbai from Toronto via London Heathrow for the winter season.



For our transborder service, we launched **daily flights between Halifax and Newark** as well as **Vancouver and Houston**. Customers have convenient access to these major urban markets and can make onward connections through Air Canada's and our partner United Airlines' global networks.

Domestic service to Vancouver and Calgary from Québec City began in May — all operated by Air Canada Rouge on Airbus A319 aircraft.



ONE OF THE FREIGHTERS IN FLIGHT

Air Canada Cargo:

Air Canada Cargo's revenue grew to \$1.3 billion in 2022, as compared to \$717 million in 2019.

More than 3,600 cargo-only flights were operated to over a dozen destinations including Toronto, Halifax, St. John's, Miami, Atlanta, Dallas, Quito, Lima, Bogotá, San Juan, Mexico City, Guadalajara, Madrid, and Frankfurt. Passenger aircraft and some temporarily converted Boeing 777-300ER and Airbus A330 aircraft were used to operate all-cargo flights to meet the demand for air cargo space. We had three Boeing 767 dedicated freighters in 2022 and anticipate adding another four in 2023. Air Canada Cargo uses cargo space available in Air Canada's mainline wide-body aircraft as well.

Air Canada Cargo became the first Canadian operator to use the Envirotainer Releye RLP and larger RAP, which are live-monitored, temperature-controlled certified aircraft containers. These containers are designed to meet the strictest requirements in pharmaceutical air freight. They have 170 hours of autonomy (i.e., more than a week) on a single battery charge and can maintain the temperature and protect the cargo longer than any other available solution.

Air Canada inaugurated Air Canada Cargo's cold chain handling facility at its cargo facility at Toronto Pearson airport. The \$16-million project was undertaken to expand and enhance Air Canada Cargo's cold chain handling capabilities for shipments such as pharmaceuticals, fresh food and other perishables.

Aeroplan:

More than one million new members were enrolled in 2022, and total membership is at an all-time high.

New and expanded partnerships with various groups including HotelSavers, LCBO, Uber and Starbucks offer Aeroplan Members the opportunity to earn and use points for various purchases, such as travel fare and hotel bookings.

Emirates joined Aeroplan as a new airline partner in December 2022. Aeroplan Members can earn and redeem points for all flights on Emirates, which serves more than 130 cities on six continents.



AEROPLAN IS GROWING.

AWARD-WINNING TRAVEL LOYALTY PROGRAM:

2022 CANADA'S CHOICE TRAVEL REWARDS:

- Top Airline Loyalty Program
- Top Overall Travel Rewards Credit Card (TD Aeroplan Visa Infinite)
- Top No Annual Fee Travel Rewards Credit Card (CIBC Aeroplan Visa)
- Top Airline Credit Card (TD Aeroplan Visa Infinite)
- Top Ultra-Premium Credit Card (TD Aeroplan Visa Infinite Privilege)

FREQUENT TRAVELER (FT) PEOPLE'S AWARDS:

- Best Earning and Redemption Ability (Americas)

FREDDIE AWARDS:

- Best Redemption Ability (third-time winner)

Elevate Our Customers



We continued to rise higher to become our customers' favourite choice.

We leveraged innovations in technology, loyalty and products to support the creation of meaningful customer experiences and human connections.

Elevate Our Customers is founded on our renowned care and class. New technology will complement the skills of customer service professionals and help provide a warmer, more personal experience for every customer. Product offerings, service enhancements and our own processes are being designed to offer greater opportunities for memorable interactions, but it's our kindness that creates individualized, unforgettable experiences and makes Air Canada our customers' first choice, time and time again.

A DIGITAL
IDENTIFICATION
GATE IS
LOCATED AT
VANCOUVER
AIRPORT.



Safety:

Safety First, Always is Air Canada's number one core value. Our top priority is to ensure the health and safety of customers, employees and those in the communities we serve while we meet obligations under applicable regulations.

We provide and promote effective training and we support the continued development and integration of safety data analytics and artificial intelligence into our Safety Management System. We continually assess and manage safety risks associated with the introduction of new equipment, new routes and new programs or projects, and we reinforce and promote safety reporting, which safeguards critical safety information to inform our decisions.

Our extensive Health and Safety Program includes a policy to prevent work accidents and injuries, a policy on drugs and alcohol and a policy to prevent workplace violence and harassment.

Air Canada is committed to protecting our customers' and employees' personal information and their right to privacy. Air Canada, Air Canada Cargo, Air Canada Vacations and Aeroplan privacy policies describe how personal information is collected, used and shared. The policies also describe the rights of individuals over that information.

A record number of employees completed the biannual Safety Culture and Pulse survey in November 2022.

ECX program:

A three-to-five-year initiative to drive excellent customer service delivery — from conducting customer surveys about key aspects of their journey to technology enhancements and customer service training and inter-departmental collaboration, we are targeting a service experience that complements our world-class product offering.

Biometrics roadmap: A digital identity concept got off the ground in December, under our biometric technology program. Transport Canada and the Vancouver Airport Authority observed the technology's successful demonstration. We anticipate using the technology with live flights and customers at other airports in 2023. Thanks to this technology, customers create their digital identity on their smartphone via the Air Canada mobile app to access various touchpoints at the airport including at the gate. Their identify is confirmed by the addition of their passport and a selfie photo. This creates a secure and seamless process for our customers, and our employees can offer greater support to passengers who choose not to use biometric technology. We expect to streamline this technology in our Maple Leaf Lounges and in our Air Canada Café as well.

Self-reaccommodating tool: Customers have the capacity to self-serve during a schedule change in advance of a departure or in the event of a disruption, helping them take control of their journey.

Self-service: Customers can stand by for earlier flights on the Air Canada app and airport self-serve kiosks.

Reprotection: Internal rebooking tools were enhanced, which include providing greater alternative flight options (up to nearly 100 from 20) and using sister cities such as New York LaGuardia or Newark for customer reprotection.

AWARDS AND RECOGNITIONS:

As an airline with global presence and reach, being awarded and recognized for our efforts within the industry builds trust and confidence in Air Canada with our many stakeholders including employees, customers, management teams and shareholders.

AWARD-WINNING AIRLINE

- Award for Innovation and Creativity by Roberta Bondar Foundation
- Vancouver Airport Green Excellence Award
- Best Earning and Redemption Ability (Americas) by a survey of global frequent fliers by the Frequent Traveler People's Awards
- Excellence in Service Award from Expeditors – Air Canada Cargo
- 2022 Travvy award for Best International Airline in the U.S. (Gold)

TravelPulse's 2022 Readers' Choice Awards:

- Best Airline of the Year
- Best Health and Safety Protocols-Airline
- Best Trade Communications during COVID-19

Leisure Lifestyle Awards:

- Best Airline for Onboard Entertainment
- Best Premium Economy Class
- Best Airline for Onboard Menu – Air Canada Business Class

Wherever Awards

- Best Family-Friendly Airline in North America
- Best Family Friendly International Airline



AIR CANADA IS RECOGNIZED FOR MAKING MENTAL HEALTH A PRIORITY.

AWARD-WINNING EMPLOYER

- **World's Best Employers 2022 by Forbes**
- Canada's Best Employers for 2022 by Forbes
- One of "Montréal's Top Employers" by Mediacorp Canada's annual employer survey
- Payworks Award for Best Corporate Social Responsibility Strategy at the Canadian HR Awards
- OHS Awards in the categories of Culture and Best Use of Safety Technology
- **The Canada Awards for Excellence for Mental Health at Work** at the Silver level, making Air Canada the first airline to receive the award
- Achievers 50 Most Engaged Workplaces®, for the sixth time, for Air Canada's innovative engagement and recognition practices that elevate the employee experience.



Star Alliance experience:

Aeroplan Members can earn and redeem miles across the vast **Star Alliance™ network**, giving customers access to faster and more-convenient service.

Product enhancements:

Live TV was launched on select aircraft and domestic routes, making Air Canada the sole domestic carrier to offer six Canadian English and French channels as part of our complimentary and extensive in-flight entertainment programming.

Our enhanced in-flight dining experience includes a restored **Premium Cabin experience and expanded**

Air Canada Bistro offering with more seasonal variety, hot casserole options, new tray components and a new dessert service.



Customers in Air Canada Signature Class (all international flights) as well as International Premium Economy and North America Air Canada Signature Class receive new amenity kits on board their flight. **Air Canada Signature Class customers on all international flights are given amenity kits in partnership with Acqua di Parma, featuring stylish bags containing Acqua di Parma luxury skincare products and other goods.**

Customers in International Premium Economy and North America Air Canada Signature Class overnight flights enjoy reusable Air Canada-branded amenity totes containing various items.



SERVING CUSTOMERS WITH CARE AND CLASS

We bolstered our investment in our Maple Leaf Lounge experience with a contemporary buffet service, expanded Café offering and new Priority Access Lanes for Air Canada Signature Class, Business Class and Aeroplan Super Elite customers. We expanded our Porsche-powered tarmac chauffeur service with service in Toronto and in Vancouver.

We launched the Air Canada Signature Club for select

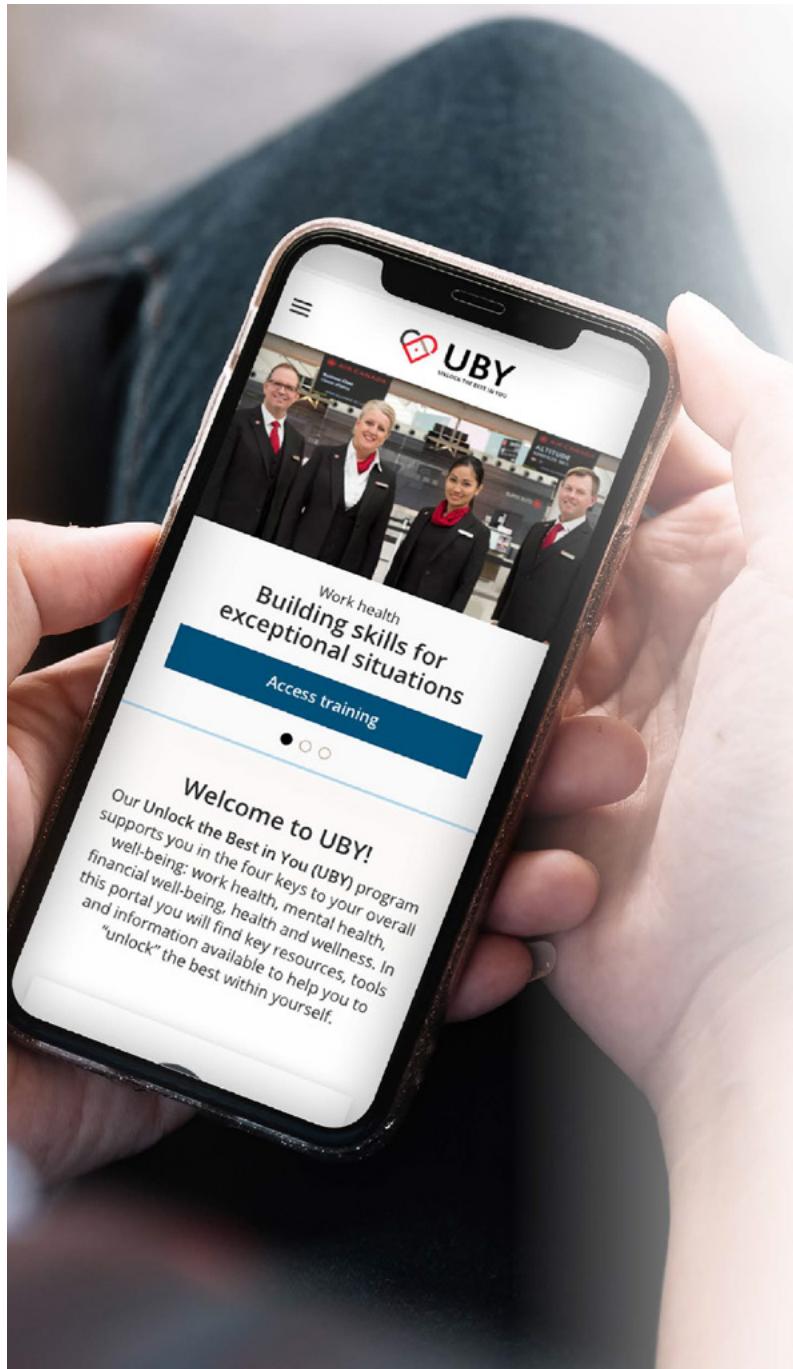
Montréal Canadiens season ticket holders. This ultra-premium lounge at Centre Bell offers hockey fans the ultimate viewing experience of their favourite team. Guests enjoy premium, complimentary menu creations by celebrated Montréal Chef Jérôme Ferrer and wine selections by renowned Québec sommelier Véronique Rivest, two of Air Canada's culinary partners.

Lift Each Other Up



We continued to rise higher by caring for each other while playing an impactful role in society. We continued to foster a collaborative workplace that respects diverse cultures and languages.

Lift Each Other Up is rooted in our collaborative and inclusive culture and in open communication between work groups. We treat our customers with utmost consideration and have the skills to show the same care to each other as colleagues. We embrace diversity in cultures and languages and are committed to be “citizens of the world” in profound, new ways. By appreciating our different talents and life experiences, we help foster more creative, innovative and productive teams and, ultimately, our shared success.



AIR CANADA INTRODUCES A NEW UBY PORTAL AND APP.

Safety:

We strive to create a healthy, inclusive and rewarding work environment that empowers everyone to reach their full potential.

We build a healthy environment that prioritizes and encourages good health and well-being via key tools and resources including training and certification programs.

ECX program:

The ECX team devised an employee engagement roadmap, identifying areas of opportunities that will significantly impact our employees by 2027.

UBY program:

The objective of the Unlock the Best in You (UBY) program is to support employees via four quadrants: work health; mental health; financial well-being; and health and wellness.

The UBY portal and app (for iOS and Android devices) were launched, giving employees access to key tools and resources to use for their physical and mental well-being via a desktop, laptop or smartphone including third-party online therapist-guided support.



Diversity, Equity and Inclusion (DEI):

We endeavour to provide a work environment where all employees feel respected and recognized. Diverse talent continues to grow our employee base, and we forge partnerships with organizations and take part in local, regional and national activities that fuel diversity, equity and inclusion. We are proud of our DEI initiatives:

We continue to surpass our previously established targets to have women represent at least 30 per cent of senior management and **our objective to have at least 30 per cent of its board of directors be women.**

We are a signatory to the BlackNorth Initiative CEO Pledge, which recognizes the need to create opportunities and foster inclusiveness for Black people and leaders in Canada. As part of the Pledge, **Air Canada committed to a goal to have at least 3.5% of board and executive roles being held by Black leaders by 2025.** We have implemented several initiatives in support of our pledge, as further described in our Corporate Sustainability Report "Citizens of the World" and in our management information circulars from previous years.

We formalized several Employee Resource Groups (ERGs), providing representation and a conduit for employee feedback for various identity groups.

Indigenous commitment plaque:

We held a special event at our headquarters in Montréal in October, alongside Indigenous community members, to unveil an Indigenous commitment plaque. Permanently and prominently installed at HQ, the plaque represents our commitment to truth and reconciliation. The plaque includes artwork from Star 'Otsisto' Horn, a Montréal-based Indigenous artist from the Kahnawà:ke nation, signifying that the combination of wisdom and ideas can create strong communities with the ability to fly together and be protected by that strength.

In the photo above, Air Canada President and CEO Michael Rousseau is accompanied by Kahnawà:ke nation members Joe Deom and Kenneth Deer (at left), as well as Tarra Wright Many Chief, Air Canada's Indigenous consultant, for the unveiling of the plaque.



WINNING AS ONE AIR CANADA

Black History Month:

We featured the achievements and contributions of our Black employees to aviation. This included an inaugural Black History celebratory, round-trip flight to Fort Lauderdale from Toronto, with a Black crew of two pilots and eight flight attendants as well as Black managers and employees on the ground and behind the scenes.

We expanded our education and cultural resources that are available on our intranet and encouraged discussions about Black History Month and the community at large on our internal social media platform. The goal was to provide a space for dialogue, where questions could be answered, thus sharing knowledge and fuelling growth.

As of Dec. 31, 2022, there are an estimated 60 languages spoken and counting by Air Canada employees, and 34 per cent of Canada-based employees identified as visible minorities in the self-identification questionnaire. This is based on an 89 per cent response rate to that portion of the self-ID questionnaire.

Persons with diverse abilities:

We partner with several external organizations to further improve our ability to create an inclusive workplace:

Ready, Willing, and Able helps us match the unique qualifications of candidates with intellectual disabilities or Autism Spectrum Disorder to specific roles.

Through the Canadian Council on Rehabilitation and Work, we participate at career events for candidates with disabilities across Canada.

SenseAbility helps us build and implement accessible and inclusive practices through awareness events, training sessions and their tools.

LGBTQ2+:

We foster a workplace environment where all employees with diverse sexual orientations and gender identities can feel comfortable bringing their authentic selves to work.

We participated in various Pride activities that resumed in the summer following the hiatus brought on by COVID-19. We also raised the Pride Progress flag at headquarters in Montréal on June 1, as well as at sites in Toronto, Winnipeg, and Vancouver.

Air Canada employees, their friends and families celebrated Pride by taking part in parades in Winnipeg, Toronto, Halifax, Vancouver, Montréal, Ottawa, and Calgary.



AIR CANADA REPRESENTS AT VARIOUS PRIDE EVENTS.



THE PROGRESS PRIDE FLAG IS RAISED.

Scholarships:

Captain Judy Cameron

Scholarship: Air Canada is proud to offer the Captain Judy Cameron Scholarship in honour of the airline's first female pilot. It aims to foster the next generation of women who are following in Captain Cameron's trailblazing footsteps. **In 2022, four young Canadian women who are studying to become commercial pilots or maintenance engineers were awarded scholarships**, in partnership with the Northern Lights Aero Foundation.

Air Canada and CAE also joined together to advance diversity in aviation, doubling the number of 2023 Captain Judy Cameron Scholarships to young Canadian women. Further, up to four aspiring commercial pilots will be invited to join the CAE Women in Flight program as ambassadors.



Sustainability Scholarships are awarded to the children of Air Canada employees who are entering post-secondary education. These scholarships are funded through the revenues of sustainable initiatives at Air Canada.

The Northern Lights Aero Foundation is a not-for-profit organization that recognizes outstanding Canadian women in aviation and aerospace. Its mission is to encourage women in Canada to succeed in careers in aviation and aerospace by recognizing and celebrating the achievements of accomplished women; engaging in outreach; facilitating mentorship; and providing scholarship opportunities.

Official languages:

An Official Languages branch was set up to oversee the Corporation's Linguistic Action Plan and initiatives. **Air Canada is committed and determined to keep supporting and reinforcing Canada's official languages in its corporate culture.** Ultimately, it is our promise to provide service to our customers in their language of choice. We are committed to continuously improving our approach in our business culture and introducing additional initiatives to further strengthen our official languages in our corporate culture.

We increased language training to consistently enhance our service offering, in both official languages, and enhanced the peer recognition program for employees who demonstrate leadership in promoting Official Languages practices.

Air Canada's Award of Excellence, the highest distinction award, now recognizes employees who deliver on our commitments to our official languages with the Dialogue Award.

Air Canada Foundation:

Established in 2012, the Foundation provides financial or fundraising support to Canadian-registered charities that are focused on bolstering the health and well-being of children in need. In 2022 alone, the Foundation distributed \$1.6 million and in-kind support to 285 Canadian organizations to support the health and wellness of youth across Canada. It also raised \$1.4 million that will be redistributed to such organizations in 2023.

Air Canada Foundation Annual Golf Tournament:

The annual golf tournament is the Foundation's largest fundraising event, where Air Canada's partners come together for an exciting day benefitting a great cause. The 2022 tournament raised more than \$1 million net with the funds earmarked for charitable organizations dedicated to the health and well-being of children and youth in Canada, including the Breakfast Club of Canada, Dreams Take Flight Canada, Starlight Canada and Shriners Hospitals for Children. Nearly 300 guests, with the support of 100 sponsors and 70 Air Canada retirees and employee volunteers, made the event a success. Since its launch, the golf tournament has raised more than \$7.8 million.



THE ANNUAL GOLF TOURNAMENT RAISES OVER \$1 MILLION NET.

Support for Ukraine:

We donated 100 million Aeroplan points to support the Government of Canada's initiative to bring Ukrainians to Canada. The points helped facilitate transportation and were used on flights operated by Air Canada and our Star Alliance partners.

We committed to donate \$10 for every booking made on aircanada.com to support Ukraine relief aid, up to \$250,000.

Aeroplan Members donated points to the Ukrainian Relief Fund, with 100 per cent of points redistributed to various charitable organizations supporting relief efforts for Ukrainian refugees and providing critical aid to those in need.

Air Canada employees and the Foundation raised and donated more than \$170,000 to the Ukraine Humanitarian Crisis Appeal — an all-time record for humanitarian relief.

We offered customers the option to donate further to the Foundation, which worked with registered organizations to support the people of Ukraine.

Over 100 employee volunteers worked together to help transport roughly 7,000 emergency food kits to support families affected by the conflict.

Air Canada Cargo supported the relief efforts in Ukraine, transporting humanitarian aid destined to Poland and Ukraine on behalf of our partners.



AIR CANADA EMPLOYEES AND THE AIR CANADA FOUNDATION ARE COMMITTED TO SUPPORTING COMMUNITIES AND PARTNERS.

Climate Action and Environmental Sustainability:

We are aware that as a global carrier our activities can have an impact on our employees, our customers, the communities we serve and other stakeholders. As citizens of the world, we aim — in everything we do — to integrate economic, environmental and social factors as we make meaningful connections and care for and elevate one another for a more sustainable future.

SAF network in Canada:

We are a founding member of the Canadian Council for Sustainable Aviation Fuels (C-SAF), a not-for-profit organization that aims to accelerate the commercial production and deployment of SAF in Canada, thus facilitating our role in ensuring a steady supply to lower our carbon emissions.

Industry leader to address climate change:

- We collaborated with Rheinmetall Canada to type trial the eMSU: the world's first, zero-emission, all-electric air start unit, eliminating emissions that are harmful to ground staff and the environment. The unit also helps cut fuel consumption costs.
- We formed an agreement in principle with Airbus to explore opportunities for a future supply of carbon removal credits from direct air carbon capture technology.



AIR CANADA'S E-SHUTTLE SERVICE IS LAUNCHED.

Ground equipment electrification:

In spring 2022, we fully transitioned Vancouver airport's employee shuttle service to electric vehicles. The e-shuttle service operation, which operates more than 150 itineraries, will release 98.7 per cent fewer emissions than conventional shuttle buses, which need about 95,000 litres of gasoline each year to operate. Over the course of a year, the YVR e-fleet will cut GHG emissions by about 295 tonnes of CO₂e.

Leave Less Travel Program:

The Leave Less Travel Program offers corporate and cargo customers effective options to offset or reduce their GHG emissions related to business travel or freight transportation and reduce their carbon footprint. By the end of 2022, eight corporate and cargo customers had joined the program.

CHOOOSE is our carbon offset partner:

The purchase of verified carbon offsets is seamlessly integrated into Air Canada's Canadian and U.S. booking websites; high-quality climate offsets will support Air Canada's goal to reach its net-zero emissions target; and customers can conveniently and easily help mitigate air travel GHG emissions and support various global climate projects, which align with the UN Sustainable Development Goals.

Shoreline clean-up:

We were the official travel sponsor for not-for-profit Ocean Wise's latest shoreline clean-up effort. On Sept. 17, International Coastal Clean-up Day, Air Canada employees and their families joined more than 300 participants in one of three shoreline clean-ups (Toronto, Vancouver, Saguenay, Qué. (a private Air Canada clean-up)).



TAKING ACTION TO SUPPORT THE ENVIRONMENT

Earth Day:

We dedicated sustainable aviation fuel (SAF) to four commercial flights on April 22–23, 2022, all departing from San Francisco, Calif. This contributed to reducing GHG emissions by around 39 tonnes of CO₂e compared to the combustion of conventional fossil jet fuel.

United for Wildlife North American Taskforce:

We joined leading financial institutions, transport companies and law enforcement agencies in the U.S. in the fight against the global illegal wildlife trade. Along with Barclays, Deloitte, Deutsche Bank, Citibank, HSBC, JP Morgan Chase, Scotiabank, Standard Chartered and Wells Fargo, we make up the United for Wildlife (UfW) network, pledging to take leadership roles to help end illegal wildlife crime.

Tree planting:

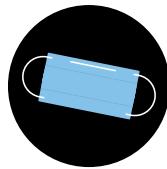
In the spring, employees and their children attended a tree-planting event in Toronto with Partners in Project Green. In total, 200 trees and shrubs were planted with the support of community members.

Stats on waste diversion and donations:

4,276 duvets

donated to people in need through Brands for Canada and Sistering in YYZ.

10,500 surplus fabric masks



donated to the Toronto Catholic School Board to be upcycled into art projects by students.



812 successful uniform exchanges

between employees through an application designed for this purpose, and 1.06 tonnes of uniforms were also diverted through the uniform recycling program.

A new pilot project launched to divert aircraft carpets from landfill. These carpets are shredded and transformed into new carpets or other textile products.

15.34 tons diverted.

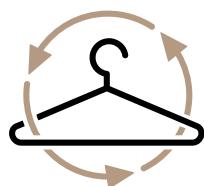


55.8%

diversion rate in 2022
for Canadian offices
and facilities

**We combined
technology with
sustainability by
launching a new UNI2
Uniform Exchange app**

that encourages employees to exchange rather than dispose of their new and gently used uniforms.



Air Canada Vacations:

The first fully digital Sun Collection brochure was launched for the 2022–23 season. *Dream of Sun* is an interactive digital brochure meant to inspire travellers for their next vacation. It also helps the organization reduce its environmental impact by removing the need to print and distribute an almost 450-page annual brochure.



Investor and Shareholder Information

TSX price range and trading volume of Air Canada variable voting shares and voting shares (AC)

	LOW	HIGH	VOLUME
First quarter	\$19.40	\$25.98	217,990,226
Second quarter	\$15.58	\$25.00	201,747,191
Third quarter	\$15.57	\$19.80	157,726,720
Fourth quarter	\$16.38	\$20.31	145,106,830
Full year	\$15.57	\$25.98	722,570,967

Restrictions on voting securities

The *Canada Transportation Act* limits the permitted level of foreign ownership of Canadian air carriers to 49 per cent and caps the voting rights of any single non-Canadian and of the aggregate of non-Canadian air carriers to 25 per cent.

For further information

SHAREHOLDER RELATIONS

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shareholders.actionnaires@aircanada.ca

INVESTOR RELATIONS

Telephone: 514-422-7849
Facsimile: 514-422-7877
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Air Canada complies with the rules adopted by the Toronto Stock Exchange.

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Ce rapport annuel est publié dans les deux langues officielles du Canada. Pour une version française de ce rapport, veuillez visiter le investisseurs.aircanada.com.

Board of Directors and Committees

Air Canada is governed by a 12-member Board of Directors. The Air Canada Board of Directors has four standing committees, all of which are composed of independent directors. The roles and responsibilities of each committee are set out in formal written charters. These charters are reviewed annually to ensure that they reflect best practices as well as applicable regulatory requirements.

	Audit, Finance and Risk Committee	Governance and Nominating Committee	Human Resources, Compensation and Pension Committee	Safety, Health, Environment and Security Committee
Vagn Sørensen Chairman of the Board, Air Canada London, United Kingdom				
Amee Chande Corporate Director and Strategy Consultant West Vancouver, British Columbia	Member			Member
Christie J.B. Clark Corporate Director Toronto, Ontario	Chair	Member		
Gary A. Doer Corporate Director Winnipeg, Manitoba			Member	Member
Rob Fyfe Corporate Director Auckland, New Zealand			Member	Chair
Michael M. Green Chief Executive Officer and Managing Director, Tenex Capital Management East Hampton, New York			Member	Member
Jean Marc Huot Partner, Stikeman Elliott LLP Montréal, Québec		Member		Member
Madeleine Paquin President and Chief Executive Officer, Logistec Corporation Montréal, Québec		Member		Member
Michael Rousseau President and Chief Executive Officer, Air Canada Saint-Lambert, Québec				
Kathleen Taylor Corporate Director Toronto, Ontario	Member	Member	Member	
Annette Verschuren Chair and Chief Executive Officer, NRStor Inc. Toronto, Ontario	Member	Chair		
Michael M. Wilson Corporate Director Bragg Creek, Alberta	Member		Chair	

Committee mandates are available at aircanada.com/ca/en/aco/home/about/corporate-governance.html#/

Executive Officers



Michael Rousseau

President and Chief Executive Officer



Marc Barbeau

Executive Vice President and Chief Legal Officer



Lucie Guillemette

Executive Vice President and Chief Commercial Officer



Amos S. Kazzaz

Executive Vice President and Chief Financial Officer



Craig Landry

Executive Vice President and Chief Operations Officer



Arielle Meloul-Wechsler

Executive Vice President, Chief Human Resources Officer and Public Affairs



Mark Galardo

Senior Vice President, Network Planning and Revenue Management



Mark Nasr

Senior Vice President, Products, Marketing and eCommerce



Kevin O'Connor

Senior Vice President, Global Airports and Operations Control



Murray Strom

Senior Vice President, Flight Operations and Maintenance



Carolyn M. Hadrovic

Vice President and Corporate Secretary

2022

Management's Discussion and Analysis of Results of Operations and Financial Condition



1 | SELECTED FINANCIAL METRICS AND STATISTICS

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

(Canadian dollars in millions, except per share data or where indicated)

FINANCIAL PERFORMANCE METRICS	FOURTH QUARTER			FULL YEAR		
	2022	2021	\$ Change	2022	2021	\$ Change
Operating revenues	4,680	2,731	1,949	16,556	6,400	10,156
Operating loss	(28)	(503)	475	(187)	(3,049)	2,862
Operating margin ⁽¹⁾ (%)	(0.6)	(18.4)	17.8 pp ⁽¹⁰⁾	(1.1)	(47.6)	46.5 pp
Adjusted EBITDA ⁽²⁾	389	22	367	1,457	(1,464)	2,921
Adjusted EBITDA margin ⁽²⁾ (%)	8.3	0.8	7.5 pp	8.8	(22.9)	31.7 pp
Income (loss) before income taxes	146	(617)	763	(1,524)	(3,981)	2,457
Net income (loss)	168	(493)	661	(1,700)	(3,602)	1,902
Adjusted pre-tax loss ⁽²⁾	(211)	(574)	363	(952)	(3,768)	2,816
Adjusted net loss ⁽²⁾	(217)	(577)	360	(988)	(3,768)	2,780
Total liquidity ⁽³⁾	9,824	10,528	(704)	9,824	10,528	(704)
Net cash flows from (used in) operating activities ⁽⁴⁾	647	508	139	2,368	(1,502)	3,870
Free cash flow ⁽²⁾	320	130	190	796	(2,564)	3,360
Net debt ⁽²⁾	7,495	6,953	542	7,495	6,953	542
Diluted earnings (loss) per share	0.41	(1.38)	1.79	(4.75)	(10.25)	5.50
Adjusted loss per share ⁽²⁾	(0.61)	(1.61)	1.00	(2.76)	(10.74)	7.98
OPERATING STATISTICS ⁽⁵⁾						
	2022	2021	Change %	2022	2021	Change %
Revenue passenger miles (RPMs) (millions)	18,525	9,612	92.7	66,495	21,045	216.0
Available seat miles (ASMs) (millions)	22,368	14,057	59.1	82,558	33,384	147.3
Passenger load factor %	82.8%	68.4%	14.4 pp	80.5%	63.0%	17.5 pp
Passenger revenue per RPM (Yield) (cents)	21.9	21.2	3.3	21.4	21.4	-
Passenger revenue per ASM (PRASM) (cents)	18.2	14.5	25.1	17.2	13.5	28.0
Operating revenue per ASM (cents)	20.9	19.4	7.7	20.1	19.2	4.6
Operating expense per ASM (CASM) (cents)	21.1	23.0	(8.5)	20.3	28.3	(28.3)
Adjusted CASM (cents) ⁽²⁾	13.7	16.7	(18.3)	13.2	23.3	(43.4)
Average number of full-time-equivalent (FTE) employees (thousands) ⁽⁶⁾	33.2	25.2	32.0	30.5	19.8	54.2
Aircraft in operating fleet at period-end ⁽⁷⁾	345	337	2.4	345	337	2.4
Seats dispatched (thousands)	12,690	8,772	44.7	47,038	21,105	122.9
Aircraft frequencies (thousands)	89.9	71.5	25.6	340.5	175.3	94.2
Average stage length (miles) ⁽⁸⁾	1,763	1,602	10.0	1,755	1,582	11.0
Fuel cost per litre (cents)	134.3	83.9	60.1	130.1	74.7	74.0
Fuel litres (thousands)	1,084,569	791,581	37.0	4,056,788	2,108,144	92.4
Revenue passengers carried (thousands) ⁽⁹⁾	10,098	5,836	73.0	36,144	13,192	174.0

- 1) Operating margin is a supplementary financial measure and is defined as operating income (loss) as a percentage of operating revenues.
- 2) Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), adjusted EBITDA margin, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share, and adjusted CASM are non-GAAP financial measures, capital management measures, non-GAAP ratios or supplementary financial measures. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 20 "Non-GAAP Financial Measures" of this MD&A for descriptions of Air Canada's non-GAAP financial measures and for a quantitative reconciliation of Air Canada's non-GAAP financial measures to the most comparable GAAP measure.
- 3) Total liquidity refers to the sum of cash, cash equivalents, short and long-term investments, and the amounts available under Air Canada's credit facilities. Total liquidity, as at December 31, 2022, of \$9,824 million consisted of \$8,811 million in cash, cash equivalents, short and long-term investments

and \$1,013 million available under undrawn credit facilities. As at December 31, 2021, total liquidity of \$10,528 million consisted of \$9,570 million in cash and cash equivalents, short and long-term investments, and \$958 million available under undrawn credit facilities. These amounts also include funds (\$386 million as at December 31, 2022 and \$167 million as at December 31, 2021) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. Refer to section 12 "Accounting Policies" of this MD&A for a description of the change in presentation related to restricted cash and pursuant to which certain amounts have been reclassified to cash and cash equivalents with the 2021 comparative figures also reclassified.

- 4) Refer to section 12 "Accounting Policies" of this MD&A for a description of the change in presentation related to restricted cash and pursuant to which certain amounts have been reclassified to cash and cash equivalents with the 2021 comparative figures also reclassified.

5) Except for the reference to average number of FTE employees, operating statistics in this table include third party carriers operating under capacity purchase agreements with Air Canada.

6) Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada. As of December 31, 2022, there were 35,600 employees based in Canada.

7) The number of aircraft in Air Canada's operating fleet at December 31, 2022 and at December 31, 2021 includes certain aircraft that were grounded due to the impact of the COVID-19 pandemic. As at December 31, 2022, two aircraft remained grounded pending return to service maintenance.

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

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

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

2 | INTRODUCTION AND KEY ASSUMPTIONS

In this Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A"), the Corporation refers, as the context may require, to Air Canada and/or one or more of Air Canada's subsidiaries, including its wholly owned operating subsidiaries, Aeroplan Inc. (Aeroplan), Touram Limited Partnership, doing business under the brand name Air Canada Vacations® (Air Canada Vacations), and Air Canada Rouge LP, doing business under the brand name Air Canada Rouge® (Air Canada Rouge). This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the fourth quarter and full year 2022. This MD&A should be read in conjunction with Air Canada's 2022 annual audited consolidated financial statements and notes dated February 17, 2023. All financial information has been prepared 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), except for any non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 21 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of February 16, 2023.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of risks relating to Air Canada, refer to section 18 "Risk Factors" of this MD&A. Air Canada issued a news release dated February 17, 2023 reporting on its results for the fourth quarter and full year 2022. This news release is available on Air Canada's website at aircanada.com and on SEDAR's website at www.sedar.com. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR at www.sedar.com.

Caution Regarding Forward-Looking Information

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

Forward-looking statements, by their nature, are based on assumptions including those described herein and are subject to important risks and uncertainties. Forward-looking statements cannot be relied upon due to, among other things, changing external events and general uncertainties of the business of Air Canada. Actual results may differ materially from results indicated in forward-looking statements due to a number of factors, including those discussed below.

Factors that may cause results to differ materially from results indicated in forward-looking statements include economic and geopolitical conditions such as the military conflict between Russia and Ukraine, Air Canada's ability to successfully achieve or sustain positive net profitability, industry and market conditions and the demand environment, competition, the remaining effects from the COVID-19 pandemic, Air Canada's dependence on technology, cybersecurity risks, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), energy prices, Air Canada's ability to pay its indebtedness and maintain or increase liquidity, interruptions of service, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from anthropogenic sources), Air Canada's dependence on key suppliers (including government agencies and other stakeholders supporting airport and airline operations), Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, the availability and onboarding of Air Canada's workforce, other epidemic diseases, changes in laws, regulatory developments or proceedings, employee and

labour relations and costs, terrorist acts, war, Air Canada's ability to successfully operate its loyalty program, casualty losses, Air Canada's dependence on Star Alliance® and joint ventures, Air Canada's ability to preserve and grow its brand, pending and future litigation and actions by third parties, currency exchange fluctuations, limitations due to restrictive covenants, insurance issues and costs, and pension plan obligations, as well as the factors identified in Air Canada's public disclosure file available at www.sedar.com and, in particular, those identified in section 18 "Risk Factors" of this MD&A.

Air Canada has and continues to establish targets, make commitments, and assess the impact regarding climate change, and related initiatives, plans and proposals that Air Canada and other stakeholders (including government, regulatory and other bodies) are pursuing in relation to climate change and carbon emissions. The achievement of our commitments and targets depends on many factors, including the combined actions and efforts of governments, industry, suppliers and other stakeholders and actors, as well as the development and implementation of new technologies. Air Canada has incurred, and expects to continue to incur, costs to achieve its goal of net-zero carbon emissions and to comply with environmental sustainability legislation and regulation and other standards and accords. The precise nature of future binding or non-binding legislation, regulation, standards and accords, which is receiving increased focus of multiple stakeholders locally and internationally, cannot be predicted with any degree of certainty nor can their financial, operational or other impact. There can be no assurance of the extent to which any of our climate goals will be achieved or that any future investments that we make in furtherance of achieving our climate goals will produce the expected results or meet increasing stakeholder environmental, social and governance expectations. Moreover, future events could lead Air Canada to prioritize other nearer-term interests over progressing toward our current climate goals based on business strategy, economic, regulatory and social factors, potential pressure from investors, activist groups or other stakeholders. If we are unable to meet or properly report on our progress toward achieving our climate change goals and commitments, we could face adverse publicity and reactions from other investors, customers, advocacy groups, or other stakeholders, which could result in reputational harm or other adverse effects to Air Canada.

The forward-looking statements contained or incorporated by reference in this MD&A represent Air Canada's expectations as of the date of the 2022 MD&A (or as of the date they are otherwise stated to be made) and are subject

to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as required under applicable securities regulations.

Key Assumptions

Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its assumptions, Air Canada assumes moderate Canadian GDP growth for 2023. Air Canada also assumes that the Canadian dollar will trade, on average, at C\$1.34 per U.S. dollar for the full year 2023 and that the price of jet fuel will average C\$1.30 per litre for the full year 2023.

Intellectual Property

Air Canada owns or has rights to trademarks, service marks or trade names used in connection with the operation of its business. In addition, Air Canada's names, logos and website names and addresses are owned or licensed by Air Canada. Air Canada also owns or has the rights to copyrights that also protect the content of its products and/or services. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this MD&A may be listed without the ©, ® and TM symbols, but Air Canada reserves all rights to assert, to the fullest extent under applicable law, its rights, or the rights of the applicable licensors to these trademarks, service marks, trade names and copyrights. This MD&A may also include trademarks, service marks or trade names of other parties. Air Canada's use or display of other parties' trademarks, service marks, trade names or products is not intended to, and does not imply a relationship with, or endorsement or sponsorship of Air Canada by, the trademark, service mark or trade name owners or licensees.

Incorporation of Other Information

No information contained on or accessed via Air Canada's websites (or any other website referred to in this MD&A), and no document referred to in this MD&A, is incorporated into or forms part of this MD&A, except if it is expressly stated in this MD&A to be incorporated into this MD&A.

About Air Canada



Air Canada is the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market, and in the international market to and from Canada. Its mission is connecting Canada and the world.

Air Canada enhances its domestic and transborder network through a capacity purchase agreement (CPA) with Jazz Aviation LP (Jazz), a wholly owned subsidiary of Chorus Aviation Inc., with regional flights operated on behalf of Air Canada under the Air Canada Express banner. Regional flying forms an integral part of the airline's international network strategy, providing valuable traffic feed to Air Canada and Air Canada Rouge routes.

In 2022, Air Canada together with its regional partners operated, on average, 945 daily scheduled flights to 185 direct destinations on six continents. In comparison, in 2019, Air Canada, together with its regional partners, operated, on average, 1,531 daily scheduled flights to 217 direct destinations on six continents.

At December 31, 2022, Air Canada mainline had 192 aircraft in its operating fleet, which consisted of 110 Boeing and Airbus narrow-body aircraft and 82 Boeing and Airbus wide-body aircraft, including five Boeing 767 freighter aircraft (of which, at December 31, 2022, three were in service and two pending Transport Canada certification), while Air Canada Rouge had an operating fleet of 39 Airbus narrow-body

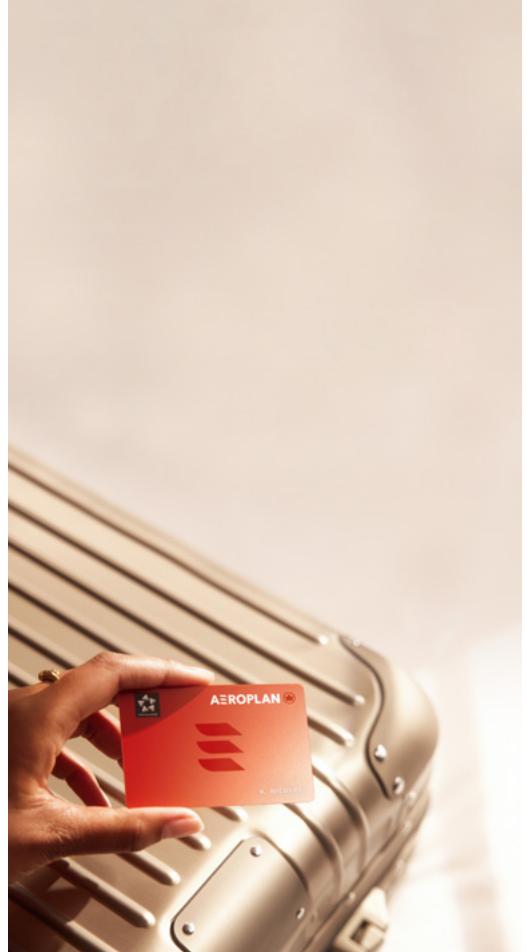
aircraft. At December 31, 2022, the Air Canada Express fleet comprised 50 Mitsubishi regional jets, 39 De Havilland Dash-8 turboprop aircraft and 25 Embraer 175 aircraft for a total of 114 aircraft.

Air Canada is a founding member of the Star Alliance® network. Through the 26-member airline network, Air Canada offers its customers access to a wide global network, as well as reciprocal participation in frequent flyer programs and the use of airport lounges and other common airport facilities.

Air Canada's Aeroplan program is Canada's premier travel loyalty program. The Aeroplan program allows individuals to enroll as members and accumulate Aeroplan points through travel on Air Canada and select partners, as well as through the purchase of products and services from participating partners and suppliers. Members can redeem Aeroplan points for a variety of travel, merchandise, gift cards, and other rewards provided directly by participating partners, or made available through Aeroplan's suppliers. Aeroplan Elite Status recognizes Air Canada's frequent flyers, as well as Aeroplan's most engaged members, with a range of priority travel services and membership benefits.

Air Canada Cargo, a division of Air Canada, is a global cargo service provider, offering cargo services on passenger flights and on all-cargo flights, including on dedicated freighter aircraft. Air Canada Cargo uses cargo space available in Air Canada's mainline wide-body aircraft and on dedicated Boeing 767 freighters. Air Canada Cargo operated three Boeing 767 freighters at December 31, 2022 and expects to have seven Boeing 767 freighters in service by the end of 2023.

Air Canada Vacations is a leading Canadian tour operator, developing, marketing, and distributing vacation travel packages, in the outbound leisure travel market (Caribbean, Mexico, U.S., Europe, Central and South America, South Pacific, Australia, and Asia) and the inbound leisure travel market to destinations within Canada, and offering cruise packages in North America, Europe, and the Caribbean. Air Canada Rouge is Air Canada's leisure carrier.





LEAD
CHEF D'ÉQUIPE



4

Overview

Throughout the COVID-19 pandemic, Air Canada and the rest of the global airline industry faced significantly lower traffic than in 2019. Demand for travel services was impacted by varying health measures, travel restrictions coupled with vaccination requirements introduced by numerous countries, as well as by concerns related to the pandemic and its economic impact. This translated into a decline in revenue and cash flows. During the pandemic, Air Canada actively managed its available capacity based on prevailing market trends and travel demand.

The effects of the pandemic continued to be felt in early 2022, including with the emergence of the Omicron variant. Despite the challenges faced in the first half of 2022, Air Canada continued with its ramp up plans in anticipation of an expected rise in demand. The situation started to improve in the second quarter of 2022, and the lifting of

most travel restrictions allowed for a significant resumption of operations during 2022. In 2022, Air Canada's total operated capacity recovered to 73% of 2019 levels.

The summer of 2022 marked a pivotal point in Air Canada's path to recovery from the effects of the COVID-19 pandemic. In Canada, most of the remaining travel restrictions for fully vaccinated travellers were eased leading into the summer period. Effective October 1, 2022, all remaining Government of Canada COVID-19 travel health restrictions and measures were lifted, including requirements for wearing masks on aircraft, testing and quarantine, and the mandatory use of the ArriveCan declaration application. As a result, in Canada, similar to many countries around the world, upon the lifting of travel restrictions and health measures, travel recovered at an accelerated pace, primarily led by leisure and visiting

friends and relatives (VFR) traffic. However, the impact of the pandemic impeded Air Canada's and the global airline industry's restart efforts and affected the ability of some of its participants, on which Air Canada's operations are dependent, to support the surge in traffic, which resulted in a meaningful increase in flight delays and cancellations, and other operational disruptions and challenges from June to mid-July 2022.

Full Year 2022 Financial Summary

The following is an overview of Air Canada's results of operations and financial position for the full year 2022 compared to the full year 2021, with selected comparisons to 2019, being the pre-pandemic comparison period.

- Operating revenues of \$16,556 million compared to operating revenues of \$6,400 million in 2021, an increase of \$10,156 million. Compared to 2019, operating revenues recovered to about 87%.
- Operating expenses of \$16,743 million versus operating expenses of \$9,449 million in 2021, an increase of \$7,294 million or 77% on an operated capacity increase of about 59%, and a 74% increase in fuel prices. Compared to 2019, operating expenses declined 4% on a capacity decline of about 27% and a 70% increase in fuel prices. Refer to section 5 "Results of operations – 2022 versus 2021" of this MD&A for additional details on operating costs.
- Operating loss of \$187 million, an improvement from an operating loss of \$3,049 million in 2021.
- Adjusted CASM of 13.2 cents compared to 23.3 cents in 2021. Adjusted CASM increased 19% from 2019, one percentage point above the high point of the range projected in Air Canada's third quarter 2022 earnings release, dated October 28, 2022. This increase was due to the impact of higher passenger traffic and yield (which increased sales and distribution costs), general inflationary pressures, including but not limited to higher catering and service costs, customer disruption costs greater than expected (largely due to weather-related disruptions in the fourth quarter of 2022), and higher employee benefits expense.
- Adjusted EBITDA of \$1,457 million, with an adjusted EBITDA margin of 8.8%, improved \$2,921 million from 2021. The adjusted EBITDA margin was within the projection provided in Air Canada's news release dated October 28, 2022.

- Net cash flows from operating activities of \$2,368 million compared to cash used in operating activities of \$1,502 million in 2021. Refer to section 8.5 "Cash Flow Movements" of this MD&A for additional information.
- In 2022, Air Canada repurchased and cancelled \$635 million (US\$473 million) aggregate principal amount of its outstanding 4.000% Convertible Notes due 2025 for an aggregate cash repurchase price of approximately \$778 million (US\$579 million), including accrued interest. A total of \$372 million (US\$274 million) aggregate principal amount of Convertible Notes remains outstanding.

Fourth Quarter 2022 Financial Summary

The following is an overview of Air Canada's results of operations and financial position for the fourth quarter 2022 compared to the fourth quarter 2021, with selected comparisons to the fourth quarter 2019, being the pre-pandemic comparison period.

- Record fourth quarter operating revenues of \$4,680 million compared to fourth quarter 2021 operating revenues of \$2,731 million, an increase of \$1,949 million. Compared to the fourth quarter of 2019, operating revenues increased 6% while operated capacity recovered to 85%.
- Operating expenses of \$4,708 million versus operating expenses of \$3,234 million in the fourth quarter of 2021, an increase of \$1,474 million or 46%. Compared to the same period in 2021, operated capacity and fuel price increased 59% and 60%, respectively.
- Operating loss of \$28 million, improved from an operating loss of \$503 million in the fourth quarter of 2021.
- Adjusted CASM of 13.7 cents compared to 16.7 cents in the fourth quarter of 2021. Adjusted CASM increased 15% from 2019. Refer to section 6 "Results of operations – Q4 2022 versus Q4 2021" of this MD&A for additional details on factors affecting adjusted CASM.
- Adjusted EBITDA of \$389 million, with an adjusted EBITDA margin of 8.3%, improved \$367 million from the fourth quarter of 2021.
- Net cash flows from operating activities of \$647 million increased \$139 million from the fourth quarter of 2021. Refer to section 8.5 "Cash Flow Movements" of this MD&A for additional information.

Corporate Strategy

Air Canada's vision is predicated on leveraging the solid foundation it has built over the past several years to restore and rebuild toward its global champion ambition, while taking advantage of ground-breaking opportunities, and continuing to execute on Air Canada's unwavering commitment to safety, service excellence, and the customer journey.

Air Canada is evolving its business for the future. "Rise Higher", Air Canada's business imperatives strategy is intended to elevate everything about its business. In pursuing this strategy, Air Canada is working to:



Fund its future, by staying vigilant on costs, seizing on opportunities, and making the right strategic investments.



Reach new frontiers, by embracing its competitive strengths to grow the business by expanding its international reach, and continually exploring new opportunities.



Elevate its customers, and support the creation of meaningful customer experiences and human connections by leveraging innovations in technology, loyalty and products.



Foster a collaborative workplace that respects diverse cultures and languages, while making impactful contributions to society.

In pursuit of this strategy, in 2023, Air Canada will continue to build upon and leverage its key assets and numerous competitive advantages, including:

Its talented people, and award-winning culture.	A widely recognized and powerful brand.	A growing cargo offering.
A streamlined, modern, fuel efficient and versatile fleet, with market-leading aircraft configurations.	A customer experience enhanced by competitive products and services, including the fully transformed Aeroplan program.	New core technologies and other technological improvements.
A global network, well positioned to meet demand from various customer segments, and enhanced by the airline's membership in Star Alliance® and by numerous commercial arrangements.	Air Canada Rouge, a lower-cost leisure carrier and Air Canada Vacations, a leading Canadian tour operator.	A commitment to sustainability.

\$6.75 M

INVESTED
IN CARBON
ENGINEERING (CE)
(NOVEMBER 2022)



2022 HIGHLIGHTS

FUNDING THE FUTURE

Notwithstanding the impact of the COVID-19 pandemic, Air Canada has continued to make strategic and innovative investments in technology and other assets to fund its future.

In 2022, Air Canada announced it is acquiring 30 extra-long range (XLR) versions of the Airbus A321neo aircraft and converted options for 15 Airbus A220-300 aircraft into firm orders. Air Canada also agreed to purchase 30 ES-30 electric-hybrid regional aircraft under development by Heart Aerospace of Sweden (expected to enter service in 2028), and to invest \$7 million in Heart Aerospace.

Air Canada also announced an equity investment/loan of \$6.75 million into Canadian climate solutions company Carbon Engineering (CE), supporting the advancement of CE's Direct Air Capture (DAC) technology that aims to extract carbon dioxide directly out of the air at large, industrial scale.



ES-30 ELECTRIC-HYBRID
REGIONAL AIRCRAFT
EXPECTED TO ENTER
SERVICE IN:

2028



OVER

600

DAILY FLIGHTS PLANNED –
DOMESTIC SUMMER 2023
SCHEDULE

REACHING NEW FRONTIERS

In 2022, Air Canada continued to restore its North American and International network, doing so prudently and proportionally with the air transportation's system ability to absorb new capacity. This included:

- An expansion of its North American network for the Summer of 2022 that included the launch of new service on four transborder and three domestic routes, as well as the restoration of 41 North American routes. Air Canada operated to 51 Canadian and 46 U.S. airports in the summer of 2022 and offered customers the largest network and the most travel options of any Canadian carrier.
- An expanded Summer 2022 international schedule with 34 routes relaunched across the Atlantic and Pacific.
- The strategic expansion of its South Pacific schedule with the return of daily service to Sydney and resumption of services to both Brisbane and Auckland.
- The launch of a service to Bangkok and restoration of service to Mumbai.
- New, transborder flights between Halifax-and-Newark and Vancouver-and-Houston.

In 2022, Air Canada also announced network updates for its 2023 schedule which included:

- New service between Montréal and Fort McMurray, and increased frequencies on certain routes. Air Canada's plans for its summer 2023 schedule include over 600 daily flights on 97 domestic routes to 51 Canadian airports.



- New transborder services including JFK airport-Toronto/Montréal, Toronto-Sacramento. Services restored on 13 U.S. routes beginning May 1, and increased frequency on more than a dozen other transborder routes for Summer 2023.
- Strategic expansion of its international network for summer 2023, with the addition of new European services to Brussels, Toulouse and Copenhagen, resumption of key Asia services and to leading destinations in the Atlantic, Pacific and South America regions.



7

DEDICATED FREIGHTERS
EXPECTED TO BE IN
SERVICE

(END 2023)

Cargo

In response to the surge in demand for air cargo space, Air Canada operated all-cargo flights using passenger aircraft as well as some temporarily converted Boeing 777-300ER and Airbus A330 aircraft. As at December 31, 2022, all temporarily converted aircraft have been returned to a passenger configuration. As at December 31, 2022, three Boeing 767 dedicated freighters were in service and seven are expected to be in service by the end of 2023. In 2022, Air Canada Cargo operated over 3,600 cargo-only flights (including those operated with dedicated freighter aircraft) to over a dozen destinations, including Toronto, Halifax, St. John's, Miami, Atlanta, Dallas, Quito, Lima, Bogotá, San Juan, Mexico City, Guadalajara, Madrid and Frankfurt.



ELEVATING THE CUSTOMER

Air Canada has been named the Best Airline in North America for the fourth consecutive year by the readers of *Global Traveler*. The airline also won for Best Airline Cabin Cleanliness for the third consecutive year in the 19th edition of the GT Tested Reader Survey of the magazine's readership of frequent business and luxury travellers.

On board

In November 2022, Air Canada launched Live TV on select aircraft and domestic routes, becoming the only Canadian carrier to offer six Canadian English and French channels as part of the airline's complimentary and extensive inflight entertainment programming. The inflight dining experience has also been enhanced, with a restored Premium Cabin Experience, elevated bistro offering with more seasonal variety, hot casserole options, new tray components and a new dessert service. Additionally, new amenity kits for International Signature Class and Premium Economy and North America Signature Class were introduced.

On the ground

Air Canada has further invested in its Maple Leaf Lounge experience, including a contemporary buffet service, expanded Café offering and new Priority Access Lanes for Signature Class, Business Class, and Aeroplan Super Elite customers. Air Canada has also expanded its Porsche-powered tarmac chauffeur service, now offering the service in Toronto and in Vancouver.

Aeroplan

Aeroplan launched HotelSavers, allowing members to book stays with Aeroplan points at preferential rates at a broad range of acclaimed hotels worldwide and since May 30, 2022, Aeroplan members can earn points for select LCBO purchases. In 2022, Aeroplan was recognized as the Top Airline Loyalty Program by Canada's Choice travel rewards and Best Earning and Redemption Ability (Americas) in a survey of global frequent flyers by the *Frequent Traveler* (FT) People's Awards. It was rewarded for Best Redemption Ability and, for a third time, as the top trending program in delivering value to members in the Americas in a survey of global frequent flyers by the Freddie Awards, which celebrate the world's leading loyalty programs.



INCLUSIVE WORKPLACE AND IMPACT ON SOCIETY

Air Canada has been recognized as one of "Montréal's Top Employers" for 2022 in Mediacorp Canada's annual employer survey, marking the ninth consecutive year that the airline has received this award. Air Canada was selected for its employee recognition and wellness programs, and its commitment to advancing opportunities for women. Air Canada was also named to the Forbes list of Canada's Best Employers 2023 and recognized as one of Canada's Best Diversity Employers.

In 2022, lost time due to injuries decreased and Air Canada launched its bi-annual safety culture and pulse survey. Air Canada enhanced its diversity and inclusion practices, including through the formalization of employee resource groups providing representation and a conduit for employee feedback for diverse identity groups. The airline promoted bilingualism through strengthened official languages programs and practices. In the Fall of 2022, Air Canada was recognized at the annual Canadian HR Awards with the Payworks Award for Best Corporate Social Responsibility Strategy.



AIR CANADA WAS NAMED TO THE FORBES LIST OF CANADA'S BEST EMPLOYERS 2022 AND RECOGNIZED AS ONE OF CANADA'S BEST DIVERSITY EMPLOYERS.

Air Canada's Climate Action Plan includes ambitious milestones to achieve its long-term goal of net-zero emissions by 2050. In defining this pathway, Air Canada has set 2030 absolute mid-term GHG net reduction targets:

20%

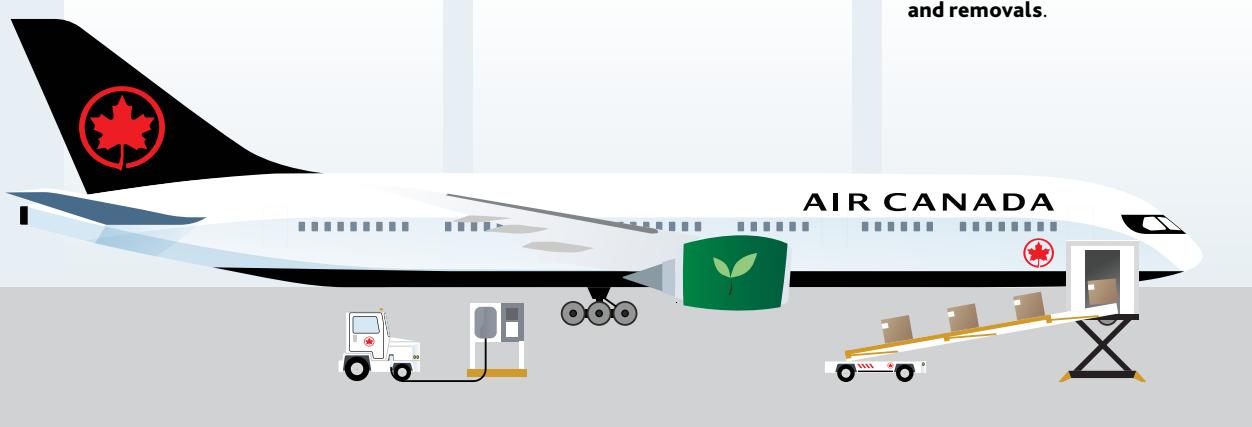
GHG net reductions
from **air operations by 2030**
compared to our 2019 baseline.

30%

GHG net reductions
from **ground operations by 2030**
compared to our 2019 baseline.

\$50 million

investment
in **sustainable aviation fuels (SAF)** and in **carbon reductions and removals**.



In pursuit of this goal, in addition to the announcements related to the A321XLR and A220s, the purchase agreement and equity investment with Heart Aerospace of Sweden as well as the investment with Carbon Engineering (CE), in 2022 Air Canada:

- Introduced CHOOOSE, a global climate technology company, as the airline's new carbon offset program provider. The option to purchase verified carbon offsets is now seamlessly integrated into the airline's Canadian and U.S. booking websites.
- Continued electrifying the Corporation's ground fleet by purchasing 50 electric ground service vehicles to support the operations.
- Announced it is working alongside Rheinmetall Canada to type trial the eMSU; the world's first, zero-emission, all-electric air start unit.
- Welcomed eight customers (corporate and cargo) onto the Leave Less Travel Program, designed for corporate and cargo customers and offering effective options to offset or reduce greenhouse gas (GHG) emissions related to business travel and reduce their carbon footprint.
- Launched an electric shuttle service for its employees at Vancouver airport. The daily service, which operates more than 150 itineraries, is now operated by fully electric vehicles instead of conventional gasoline-powered ones.



In addition, Air Canada has joined the Canadian Council for Sustainable Aviation Fuels (C-SAF), a not-for-profit organization that aims to accelerate the commercial production and deployment of SAF in Canada.

Air Canada's climate governance, strategy, risks and performance are also reported through its report aligned with the Task Force on Climate-related Financial Disclosures (TCFD), as well as through the CDP (formerly known as the carbon disclosure project). The CDP has aligned its approach with the TCFD framework.

Additional details on Air Canada's social impact and advancements on its sustainability strategy will be communicated through Air Canada's upcoming 2022 Annual Report, the Air Canada Foundation 2022 Impact Report, the 2022 TCFD Report and its 2022 Corporate Sustainability Report.

CHOOOSE NEW
CARBON OFFSET
PARTNER



5 | RESULTS OF OPERATIONS – 2022 VERSUS 2021

The table and discussion below provide and compare results of Air Canada for the periods indicated.

(Canadian dollars in millions, except where indicated)	FULL YEAR			
	2022	2021 ^{(1), (2)}	\$ Change	% Change
OPERATING REVENUES				
Passenger	\$ 14,238	\$ 4,498	9,740	217
Cargo	1,266	1,495	(229)	(15)
Other	1,052	407	645	158
Total operating revenues	16,556	6,400	10,156	159
OPERATING EXPENSES				
Aircraft fuel	5,276	1,576	3,700	235
Wages, salaries and benefits	3,260	2,143	1,117	52
Depreciation and amortization	1,640	1,616	24	1
Airport and navigation fees	1,213	723	490	68
Sales and distribution costs	797	286	511	179
Capacity purchase fees	763	558	205	37
Aircraft maintenance	706	711	(5)	(1)
Ground package costs	474	120	354	295
Communications and information technology	468	373	95	25
Catering and onboard services	425	184	241	131
Impairment of assets	4	38	(34)	(89)
Restructuring and transaction costs	-	175	(175)	(100)
Other	1,717	946	771	82
Total operating expenses	16,743	9,449	7,294	77
Operating loss	(187)	(3,049)	2,862	
NON-OPERATING INCOME (EXPENSE)				
Foreign exchange loss	(732)	(52)	(680)	
Interest income	168	72	96	
Interest expense	(909)	(749)	(160)	
Interest capitalized	13	17	(4)	
Net interest relating to employee benefits	24	(8)	32	
Gain (loss) on financial instruments recorded at fair value	133	(55)	188	
Loss on debt settlements and modifications	(14)	(129)	115	
Other	(20)	(28)	8	
Total non-operating expense	(1,337)	(932)	(405)	
Loss before income taxes	(1,524)	(3,981)	2,457	
Income tax recovery (expense)	(176)	379	(555)	
Net loss	\$ (1,700)	\$ (3,602)	\$ 1,902	
Diluted loss per share	\$ (4.75)	\$ (10.25)	\$ 5.50	
Adjusted EBITDA⁽³⁾	\$ 1,457	\$ (1,464)	\$ 2,921	
Adjusted pre-tax loss⁽³⁾	\$ (952)	\$ (3,768)	\$ 2,816	
Adjusted net loss⁽³⁾	\$ (988)	\$ (3,768)	\$ 2,780	
Adjusted loss per share⁽³⁾	\$ (2.76)	\$ (10.74)	\$ 7.98	

(1) Previously, operating expenses under capacity purchase agreements, were aggregated in a separate line item in the consolidated statement of operations titled "Regional airlines expense", and included the capacity purchase fees, pass-through costs, which are direct costs incurred by the regional carrier and charged to Air Canada and other costs incurred by Air Canada which are directly related to regional carrier operations, excluding fuel. For the year ended December 31, 2022, these costs are no longer allocated to regional airline expenses on the consolidated statement of operations. Capacity purchase fees are now presented as a separate line item in the consolidated statement of operations and continue to exclude the component of fees related to aircraft costs which are accounted

for as lease liabilities in accordance with IFRS 16. This reclassification provides improved presentation of the total cost by nature of each expense associated with the Corporation's operations. This presentation change has no impact on total operating expenses. Comparative figures for 2021 have been reclassified to conform to the financial statement presentation adopted for the current year. Refer to Section 12 "Accounting Policies" of this MD&A for information on the reclassifications on the consolidated statement of operations.

(2) Figures previously classified as Special items in the consolidated statement of operations have been reclassified to Wages, salaries and benefits, Restructuring and transaction costs, and Impairment of assets. The nature of transactions included in

these items are further described in Notes 2Z and 10, 4, and 6, respectively of Air Canada's 2022 annual audited consolidated financial statements and notes dated February 17, 2023. Refer to Section 12 "Accounting Policies" of this MD&A for information on the reclassifications on the consolidated statement of operations.

(3) Adjusted EBITDA, adjusted pre-tax income (loss), adjusted net income (loss), and adjusted earnings (loss) per share are non-GAAP financial measures or non-GAAP financial ratios. Refer to section 20 "Non-GAAP Financial Measures" of this MD&A for additional information.

System Passenger Revenues

In 2022, passenger revenues of \$14,238 million increased \$9,740 million or more than triple from 2021. Traffic at the system level more than tripled while total operated capacity more than doubled from 2021, resulting in a passenger load factor increase of 18 percentage points. As a result of COVID-19 pandemic-related travel restrictions in place at that time, travel demand in 2021, most notably in the first half of the year, was primarily for essential purposes, booked close to departure date and on shorter stage-length journeys than prior to the pandemic. This demand environment favoured higher yields with low passenger load factors, as such, certain comparisons versus 2021 may not be meaningful. Air Canada believes that a comparison to 2019 allows for a better understanding of passenger revenues and the development of Air Canada's recovery.

Compared to 2019, 2022 passenger revenues and operated capacity recovered to 83% and 73%, respectively. The 2022 operated capacity was in line with the projection provided in Air Canada's news release dated October 28, 2022. The decline in passenger revenues versus 2019 levels was due to a combination of lower capacity and lower traffic, particularly in the first half of 2022, partially offset by higher yields in all markets. At the system level, 2022 passenger load factor declined about 3 percentage points from 2019, primarily due to the impact of the COVID-related travel restrictions in place during the first half of 2022, most notably in the first quarter of 2022. Average fares in 2022 were 19% higher versus 2019.

At the cabin level, 2022 passenger revenues increased three-and-a-half times for business, four times for premium economy, and three times for economy from 2021. When compared to 2019, 2022 passenger revenues in premium cabins and in economy recovered to about 92% and 79%, respectively. The change versus 2019 was primarily due to lower capacity and lower traffic with stronger yields, in all cabins for most of the markets, partially offsetting the decline.

The table below provides passenger revenues by geographic region for the periods indicated.

(Canadian dollars in millions)	FULL YEAR						
	2022	2021	\$ Change	% Change	2019	\$ Change	% Change
Canada	\$ 4,424	\$ 2,050	\$ 2,374	116	\$ 5,233	\$ (809)	(15)
U.S. transborder	3,017	770	2,247	292	3,795	(778)	(21)
Atlantic	4,381	1,100	3,281	298	4,468	(87)	(2)
Pacific	1,118	245	873	356	2,449	(1,331)	(54)
Other	1,298	333	965	289	1,287	11	1
System	\$ 14,238	\$ 4,498	\$ 9,740	217	\$ 17,232	\$ (2,994)	(17)

The table below provides year-over-year percentage changes in passenger revenues and operating statistics for the periods indicated.

	FULL YEAR 2022 VERSUS FULL YEAR 2021					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	116	69	104	14	6	28
U.S. transborder	292	265	336	12	(10)	7
Atlantic	298	165	252	21	13	50
Pacific	356	153	353	36	1	80
Other	289	233	286	11	1	17
System	217	147	216	18	-	28

	FULL YEAR 2022 VERSUS FULL YEAR 2019					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	(15)	(17)	(20)	(2)	5	2
U.S. transborder	(21)	(22)	(26)	(4)	7	1
Atlantic	(2)	(13)	(14)	(1)	15	13
Pacific	(54)	(67)	(68)	(3)	45	40
Other	1	(15)	(22)	(8)	30	18
System	(17)	(27)	(29)	(3)	17	13

Domestic Passenger Revenues

In 2022, domestic passenger revenues of \$4,424 million increased \$2,374 million more than doubling from 2021 on a year-over-year capacity growth of 69%. The increase was driven by traffic doubling in all major domestic services and resulted in a 14-percentage-point increase in passenger load factor. These results largely reflect the increased demand for air services and greater availability of routes and frequencies across the domestic network. In 2021, as a result of the COVID-19 pandemic and travel restrictions in place at that time, travel demand, most notably in the first half of 2021, was primarily for essential purposes, booked close-in to departure date and on shorter stage-length journeys than prior to the pandemic. This noncomparable environment, in 2021, generated statistically high yields.

When compared to 2019, domestic passenger revenues, in 2022, recovered to 85% on an operated capacity representing 83% of 2019 levels. Traffic and passenger load factor declined 20% and 2 percentage points, respectively. Average domestic fares were about 20% higher from 2019 and yield increased 5%, with yield gains in almost all major domestic services despite an unfavourable impact due to higher average stage length.

U.S. Transborder Passenger Revenues

In 2022, U.S. transborder passenger revenues of \$3,017 million increased \$2,247 million or about four times from 2021 on an operated capacity that more than tripled year-over-year. These results largely reflect the increased demand for air services and greater availability of routes and frequencies across our U.S. transborder network. In 2021, as a result of the COVID-19 pandemic and travel restrictions in place at that time, travel demand, most notably in the first half of 2021, was primarily for essential purposes, booked close-in to departure date and on shorter stage-length journeys than prior to the pandemic. This noncomparable environment, in 2021, generated statistically high yields.

When compared to 2019, U.S. transborder revenues, in 2022, recovered to 79% on an operated capacity representing 78% of 2019 levels. Traffic recovered to 74% while passenger load factor declined four percentage-points. Yield increased 7% reflecting yield gains in nearly all major U.S. transborder services. Average fares in 2022 were 15% higher than 2019, however, strong leisure demand and changes in stage length resulted in an unfavourable impact on yields due to the network makeup.

Atlantic Passenger Revenues

In 2022, Atlantic passenger revenues of \$4,381 million increased \$3,281 million or nearly four times from 2021 on a capacity representing 2.6 times that of 2021. Traffic increased about 3.5 times and load factor increased 21 percentage points year-over-year. These results largely reflect the increased demand for air services, in all cabins, and greater availability of routes and frequencies across our Atlantic network derived from a more normalized network and the return to a more stable demand environment following the easing of travel restrictions, most notably in the second half of 2022.

When compared to 2019, Atlantic passenger revenues, in 2022, recovered to 98% on an operated capacity representing 87% of 2019 levels. Traffic recovered to 86% while passenger load factor declined one percentage point compared to 2019 levels. Yield increased 15% with yield gains in almost all major Atlantic services, most notably India, with Atlantic average fares being about 22% higher than 2019 levels.

Pacific Passenger Revenues

In 2022, Pacific revenues of \$1,118 million increased \$873 million or about four-and-a-half times from 2021 on a capacity representing two-and-a-half times that of 2021. Traffic increased 4.5 times from 2021, which resulted in a 36-percentage-point increase in passenger load factor. These results reflect a better operating environment following the easing of some travel restrictions in certain destinations in the Pacific market, most notably Japan, Korea, and Australia.

When compared to 2019, Pacific passenger revenues, in 2022, were 46% of those in 2019 on an operated capacity that represented 33% of 2019 levels led by significantly lower capacity to China and to Hong Kong. Yield and average fares increased 45% and 44%, respectively, with higher yields driven by fare mix changes due the ongoing impact of COVID-19-related travel restrictions in certain markets.

Other Passenger Revenues

In 2022, Other passenger revenues of \$1,298 million were \$965 million or almost four times higher than 2021 on a capacity representing over three times that of 2021. Traffic increased almost four times year-over-year. This resulted in an 11-percentage-point increase in passenger load factor. These results reflect the increased demand for air services, in all cabins, and greater availability of routes and frequencies across our Caribbean, Central and South American network derived from a more normalized network and the return to a more stable demand environment following the easing of travel restrictions, most notably in the second half of 2022.

When compared to 2019, Other passenger revenues, in 2022, were 1% higher on a capacity that represented about 85% of 2019 levels. Yield, average fares, and PRASM increased 30%, 29%, and 18%, respectively, with gains in all markets served. These results reflect the strong demand, including in the premium cabins, for Caribbean, Central and South American destinations derived from a robust demand recovery following the easing of travel restrictions.

Cargo Revenues

In 2022, Cargo revenues of \$1,266 million declined \$229 million or about 15% from 2021. The year-over-year decline was primarily due to lower year-over-year traffic in the Pacific market reflecting reduced cargo-only flights as the temporarily converted passenger aircraft gradually returned to passenger operations. To a lesser extent, yield normalization, mainly in the U.S. transborder, Domestic and Atlantic markets, also contributed to the decline. The decline was partially offset by increased capacity and higher traffic in the Atlantic and Central and South American markets, as well as, strong yields from the Pacific market. In 2022, Air Canada operated over 3,600 cargo-only flights (including those operated with dedicated freighter aircraft) compared to over 10,200 cargo-only flights in 2021.

Demand for air cargo services remained healthy through the end of 2022, despite coming down from the elevated levels in 2020 and 2021. In 2021, the global supply of air cargo capacity was negatively impacted by the COVID-19 pandemic due to reduced capacity as a result of fewer flights operated worldwide, in particular by commercial airlines. This resulted in abnormally high yields. Compared to 2019, 2022 Cargo revenues increased \$549 million or about 77% mainly due to increased cargo-only flying. In 2019, Air Canada did not operate cargo-only flights and did not have dedicated freighters in the fleet.

The table below provides cargo revenues by geographic region for the periods indicated.

(Canadian dollars in millions)	FULL YEAR						
	2022	2021	\$ Change	% Change	2019	\$ Change	% Change
Canada	\$ 114	\$ 124	\$ (10)	(8)	\$ 113	\$ 1	1
U.S. transborder	51	62	(11)	(18)	48	3	6
Atlantic	556	538	18	3	258	298	115
Pacific	409	667	(258)	(39)	241	168	70
Other	136	104	32	31	57	79	136
System	\$ 1,266	\$ 1,495	\$ (229)	(15)	\$ 717	\$ 549	77

Other Revenues

In 2022, other revenues of \$1,052 million increased \$645 million or about 2.5 times from 2021. The increase was primarily due to a higher volume of ground package revenues at Air Canada Vacations compared to 2021, reflecting the increased demand for vacation packages and the impact of the suspension of flights to Mexico and the Caribbean between January 31 and June 26, 2021. To a lesser extent, higher onboard and Maple Leaf Lounge revenues driven by the return of traffic, higher non-air revenues related to the Aeroplan program, and higher passenger-related fees also contributed to the increase.

Operating Expenses

In 2022, operating expenses of \$16,743 million increased \$7,294 million or about 77% from 2021. The year-over-year variance is primarily explained by increases in nearly all line items reflecting increases in traffic and operated capacity of about 3.2 times and about 2.5 times, respectively, and by a 74% year-over-year increase in fuel prices. Compared to 2019, on a capacity that represented 73% of 2019, operating expenses decreased \$738 million or about 4% largely reflecting higher fuel prices and higher passenger service costs.

The more notable components of the year-over-year change in operating expenses are described below.

Aircraft Fuel

In 2022, aircraft fuel expense of \$5,276 million increased \$3,700 million or more than triple from 2021. The increase was a result of jet fuel prices increasing 74% and 92% higher volume of litres used reflecting increased flying year-over-year. To a lesser extent, the depreciation of the Canadian dollar also contributed to the increase.

Wages, Salaries and Benefits

In 2022, wages, salaries and benefits of \$3,260 million increased \$1,117 million or about 52% from 2021. The year-over-year increase is largely due to a 54% increase in full-time equivalent employees as Air Canada significantly increased its staffing levels from 2021 to support the increase in flying volume. In 2021, a charge of \$125 million for a benefit plan settlement, a charge of \$82 million for benefit plan amendments, and a credit of \$451 million were recorded related to the government wage subsidy. The items amounted to a net credit of \$244 million which also contributed to the 2022 year-over-year increase. Information on the 2021 charges related to the benefit plan settlement and benefit plan amendments is provided in Note 10 Pension and Other Benefit Liabilities of Air Canada's 2022 annual audited consolidated financial statements and notes dated February 17, 2023. Refer to section 12 "Accounting Policies" of this MD&A for additional information on how these costs were previously classified.

Depreciation and Amortization

In 2022, depreciation and amortization of \$1,640 million increased \$24 million or about 1% from 2021. The increase was due to the addition of several new aircraft to the operating fleet during the year and an increase in amortization of intangible assets. The increase was partially offset by assets that were fully depreciated during 2022.

Airport and Navigation Fees

In 2022, airport and navigation fees of \$1,213 million increased \$490 million or 68%. The increase was due to a higher volume of flying compared to 2021.

Sales and Distribution Costs

In 2022, sales and distribution costs of \$797 million increased \$511 million or about 2.8 times from 2021. The increase was largely due to the year-over-year increase in passenger revenues.

Capacity Purchase Fees

In 2022, capacity purchase fees of \$763 million increased \$205 million or 37%. The increase was mainly due to a higher volume of flying compared to 2021 and higher CPA rates year-over-year due to higher costs incurred by Jazz for operating flights on behalf of Air Canada.

Aircraft Maintenance

In 2022, aircraft maintenance expense of \$706 million declined \$5 million or about 1% from 2021. The variance was mainly due to savings from an amended agreement with a third-party maintenance provider, as further described below, and was partially offset by increased maintenance activity to support higher volume of flying compared to 2021. To a lesser extent, a year-over-year increase in maintenance provisions reflecting updated end-of-lease cost estimates, in anticipation of returning aircraft to lessors upon lease expiries over the next 12 months, and an unfavourable currency impact partially offset the decrease.

In the first quarter of 2022, Air Canada and a third-party maintenance provider completed an amended agreement. In connection with this, a favourable adjustment of \$159 million was recorded in Aircraft maintenance expense arising from the adjustment to maintenance accruals and

recognition of future credits that will be available under the amended agreement. Given the significantly reduced aircraft operations and fleet reductions during the COVID-19 pandemic, this agreement was amended by the parties to convert the nature of the services from a power-by-the-hour basis to a time and materials contract and reduced the number of items covered under the agreement.

Ground Package Costs

In 2022, ground package costs of \$474 million increased \$354 million or about four times from 2021. The increase was largely due to a higher volume of ground package revenues at Air Canada Vacations reflecting a higher volume of passengers year-over-year. Air Canada suspended its flights to Mexico and Caribbean destinations between January 31, 2021 and June 26, 2021.

Restructuring and Transaction Costs

In 2022, Air Canada did not record restructuring and transaction costs compared to an operating expense of \$175 million in 2021.

The table below provides the breakdown of the restructuring and transaction costs recorded for the periods identified.

(Canadian dollars in millions)

	FULL YEAR	
	2022	2021
Workforce reduction provisions	-	161
Other	-	14
Restructuring and transaction costs ⁽¹⁾	\$ -	\$ 175

(1) Refer to section 12 "Accounting Policies" of this MD&A for additional information on how these costs were previously classified.

Workforce Reduction Provisions

As a result of the COVID-19 pandemic and to mitigate the number of employees who were on layoff status, Air Canada offered early retirement incentive programs to its unionized workforce. These programs provided for pension improvements which were payable from the defined benefit pension plan for eligible employees, and as such did not impact the Corporation's liquidity position. Termination benefits and a curtailment loss of \$161 million were recorded for the year ended December 31, 2021.

Other

Termination of the Transat Arrangement Agreement

In April 2021, Air Canada announced that the arrangement agreement for the proposed acquisition by Air Canada of Transat A.T. Inc (Transat) was terminated, including the payment of a \$12.5 million termination fee to Transat.

Amendments to Capacity Purchase Agreements

In March 2021, Air Canada announced an agreement to amend the capacity purchase agreement (Jazz CPA) with Jazz, under which Jazz currently operates regional flights under the Air Canada Express brand. Through the revised agreement, Air Canada transferred the operation of its Embraer E175 fleet to Jazz from Sky Regional and Jazz became the sole operator of flights under the Air Canada Express brand. The capacity purchase agreement with Sky Regional was terminated. Air Canada recorded a net expense of \$2 million, related to the CPA revisions and consolidation of regional flying.

Other operating expenses

In 2022, other operating expenses of \$1,717 million increased \$771 million or 82% from 2021. The year-over-year increase was mainly due to a higher volume of flying compared to 2021 and, to a lesser extent, the impact of cost inflation.

The following table provides a breakdown of other expenses for the periods indicated.

(Canadian dollars in millions)	FULL YEAR			
	2022	2021	\$ Change	% Change
Terminal handling	\$ 367	\$ 192	\$ 175	91
Crew cycle	207	92	115	125
Building rent and maintenance	229	164	65	40
Miscellaneous fees and services	213	137	76	55
Remaining other expenses	701	361	340	94
Total other expenses	\$ 1,717	\$ 946	\$ 771	82

CASM and Adjusted CASM

In 2022, CASM decreased 28% and adjusted CASM declined 43% from 2021. Compared to 2019, CASM and adjusted CASM increased 31% and 19%, respectively. The declines versus 2021 are primarily due to the year-over-year ASM increase which resulted in a more efficient use of assets. CASM was unfavourably impacted by significantly higher aircraft fuel expense compared to 2021 and to 2019, and by increased ground package costs year-over-year. Higher traffic and yields resulted in higher passenger service and selling costs also impacted CASM and adjusted CASM negatively. In addition, inflationary pressures and the cost of restoring Maple Leaf lounge and onboard passenger service levels unfavourably impacted CASM and adjusted CASM.

The following table reconciles CASM to adjusted CASM for the periods indicated.

(cents per ASM)	FULL YEAR						
	2022	2021	\$ Change	% Change	2019	\$ Change	% Change
CASM	¢ 20.28	¢ 28.30	¢ (8.02)	(28.3)	¢ 15.50	¢ 4.78	30.9
Remove:							
Aircraft fuel expense, ground package costs, net government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs, freighter costs	(7.07)	(4.98)	(2.09)	41.7	(4.41)	(2.66)	60.3
Adjusted CASM	¢ 13.21	¢ 23.32	¢ (10.11)	(43.4)	¢ 11.09	¢ 2.12	19.1

Non-Operating Expense

In 2022, non-operating expense was \$1,337 million compared to a non-operating expense of \$932 million in 2021.

Losses on foreign exchange of \$732 million in 2022 compared to losses of \$52 million in 2021. The December 31, 2022 closing exchange rate was US\$1=\$1.3554 compared to US\$1=1.2637 at December 31, 2021. The increase in losses year-over-year was mainly due to foreign exchange remeasurement on long-term debt and lease obligations.

Interest expense of \$909 million in 2022 compared to \$749 million in 2021. The increase was mainly due to higher levels of debt as a result of the financing transactions concluded during 2021, and to a lesser extent, unfavourable changes in interest and foreign exchange rates. The year-over-year increase was partially offset by debt repayments in 2022, including the partial repurchase of Air Canada's Convertible Notes, as described in section 4 "Overview" of this MD&A.

In 2022, Air Canada recorded a gain of \$133 million on financial instruments recorded at fair value compared to a loss of \$55 million in 2021. The fluctuation in the fair value of Air Canada's Convertible Notes resulted in a gain of \$219 million partially offset by a loss of \$86 million due to a change in the fair value of Air Canada's short-term investments driven by higher interest rates.

In 2022, Air Canada recorded a loss of \$14 million on debt settlement and modifications related to the repurchase of \$635 million (US\$473 million) aggregate principal amount of its outstanding Convertible Notes for an aggregate cash repurchase price of approximately \$778 million (US\$579 million), including accrued interest. This compared to a loss on debt settlements and modifications of \$129 million, in 2021, which included the write-off of amortized costs and prepayment fees in a series of refinancing transactions completed during that year.

Income Tax

In 2022, Air Canada recorded an income tax expense of \$176 million compared to an income tax recovery of \$379 million in 2021 as shown below. Deferred income tax expense in the statement of operations partially offset the deferred income tax recovery recorded in other comprehensive income related to remeasurements on employee benefit liabilities.

(Canadian dollars in millions)

	FULL YEAR	
	2022	2021
Current income tax (expense)	\$ (47)	\$ (16)
Deferred income tax (expense) recovery	(129)	395
Income tax (expense) recovery	\$ (176)	\$ 379

6 | RESULTS OF OPERATIONS – Q4 2022 VERSUS Q4 2021

The table and discussion below provide and compare results of Air Canada for the periods indicated.

(Canadian dollars in millions, except where indicated)	FOURTH QUARTER			
	2022	2021^{(1), (2)}	\$ Change	% Change
OPERATING REVENUES				
Passenger	\$ 4,062	\$ 2,041	\$ 2,021	99
Cargo	288	490	(202)	(41)
Other	330	200	130	65
Total operating revenues	4,680	2,731	1,949	71
OPERATING EXPENSES				
Aircraft fuel	1,459	665	794	119
Wages, salaries and benefits	892	804	88	11
Depreciation and amortization	417	399	18	5
Airport and navigation fees	320	255	65	25
Sales and distribution costs	228	120	108	90
Capacity purchase fees	214	164	50	30
Aircraft maintenance	248	242	6	2
Ground package costs	163	91	72	79
Communications and information technology	127	96	31	32
Catering and onboard services	127	79	48	61
Impairment of assets	-	24	(24)	(100)
Restructuring and transaction costs	-	(2)	2	(100)
Other	513	297	216	73
Total operating expenses	4,708	3,234	1,474	46
Operating loss	(28)	(503)	475	
NON-OPERATING INCOME (EXPENSE)				
Foreign exchange gain	316	22	294	
Interest income	71	18	53	
Interest expense	(245)	(211)	(34)	
Interest capitalized	5	4	1	
Net interest relating to employee benefits	7	2	5	
Gain on financial instruments recorded at fair value	44	59	(15)	
Loss on debt settlements and modifications	(31)	-	(31)	
Other	7	(8)	15	
Total non-operating income (expense)	174	(114)	288	
Income (loss) before income taxes	146	(617)	763	
Income tax recovery	22	124	(102)	
Net income (loss)	\$ 168	\$ (493)	\$ 661	
Diluted earnings (loss) per share	\$ 0.41	\$ (1.38)	\$ 1.79	
Adjusted EBITDA⁽³⁾	\$ 389	\$ 22	\$ 367	
Adjusted pre-tax loss⁽³⁾	\$ (211)	\$ (574)	\$ 363	
Adjusted net loss⁽³⁾	\$ (217)	\$ (577)	\$ 360	
Adjusted loss per share⁽³⁾	\$ (0.61)	\$ (1.61)	\$ 1.00	

(1) Previously, operating expenses under capacity purchase agreements, were aggregated in a separate line item in the consolidated statement of operations titled Regional airlines expense, and included the capacity purchase fees, pass-through costs, which are direct costs incurred by the regional carrier and charged to Air Canada and other costs incurred by Air Canada which are directly related to regional carrier operations, excluding fuel. For the year ended December 31, 2022, these costs are no longer allocated to regional airline expenses on the consolidated statement of operations. Capacity purchase fees are now presented as a separate line item in the consolidated statement of operations and continue to exclude the component

of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16. This reclassification provides improved presentation of the total cost by nature of each expense associated with the Corporation's operations. This presentation change has no impact on total operating expenses. Comparative figures for 2021 have been reclassified to conform to the financial statement presentation adopted for the current year.

(2) Figures previously classified as special items in the consolidated statement of operations have been reclassified to Wages, salaries and benefits, Restructuring and transaction costs, and Impairment of assets. The nature of transactions included in these

items are further described in Notes 2Z and 10, 4, and 6, respectively of Air Canada's 2022 annual audited consolidated financial statements and notes dated February 17, 2023.

(3) Adjusted EBITDA, adjusted pre-tax income (loss), adjusted net income (loss), and adjusted earnings (loss) per share are non-GAAP financial measures or non-GAAP financial ratios. Refer to section 20 "Non-GAAP Financial Measures" of this MD&A for additional information.

System Passenger Revenues

Record fourth quarter 2022 passenger revenues of \$4,062 million increased \$2,021 million or nearly double from the fourth quarter of 2021. Year-over-year, traffic and capacity increased 93% and 59%, respectively, which resulted in a 14-percentage-point increase in passenger load factor.

In the fourth quarter of 2022, passenger revenues increased about 2% from the fourth quarter of 2019 on an operated capacity that represented 85% of the same period in 2019. Traffic recovered to 87% of fourth quarter 2019 levels, which resulted in a two-percentage-point increase in passenger load factor. The increase was driven by an 18% increase in system yield. Yield gains in all markets resulted from the continuation of the strong recovery in demand for air travel following the further easing of travel restrictions in Canada and in many countries Air Canada operates to, despite certain restrictions remaining in particular Pacific destinations.

In the fourth quarter of 2022, passenger revenues in the premium cabins increased 13% while those in the economy cabin reached 98% of fourth quarter 2019 levels. These results were driven by yield gains across all cabins, in all markets, reflecting the strong demand for air passenger services and higher fares during the quarter. Better fare mix in premium and economy cabins and higher average fare levels contributed to the strong yield performance compared to the fourth quarter of 2019, despite the unfavourable impact of stage length on yields.

Record fourth quarter revenues were a result of the continuation of the strong recovery in demand for air travel, building upon the third quarter 2022 strength, following the further easing of travel restrictions in Canada and in many countries Air Canada operates to, despite certain restrictions remaining in particular Pacific destinations.

The table below provides passenger revenues by geographic region for the periods indicated.

(Canadian dollars in millions)	FOURTH QUARTER						
	2022	2021	\$ Change	% Change	2019	\$ Change	% Change
Canada	\$ 1,195	\$ 774	\$ 421	54	\$ 1,258	\$ (63)	(5)
U.S. transborder	916	418	498	119	903	13	1
Atlantic	1,096	554	542	98	942	154	16
Pacific	412	82	330	401	555	(143)	(26)
Other	443	213	230	108	317	126	40
System	\$ 4,062	\$ 2,041	\$ 2,021	99	\$ 3,975	\$ 87	2

The table below provides year-over-year percentage changes in passenger revenues and operating statistics for the periods indicated.

	FOURTH QUARTER 2022 VERSUS FOURTH QUARTER 2021					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMS) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	54	27	43	9	8	22
U.S. transborder	119	84	127	15	(3)	19
Atlantic	98	49	82	16	8	33
Pacific	401	178	334	31	15	80
Other	108	61	90	12	10	29
System	99	59	93	14	3	25

	FOURTH QUARTER 2022 VERSUS FOURTH QUARTER 2019					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMS) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	(5)	(12)	(10)	2	5	7
U.S. transborder	1	(7)	(5)	2	7	9
Atlantic	16	(6)	(2)	3	19	24
Pacific	(26)	(49)	(48)	3	42	47
Other	40	5	3	(2)	36	33
System	2	(15)	(13)	2	18	21

Domestic Passenger Revenues

In the fourth quarter of 2022, Domestic passenger revenues of \$1,195 million increased \$421 million or 54% from the fourth quarter of 2021. Traffic and capacity increased 43% and 27% year-over-year. This resulted in a nine-percentage-point increase in domestic passenger load factor. Yield increased 8% from the same period in 2021. These results largely reflect the increased demand for air services and greater availability of routes and frequencies across our domestic network.

Compared to the fourth quarter of 2019, Domestic passenger revenues, traffic, and capacity recovered to 95%, 90%, and 88%, respectively. Yield and passenger load factor increased 5% and two percentage points, respectively. Yield gains in all major domestic services resulted in a 7% gain in PRASM. Domestic average fares increased about 21% from 2019 due to fare mix in both premium and economy cabins. Average stage length also increased as a result of higher demand for our long-haul service. These results are largely explained by the continued strength in demand and pricing for domestic passenger services and also reflect changes in traffic mix, with premium cabins representing a larger share of Domestic passenger revenues than in the fourth quarter of 2019.

U.S. Transborder Passenger Revenues

In the fourth quarter of 2022, U.S. transborder passenger revenues of \$916 million increased \$498 million or more than doubled from the fourth quarter of 2021. Traffic more than doubled while capacity increased 84% year-over-year. This resulted in a 15-percentage-point increase in passenger load factor and a 19% increase in PRASM. These results reflect the increased demand for air services and greater availability of routes and frequencies across our U.S. transborder network.

Compared to the fourth quarter of 2019, U.S. transborder passenger revenues increased 1%, with traffic and capacity recovering to 95% and to 93%, respectively, resulting in a two-percentage-point increase in passenger load factor. PRASM and yield increased 9% and 7%, respectively, with yield gains in all major U.S. markets. These results reflect strong demand and pricing for our U.S. transborder services, including a favourable foreign exchange variance, as well as changes in traffic mix with premium cabins representing a larger share of U.S. transborder passenger revenues than in the fourth quarter of 2019. U.S. transborder average fares increased about 15% from 2019.

Atlantic Passenger Revenues

In the fourth quarter of 2022, Atlantic passenger revenues of \$1,096 million increased \$542 million or nearly doubling year-over-year. Traffic and capacity increased 82% and 49% from the fourth quarter of 2021, which resulted in a 16-percentage-point increase in passenger load factor. PRASM and yield increased 33% and 8%, respectively, from the fourth quarter of 2021, with yield gains in all major Atlantic markets. These results reflect the increased demand for air services, in all cabins, and greater availability of routes and frequencies across our Atlantic network derived from a more normalized network and the return to a more stable demand environment following the easing of travel restrictions, most notably in the second half of 2022.

Compared to the fourth quarter of 2019, Atlantic passenger revenues increased 16%, with traffic and capacity recovering to 98% and 94%, respectively, resulting in a three-percentage-point increase in passenger load factor. PRASM and yield increased 24% and 19%, respectively, with yield gains in all major Atlantic markets. These results reflect strong demand and pricing for our Atlantic services as well as changes in traffic mix with premium cabins representing a larger share of Atlantic passenger revenues than in the fourth quarter of 2019. Atlantic average fares increased about 24% from 2019.

Pacific Passenger Revenues

In the fourth quarter of 2022, Pacific passenger revenues of \$412 million increased \$330 million or about five times from the fourth quarter of 2021. Traffic and capacity increased 4.3 times and 2.8 times year-over-year, resulting in a 31-percentage-point increase in passenger load factor. These results reflect a better operating environment following the easing of certain travel restrictions in certain destinations in the Pacific market, most notably Australia, Japan, and Korea.

Fourth quarter 2022 Pacific passenger revenues, traffic and capacity recovered to 74%, 52%, and 51% of fourth quarter of 2019 levels. These results reflect the significantly reduced capacity in all major Pacific markets, most notably China and Hong Kong, as a result of the COVID-19-related travel restrictions that remained in place. This constrained capacity environment, paired with increased average fares, resulted in PRASM, average fares, and yield increasing 47%, 45% and 42%, respectively, from the fourth quarter of 2019.

Other Passenger Revenues

In the fourth quarter of 2022, Other passenger revenues of \$443 million increased \$230 million or more than double from the fourth quarter of 2021. Traffic and capacity increased 90% and 61%, year-over-year. This resulted in a 12-percentage-point increase in passenger load factor. PRASM and yield increased 29% and 10%, respectively, from the fourth quarter of 2021. These results reflect the increased demand for air services, in all major markets across all cabins, and a greater availability of routes and frequencies across our Caribbean, Central and South American network derived from a more normalized network and the return to a more stable demand environment following the easing of travel restrictions, most notably in the second half of 2022.

Compared to the fourth quarter of 2019, Other passenger revenues, operated capacity, and traffic increased 40%, 5%, and 3%, respectively. Despite a two-percentage-point decrease in passenger load factor; yield, average fares, and PRASM increased 36%, 33% and 33%, respectively. These results reflect strong demand and pricing for our Caribbean, Central and South American services, as well as changes in traffic mix with premium cabins representing a larger share of Other passenger revenues than in the fourth quarter of 2019.

The table below provides, by market, Air Canada's revenue passenger miles (RPMs) and available seat miles (ASMs) for the periods indicated.

(millions)	FOURTH QUARTER				FULL YEAR			
	2022		2021		2022		2021	
	RPMs	ASMs	RPMs	ASMs	RPMs	ASMs	RPMs	ASMs
Canada	4,233	5,184	2,952	4,081	16,336	20,373	8,002	12,072
U.S. transborder	3,495	4,356	1,542	2,366	11,781	15,290	2,705	4,190
Atlantic	6,111	7,226	3,350	4,855	25,072	30,188	7,126	11,396
Pacific	2,364	2,765	545	995	6,128	7,484	1,353	2,956
Other	2,322	2,837	1,223	1,760	7,178	9,223	1,859	2,770
System	18,525	22,368	9,612	14,057	66,495	82,558	21,045	33,384

Cargo Revenues

In the fourth quarter of 2022, cargo revenues of \$288 million declined \$202 million or 41% from the fourth quarter of 2021. Compared to the same period in 2019, cargo revenues increased \$102 million or 55%. The decline from 2021 was primarily due to lower traffic in the Pacific market due to fewer cargo-only flights as the temporarily converted passenger aircraft no longer flew cargo-only flights and, to a lesser extent, to yield normalization in all markets. The decline was partially offset by higher traffic in the U.S. and Atlantic markets.

The table below provides cargo revenues by geographic region for the periods indicated.

(Canadian dollars in millions)	FOURTH QUARTER							
	2022		2021		\$ Change	% Change	2019	\$ Change
Canada	\$ 30	\$ 45	\$ (15)	(33)	\$ 27	\$ 3	9	
U.S. transborder	13	18	(5)	(24)	11	2	26	
Atlantic	145	151	(6)	(4)	69	76	109	
Pacific	66	241	(175)	(72)	64	2	4	
Other	34	35	(1)	(4)	15	19	122	
System	\$ 288	\$ 490	\$ (202)	(41)	\$ 186	\$ 102	55	

Other Revenues

In the fourth quarter of 2022, other revenues of \$330 million increased \$130 million or 65% from the fourth quarter of 2021. The increase was primarily due to a higher volume of ground package revenues at Air Canada Vacations. To a lesser extent, higher non-air revenues related to the Aeroplan program, onboard purchases and miscellaneous passenger fees contributed to the increase.

Operating Expenses

In the fourth quarter of 2022, total operating expenses of \$4,708 million increased \$1,474 million or 46% from the fourth quarter of 2021. The year-over-year variance is primarily due to increases in nearly all line items reflecting increases in traffic and operated capacity of about 93% and about 59%, respectively, and by a 60% year-over-year increase in fuel prices. Compared to the fourth quarter of 2019, operating expenses increased \$424 million or 10% mainly driven by higher aircraft fuel expense and higher passenger service costs.

The more notable components of the year-over-year change in operating expenses are described below.

Aircraft Fuel

In the fourth quarter of 2022, aircraft fuel expense of \$1,459 million increased \$794 million or more than double from the fourth quarter of 2021. The year-over-year increase is largely due to a 60% increase in jet fuel prices. To a lesser extent, 37% higher volume of litres used as a result of the year-over-year increase in flying, and an unfavourable foreign exchange variance also contributed to the year-over-year increase.

Wages, Salaries and Benefits

In the fourth quarter of 2022, wages, salaries and benefits of \$892 million increased \$88 million or about 11%. The year-over-year increase is largely due to a 32% increase in full-time equivalent employees as Air Canada significantly increased its staffing levels, from the fourth quarter of 2021, to support the increase in flying volume. In the fourth quarter of 2021, a charge of \$125 million for a benefit plan amendment, a charge of \$6 million for benefit plan settlement, and a credit of \$27 million related to the government wage subsidy were recorded. In aggregate, these items totalled \$104 million which partially offset the year-over-year increase. Information on the 2021 charges related to the benefit plan settlement and benefit plan amendments is provided in Note 10 Pension and Other Benefit Liabilities of Air Canada's 2022 annual audited consolidated financial statements and notes dated February 17, 2023. Refer to section 12 "Accounting Policies" of this MD&A for additional information on how these costs were previously classified.

Depreciation and amortization

In the fourth quarter of 2022, depreciation and amortization expense of \$417 million increased \$18 million or 5% from the fourth quarter of 2021. The increase was due to the addition of several new aircraft to the operating fleet in 2022 and an increase in amortization of intangible assets. The increase was partially offset by assets that were fully depreciated during 2022.

Sales and Distribution Costs

In the fourth quarter of 2022, sales and distribution costs of \$228 million increased \$108 million or 90% from the fourth quarter of 2021. The increase was largely due to the year-over-year increase in passenger revenues.

Capacity purchase fees

In the fourth quarter of 2022, capacity purchase fees of \$214 million increased \$50 million or 30% from the fourth quarter of 2021. The increase was mainly due to higher CPA rates year-over-year due to higher costs incurred by Jazz for operating flights on behalf of Air Canada.

Aircraft Maintenance

In the fourth quarter of 2022, aircraft maintenance expense of \$248 million increased \$6 million or 2% from the fourth quarter of 2021. The increase was mainly due to increased maintenance activity to support higher volume of flying compared to the fourth quarter of 2021. The increase was partially offset by savings from an amended agreement with a third-party maintenance provider, as described in section 5 "Results of Operations – 2022 versus 2021", and by a year-over-year decrease in maintenance provisions reflecting updated end-of-lease cost estimates, in anticipation of returning aircraft to lessors upon lease expiries over the next 12 months.

Ground Package Costs

In the fourth quarter of 2022, ground package costs of \$163 million increased \$72 million or 79% from the fourth quarter of 2021. The increase was largely due to a higher volume of ground package revenues at Air Canada Vacations reflecting a higher volume of passengers year-over-year.

Restructuring and Transaction costs

In the fourth quarter of 2022, Air Canada did not record restructuring and transaction costs compared to a net operating expense reduction of \$2 million in the fourth quarter of 2021.

The table below provides the breakdown of the restructuring and transaction costs recorded for the periods identified.

(Canadian dollars in millions)	FOURTH QUARTER	
	2022	2021
Workforce reduction provisions		- (2)
Restructuring and transaction costs ⁽¹⁾	\$ -	\$ (2)

(1) Refer to section 12 "Accounting Policies" of this MD&A for additional information on how these costs were previously classified.

Other operating expenses

In the fourth quarter of 2022, other operating expenses of \$513 million increased \$216 million or 73% from the fourth quarter of 2021. The year-over-year increase was mainly due to a higher volume of flying compared to the fourth quarter of 2021.

The following table provides a breakdown of other expenses for the periods indicated.

(Canadian dollars in millions)	FOURTH QUARTER			
	2022	2021	\$ Change	% Change
Terminal handling	\$ 106	\$ 72	\$ 34	47
Crew cycle	59	35	24	69
Building rent and maintenance	67	46	21	46
Miscellaneous fees and services	67	30	37	123
Remaining other expenses	214	114	100	88
Total other expenses	\$ 513	\$ 297	\$ 216	73

CASM and Adjusted CASM

In the fourth quarter of 2022, CASM decreased about 8% and adjusted CASM declined 18% from the same period in 2021. Compared to the fourth quarter of 2019, CASM and adjusted CASM increased 30% and 15%, respectively. The declines versus 2021 are primarily due to the year-over-year ASM increase which resulted in a more efficient use of assets. CASM was unfavourably impacted by aircraft fuel expense increasing from both the fourth quarter of 2021 and of 2019. Higher traffic and yields that resulted in higher passenger service and selling costs also impacted CASM and adjusted CASM negatively. In addition, inflationary pressures and the cost of restoring Maple Leaf lounge and onboard passenger service levels unfavourably impacted CASM and adjusted CASM.

The following table reconciles CASM to adjusted CASM for the periods indicated.

(cents per ASM)	FOURTH QUARTER						
	2022	2021	\$ Change	% Change	2019	\$ Change	% Change
CASM	¢ 21.05	¢ 23.01	¢ (1.96)	(8.5)	¢ 16.21	¢ 4.84	29.8
Remove:							
Aircraft fuel expense, ground package costs, net government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs, freighter costs	(7.37)	(6.27)	(1.10)	17.5	(4.33)	(3.04)	70.2
Adjusted CASM	¢ 13.68	¢ 16.74	¢ (3.06)	(18.3)	¢ 11.88	¢ 1.80	15.1

Non-Operating Income (Expense)

In the fourth quarter of 2022, non-operating income was \$174 million compared to a non-operating expense of \$114 million in the fourth quarter of 2021.

Gains on foreign exchange of \$316 million in the fourth quarter of 2022 compared to \$22 million in the same period of 2021. The December 31, 2022 closing exchange rate was US\$1=\$1.3554 compared to US\$1=1.3829 at September 30, 2022. The variance was mainly due to foreign exchange remeasurement on long-term debt and lease obligations.

Interest income of \$71 million in the fourth quarter of 2022 compared to \$18 million in the fourth quarter of 2021.

Interest expense of \$245 million in the fourth quarter of 2022 compared to \$211 million in the fourth quarter of 2021. The variance was primarily due to higher interest rates year-over-year as well as to an unfavourable foreign exchange variance. The increase was partially offset by lower levels of debt reflecting principal repayments made during 2022, including the partial repurchase of Air Canada's Convertible Notes.

In the fourth quarter of 2022, Air Canada recorded a \$31 million loss on debt settlement related to the repurchase of \$362 million (US\$266 million) aggregate principal amount of its outstanding Convertible Notes for an aggregate cash repurchase price of \$449 million (US\$330 million), including accrued interest.

7 | FLEET

Mainline and Air Canada Rouge

The tables below provide the number of aircraft in Air Canada's and Air Canada Rouge's operating fleet as at December 31, 2022. Refer to the Air Canada Express section below for information on the fleet of aircraft operated by Jazz under its capacity purchase agreement with Air Canada.

The tables below include certain aircraft that were grounded in response to the COVID-19 pandemic. As at December 31, 2022, two aircraft remained grounded pending return to service maintenance. The table below includes two new Boeing 767 freighter aircraft which were delivered in 2022 that are expected to enter service in 2023.

AT DECEMBER 31, 2022					
AIR CANADA	Number of Operating Aircraft	Total Seats	Average Age	Owned	Leased
WIDE-BODY AIRCRAFT					
Boeing 777-300ER	18	419	12.6	10	8
Boeing 777-200LR	6	300	15.4	4	2
Boeing 787-8	8	255	8.6	8	-
Boeing 787-9	29	298	6.3	23	6
Boeing 767-300 freighters	5	-	18.0	3	2
Airbus A330-300	16	295	17.9	8	8
Total wide-body aircraft	82	321	11.6	56	26
NARROW-BODY AIRCRAFT					
Boeing 737 MAX 8	40	169	3.3	31	9
Airbus A321	15	190	20.0	5	10
Airbus A320	18	142	26.3	10	8
Airbus A319	5	83	25.5	5	-
Airbus A220-300	32	137	1.8	32	-
Total narrow-body aircraft	110	154	9.9	83	27
Total Mainline	192	223	10.6	139	53

AIR CANADA rouge	Number of Operating Aircraft	Total Seats	Average Age	Owned	Leased
NARROW-BODY AIRCRAFT					
Airbus A321	14	197	7.6	4	10
Airbus A320	5	168	15.7	-	5
Airbus A319	20	136	24.8	17	3
Total Air Canada Rouge	39	162	17.5	21	18
Total Mainline & Rouge	231	213	11.8	160	71

The tables below provide the number of aircraft in Air Canada's operating fleet as at December 31, 2021 and December 31, 2022 as well as Air Canada's planned operating fleet for the future periods indicated.

 AIR CANADA	ACTUAL			PLANNED			
	Dec. 31, 2021	2022 Fleet Changes	Dec. 31, 2022	2023 Fleet Changes	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024
WIDE-BODY AIRCRAFT							
Boeing 777-300ER	18	-	18	1	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 777 freighters	-	-	-	-	-	2	2
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	29	-	29	2	31	1	32
Boeing 767-300 freighters	1	4	5	2	7	2	9
Airbus A330-300	16	-	16	2	18	-	18
Total wide-body aircraft	78	4	82	7	89	5	94
NARROW-BODY AIRCRAFT							
Boeing 737 MAX 8	31	9	40	-	40	-	40
Airbus A321	15	-	15	-	15	-	15
Airbus A320	18	-	18	(2)	16	-	16
Airbus A319	6	(1)	5	(2)	3	-	3
Airbus A220-300	27	5	32	1	33	6	39
Total narrow-body aircraft	97	13	110	(3)	107	6	113
Total Mainline	175	17	192	4	196	11	207

	ACTUAL			PLANNED			
	Dec. 31, 2021	2022 Fleet Changes	Dec. 31, 2022	2023 Fleet Changes	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024
NARROW-BODY AIRCRAFT							
Airbus A321	14	-	14	3	17	-	17
Airbus A320	5	-	5	-	5	-	5
Airbus A319	20	-	20	-	20	-	20
Total Air Canada Rouge	39	-	39	3	42	-	42
Total Mainline & Rouge	214	17	231	7	238	11	249

Air Canada Express

The table below provides the number of aircraft operated as at December 31, 2021 and as at December 31, 2022, on behalf of Air Canada, by its regional carrier operating flights under the Air Canada Express banner pursuant to a capacity purchase agreement with Air Canada. The table also provides the planned fleet for the future periods indicated.

 AIR CANADA EXPRESS	ACTUAL			PLANNED			
	Dec. 31, 2021	2022 Fleet Changes	Dec. 31, 2022	2023 Fleet Changes	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024
Embraer 175							
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-200	15	-	15	-	15	-	15
Mitsubishi CRJ-900	35	-	35	-	35	-	35
De Havilland Dash 8-300	9	(9)	-	-	-	-	-
De Havilland Dash 8-400	39	-	39	-	39	-	39
Total Air Canada Express	123	(9)	114	-	114	-	114

8 | FINANCIAL AND CAPITAL MANAGEMENT

8.1 LIQUIDITY

Liquidity Risk Management

Air Canada manages its liquidity needs through a variety of strategies, including by seeking to sustain and improve cash from operations and free cash flow, sourcing committed financing for new and existing aircraft, and through other financing activities.

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations, which are further discussed in sections 8.6 "Capital Expenditures and Related Financing Arrangements", 8.7 "Pension Funding Obligations", and 8.8 "Contractual Obligations" of this MD&A. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least twelve months after each reporting period, including under various scenarios and assumptions, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

At December 31, 2022 total liquidity was \$9,824 million comprised of cash and cash equivalents, short-term and long-term investments of \$8,811 million, and \$1,013 million available under undrawn credit facilities. Over the next 12 months, Air Canada expects to meet its liquidity needs with cash from operations as well as with available cash and cash equivalents, short-term and long-term investments. Liquidity needs related to obligations associated with financial liabilities and capital commitments may also be supported through new financing arrangements.

8.2 FINANCIAL POSITION

The table below provides a condensed consolidated statement of financial position of Air Canada as at December 31, 2022, and as at December 31, 2021.

(Canadian dollars in millions)	December 31, 2022	December 31, 2021 ⁽¹⁾ Restated	\$ Change
ASSETS			
Cash, cash equivalents and short-term investments	\$ 7,988	\$ 8,969	\$ (981)
Other current assets	1,677	1,084	593
Current assets	\$ 9,665	\$ 10,053	\$ (388)
Investments, deposits, and other assets	1,073	858	215
Property and equipment	11,950	11,740	210
Pension assets	2,444	3,571	(1,127)
Deferred income tax	48	39	9
Intangible assets	1,054	1,080	(26)
Goodwill	3,273	3,273	-
Total assets	\$ 29,507	\$ 30,614	\$ (1,107)
LIABILITIES			
Current liabilities	\$ 9,353	\$ 6,924	\$ 2,429
Long-term debt and lease liabilities	15,043	15,511	(468)
Aeroplan and other deferred revenues	3,160	3,656	(496)
Pension and other benefit liabilities	1,770	2,588	(818)
Maintenance provisions	1,352	1,032	320
Other long-term liabilities	311	821	(510)
Deferred income tax	73	73	-
Total liabilities	\$ 31,062	\$ 30,605	\$ 457
Total shareholders' equity (deficiency)	\$ (1,555)	\$ 9	\$ (1,564)
Total liabilities and shareholders' equity (deficiency)	\$ 29,507	\$ 30,614	\$ (1,107)

(1) Refer to section 12 "Accounting Policies" of this MD&A for a description of the change in presentation related to restricted cash and pursuant to which certain amounts have been reclassified to cash and cash equivalents with the 2021 comparative figures also reclassified.

Movements in current assets and current liabilities are described in section 8.4 "Working Capital" of this MD&A. Long-term debt and lease liabilities are discussed in sections 8.3 "Net Debt" and 8.5 "Cash Flow Movements" of this MD&A.

At December 31, 2022, net long-term benefit assets of \$674 million (comprising pension assets of \$2,444 million net of pension and other benefit liabilities of \$1,770 million) decreased \$309 million from December 31, 2021. This decrease was mainly due to a net actuarial loss on remeasurements of employee liabilities of \$31 million recorded on Air Canada's consolidated statement of comprehensive income, as well as pension and other employee benefits expense recorded during the year. The actuarial loss reflects the limit on the amount of pension assets that can be recognized under the accounting rules. While the actuarial gain on the 208-basis point increase in discount rate used to value the liabilities offset a lower return on plan assets, the net asset that could be recognized was capped to the amount of surplus available to reduce future funding requirements.

The long-term portion of the Aeroplan and other deferred revenue liability decreased \$496 million from December 31, 2021. This decrease included a reclassification of \$312 million from long-term to current liabilities for Aeroplan point redemptions expected to occur over the next 12 months, as well as Aeroplan point redemptions exceeding the value of points issued given the strong rebound in travel demand in 2022. The decrease to Other long-term liabilities included a \$459 million decrease in the liability of the embedded derivative on Air Canada's Convertible Notes of which \$240 million was recognized on the repurchase of the Convertible Notes.

8.3 NET DEBT

The table below reflects Air Canada's net debt balances as at December 31, 2022, and as at December 31, 2021.

(Canadian dollars in millions)	December 31, 2022	December 31, 2021 ⁽¹⁾ Restated	Change
Total long-term debt and lease liabilities	\$ 15,043	\$ 15,511	\$ (468)
Current portion of long-term debt and lease liabilities	1,263	1,012	251
Total long-term debt and lease liabilities (including current portion)	16,306	16,523	(217)
Less cash, cash equivalents and short and long-term investments	(8,811)	(9,570)	759
Net debt⁽²⁾	\$ 7,495	\$ 6,953	\$ 542
Adjusted EBITDA (trailing 12 months)	\$ 1,457	(1,464)	2,921
Net debt to adjusted EBITDA ratio⁽²⁾	5.1	NM⁽³⁾	NM

(1) Refer to section 12 "Accounting Policies" of this MD&A for a description of the change in presentation related to restricted cash and pursuant to which certain amounts have been reclassified to cash and cash equivalents with the 2021 comparative figures also reclassified.

(2) Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Net debt to adjusted EBITDA ratio (also referred to as "leverage ratio" in this MD&A) is a non-GAAP financial ratio and is used by Air Canada to measure financial leverage. For additional information on net debt, refer to section 20 "Non-GAAP Financial Measures" of this MD&A.

(3) NM denotes "not meaningful".

As at December 31, 2022, net debt of \$7,495 million increased \$542 million from December 31, 2021. The unfavourable impact of a weaker Canadian dollar at December 31, 2022 compared to December 31, 2021, increased foreign currency denominated debt (mainly U.S. dollars) by \$835 million. The change in long-term debt and lease liabilities also included \$1,814 million of repayments, comprised of regularly scheduled repayments and \$778 million for the repurchase of Convertible Notes.

8.4 WORKING CAPITAL

The table below provides information on Air Canada's working capital balances as at December 31, 2022 and as at December 31, 2021.

(Canadian dollars in millions)	December 31, 2022	December 31, 2021 ⁽¹⁾ Restated	\$ Change
Cash, cash equivalents and short-term investments	\$ 7,988	\$ 8,969	\$ (981)
Accounts receivable	1,037	691	346
Other current assets	640	393	247
Total current assets	\$ 9,665	\$ 10,053	\$ (388)
Accounts payable and accrued liabilities	2,691	2,603	88
Advance ticket sales	4,104	2,326	1,778
Aeroplan and other deferred revenues	1,295	983	312
Current portion of long-term debt and lease liabilities	1,263	1,012	251
Total current liabilities	\$ 9,353	\$ 6,924	\$ 2,429
Net working capital	\$ 312	\$ 3,129	\$ (2,817)

(1) Refer to section 12 "Accounting Policies" of this MD&A for a description of the change in presentation related to restricted cash and pursuant to which certain amounts have been reclassified to cash and cash equivalents with the 2021 comparative figures also reclassified.

Net working capital of \$312 million as at December 31, 2022 decreased \$2,817 million from December 31, 2021. This decrease was mainly due to a combination of net cash outflows relating to capital expenditures and debt repayments in 2022, partially offset by positive operating cash results. The increases in accounts receivable, other current assets and advance ticket sales are mainly driven by the passenger sales demand which is supported by the increased capacity.

8.5 CASH FLOW MOVEMENTS

The table below provides the cash flow movements for Air Canada for the periods indicated.

(Canadian dollars in millions)	FOURTH QUARTER			FULL YEAR		
	2022	2021 ⁽¹⁾ Restated	\$ Change	2022	2021 ⁽¹⁾ Restated	\$ Change
Net cash flows from (used in) operating activities	\$ 647	\$ 508	\$ 139	\$ 2,368	\$ (1,502)	\$ 3,870
Proceeds from borrowings	-	144	(144)	202	8,171	(7,969)
Reduction of long-term debt and lease liabilities	(740)	(276)	(464)	(1,814)	(4,510)	2,696
Issue of shares	2	1	1	6	555	(549)
Financing fees	(1)	(2)	1	(6)	(205)	199
Net cash flows from (used in) financing activities	\$ (739)	\$ (133)	\$ (606)	\$ (1,612)	\$ 4,011	\$ (5,623)
Investments, short-term and long-term	435	(913)	1,348	(959)	(862)	(97)
Additions to property, equipment and intangible assets	(327)	(378)	51	(1,572)	(1,073)	(499)
Proceeds from sale of assets	27	3	24	36	19	17
Proceeds from sale and leaseback of assets	-	-	-	-	11	(11)
Other	2	21	(19)	(3)	36	(39)
Net cash flows from (used in) investing activities	\$ 137	\$ (1,267)	\$ 1,404	\$ (2,498)	\$ (1,869)	\$ (629)
Effect of exchange rate changes on cash and cash equivalents	\$ 2	\$ (5)	\$ 7	\$ 20	\$ 11	\$ 9
Increase (decrease) in cash and cash equivalents	\$ 47	\$ (897)	\$ 944	\$ (1,722)	\$ 651	\$ (2,373)

(1) Refer to section 12 "Accounting Policies" of this MD&A for a description of the change in presentation related to restricted cash and pursuant to which certain amounts have been reclassified to cash and cash equivalents with the 2021 comparative figures also reclassified.

Net Cash Flows from (used in) Operating Activities

In 2022, net cash flows from operating activities of \$2,368 million improved by \$3,870 million from 2021. The improvement was due to a significant improvement in operating results and strong advance ticket sales results when compared to 2021. Additionally, 2021 included cash outflows from operating activities of \$1,273 million related to the refund of non-refundable fares.

Net Cash Flows from (used in) Financing Activities

In September 2022, Air Canada repurchased \$273 million (US\$207 million) aggregate principal amount of its outstanding 4.000% Convertible Senior Notes due 2025 for an aggregate cash repurchase price of approximately \$329 million (US\$249 million), including accrued interest. In December 2022, Air Canada repurchased an additional \$362 million (US\$266 million) aggregate principal amount of the outstanding Convertible Notes for an aggregate cash repurchase price of \$449 million (US\$330 million), including accrued interest. The 2021 financing activities included net proceeds of \$3.7 billion related to refinancing transactions completed in August 2021.

Net Cash Flows from (used in) Investing Activities

Net movements between cash and short and long-term investments amounted to \$435 million and (\$959) million during the fourth quarter of 2022 and the twelve months ended December 31, 2022, respectively. Additions to property, equipment and intangible assets of \$1,572 million in 2022 increased \$499 million from 2021. These additions relate mainly to aircraft acquisitions and related pre-delivery payments, capitalized maintenance, and technology projects.

Refer to sections 8.2 "Financial Position", 8.3 "Net Debt", and 8.4 "Working Capital" of this MD&A for additional information.

Free Cash Flow

The table below provides the calculation of free cash flow for Air Canada for the periods indicated.

(Canadian dollars in millions)	FOURTH QUARTER			FULL YEAR		
	2022	2021 Restated	\$ Change	2022	2021 Restated	\$ Change
Net cash flows from (used in) operating activities	\$ 647	\$ 508	\$ 139	\$ 2,368	\$ (1,502)	\$ 3,870
Additions to property, equipment, and intangible assets, net of proceeds from sale and leaseback transactions	(327)	(378)	51	(1,572)	(1,062)	(510)
Free cash flow ⁽¹⁾	\$ 320	\$ 130	\$ 190	\$ 796	\$ (2,564)	\$ 3,360

(1) Free cash flow is a non-GAAP financial measure used by Air Canada as an indicator of the financial strength and performance of its business, indicating how much cash it can generate from operations after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment, and intangible assets, net of proceeds from sale and leaseback transactions. Such measure is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 20 "Non-GAAP Financial Measures" of this MD&A for additional information.

Free cash flow of \$320 million in the fourth quarter of 2022 increased by \$190 million from the same period in 2021 mainly due to increased net cash from earnings. Free cash flow of \$796 million in 2022 improved \$3,360 million from 2021, reflecting higher net cash flows from operations as a result of an improved operating environment and strong advance ticket sales.

8.6 CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS

Airbus A321XLR Aircraft

Air Canada is acquiring 30 extra-long range (XLR) versions of the Airbus A321neo aircraft (Airbus A321XLR). Deliveries are now scheduled to begin in 2025 with the final aircraft scheduled to arrive in 2028. Of the 30 total aircraft, 20 aircraft will be leased and 10 are being acquired under a purchase agreement with Airbus S.A.S. that includes purchase rights to acquire up to an additional 15 aircraft between 2027 and 2030.

Airbus A220-300 Aircraft

Air Canada has an agreement with Airbus Canada for the purchase of Airbus A220-300 aircraft which provides for:

- Firm orders for 60 Airbus A220-300 aircraft.
- Purchase options for an additional 15 Airbus A220-300 aircraft.

Of the above mentioned 60 firm orders, 32 had been delivered as at December 31, 2022 with an additional aircraft delivered in January 2023. The 27 remaining firm orders (which arise from commitments in 2021 for two aircraft, in 2022 for 10 aircraft and the exercise of 15 options in the third quarter of 2022), planned deliveries are: six in 2024, six in 2025, and 15 in 2026.

Boeing 737 MAX

Air Canada's agreement with Boeing for the purchase of Boeing 737 MAX aircraft provides for:

- Firm orders for 40 Boeing 737 MAX 8 aircraft, which have all been delivered as at December 31, 2022.
- Purchase options for an additional 10 Boeing 737 MAX aircraft.

Boeing 787-9 Aircraft

Air Canada exercised options for the purchase of three Boeing 787-9 aircraft which are scheduled to be delivered in 2023 and 2024. Air Canada has no additional purchase options for Boeing 787 aircraft.

Boeing 767 Freighter Aircraft

Air Canada finalized an agreement for the purchase of two new Boeing 767 freighter aircraft which were delivered in the second quarter of 2022 and are expected to enter service in 2023. Air Canada expects to have a fleet of seven Boeing 767 freighters by the end of 2023, including the two aircraft delivered in 2022, and expects to add a further three Boeing 767 freighters between 2024 and 2025.

Boeing 777 Freighter Aircraft

Air Canada finalized an agreement for the purchase of two new Boeing 777 freighter aircraft with deliveries expected in 2024.

Heart Aerospace ES-30 Electric Aircraft

In the third quarter of 2022, Air Canada finalized a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. Due to the developing design and specifications of the aircraft, the final cost is not yet determinable and are not included in the table below, however the agreement provides for a price cap. The regional aircraft are expected to enter service in 2028. In addition to the purchase agreement, Air Canada has entered into an agreement providing for a \$7 million (US\$5 million) investment by Air Canada in Heart Aerospace.

Capital Commitments

As outlined in the table below, the estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments at December 31, 2022 amounted to \$7,789 million.

(Canadian dollars in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Committed expenditures	\$ 1,334	\$ 1,048	\$ 660	\$ 1,193	\$ 743	\$ 2,811	\$ 7,789
Projected planned but uncommitted expenditures	292	445	557	540	540	not available	not available
Projected planned but uncommitted capitalized maintenance ⁽¹⁾	388	514	485	450	450	not available	not available
Total projected expenditures⁽²⁾	\$ 2,014	\$ 2,007	\$ 1,702	\$ 2,183	\$ 1,733	not available	not available

(1) Future capitalized maintenance amounts for 2026 and beyond are not yet determinable, however estimates of \$450 million have been made for each of 2026 and 2027.

(2) U.S. dollar amounts are converted using the December 31, 2022 closing exchange rate of US\$1=C\$1.3554. 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 December 31, 2022.

8.7 PENSION FUNDING OBLIGATIONS

Air Canada maintains several defined benefit pension plans, including domestic registered pension plans and supplemental pension plans. Air Canada also sponsors several defined contribution pension plans and pension plans for foreign employees and contributes to some multi-employer pension plans. In addition, Air Canada has plans providing other retirement and post-employment benefits to its employees.

On a preliminary basis, at January 1, 2023, the aggregate solvency surplus in Air Canada's domestic registered pension plans was estimated at \$4.4 billion. The final valuations will be completed in the first half of 2023. As permitted by legislation and subject to applicable plan rules, amounts in excess of 105% on a solvency basis may be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan.

Total employer defined benefit pension funding contributions (including international and supplemental plans) amounted to \$89 million in 2022 and are forecasted to be \$88 million in 2023.

Net of the surplus in the defined benefit components which was used to fund the employer contribution to a defined contribution component within the same pension plan, total employer contributions for the defined contribution plans and multi-employer plans amounted to \$42 million in 2022 and are forecasted to be \$60 million in 2023.

At December 31, 2022, approximately 75% of Air Canada's pension assets in the domestic defined benefit plans were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk. Air Canada seeks to maintain a high percentage of long-term fixed income products to hedge pension liabilities.

Pension plan assets

Included in plan assets, for determining the net benefit obligation for accounting purposes, are 17,646,765 (2021 – 17,646,765) Class B voting shares of Air Canada which were issued to a trust in 2009 in connection with pension funding agreements reached with all of Air Canada's Canadian-based unions. The trust arrangement provides that proceeds of the sale of the trust shares will be retained and applied to reduce future pension solvency deficits, if any should materialize. In addition, for so long as the trust continues to hold at least 2% of Air Canada's issued and outstanding shares, the trustee will have the right to designate one nominee to the Board of Directors of Air Canada (who shall not be a member or officer of any of Air Canada's Canadian-based unions), subject to completion by Air Canada of its usual governance process for selection and confirmation of director nominees.

With Air Canada's domestic registered plans in a surplus position on a solvency basis, the accounting rules prevent the recognition of the value of the shares held in trust as part of the pension assets. The shares held in trust had a fair value of \$342 million at December 31, 2022 (2021 – \$373 million), however after giving effect to the asset ceiling, the recognized accounting value of the trust asset is nil.

In November 2021, Air Canada announced that its Canadian unions and the Air Canada Pionairs agreed in principle to permit certain other uses of the proceeds of the shares discussed above. If all conditions are met, shares in the trust will be gradually sold over a period of up to 15 years with the net proceeds from the sales used to make lump sum payments to Canadian pensioners and to fund voluntary separation packages for senior unionized employees and non-executive employees. Pursuant to the agreement in principle, the above-described right to designate one nominee for election to the Board of Directors of Air Canada would continue until the earlier of (i) January 1, 2030, or (ii) the date that Air Canada shares in trust represent 2% or less of Air Canada's issued and outstanding shares. There are several conditions to the completion of the agreement in principle and effecting such sales and payments. These include the conclusion of definitive documentation, and the receipt of all required regulatory and other approvals which remain outstanding. While the satisfaction of the conditions is being pursued, there can be no assurance that these or any other conditions will be satisfied.

8.8 CONTRACTUAL OBLIGATIONS

The table below provides Air Canada's projected contractual obligations as at December 31, 2022, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and lease liabilities and committed capital expenditures.

(Canadian dollars in millions)	2023	2024	2025	2026	2027	Thereafter	Total
PRINCIPAL							
Long-term debt ⁽¹⁾	\$ 713	\$ 525	\$ 1,276	\$ 2,548	\$ 1,182	\$ 7,479	\$ 13,723
Lease liabilities	550	501	471	331	273	912	3,038
Total principal obligations	\$ 1,263	\$ 1,026	\$ 1,747	\$ 2,879	\$ 1,455	\$ 8,391	\$ 16,761
INTEREST							
Long-term debt	\$ 711	\$ 680	\$ 643	\$ 574	\$ 472	\$ 514	\$ 3,594
Lease liabilities	152	123	98	76	59	321	829
Total interest obligations	\$ 863	\$ 803	\$ 741	\$ 650	\$ 531	\$ 835	\$ 4,423
Total long-term debt and lease liabilities	\$ 2,126	\$ 1,829	\$ 2,488	\$ 3,529	\$ 1,986	\$ 9,226	\$ 21,184
Committed capital expenditures	\$ 1,334	\$ 1,048	\$ 660	\$ 1,193	\$ 743	\$ 2,811	\$ 7,789
Total contractual obligations⁽²⁾	\$ 3,460	\$ 2,877	\$ 3,148	\$ 4,722	\$ 2,729	\$ 12,037	\$ 28,973

(1) Assumes the principal balance of the convertible notes, \$372 million (US\$274 million), remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of \$1,273 million for the unsecured credit facility in connection with the Government of Canada financing to support customer refunds is included.

(2) Total contractual obligations exclude commitments for goods and services required in the ordinary course of business. Also excluded are long-term liabilities other than long-term debt and lease liabilities due to reasons of uncertainty of timing of cash flows and items that are non-cash in nature.

8.9 SHARE INFORMATION

The issued and outstanding shares of Air Canada, along with shares potentially issuable, as of the dates indicated below, are as follows:

	December 31, 2022	December 31, 2021
ISSUED AND OUTSTANDING SHARES		
Class A variable voting shares	72,431,001	82,897,507
Class B voting shares	285,931,257	274,944,350
Total issued and outstanding shares	358,362,258	357,841,857
CLASS A VARIABLE VOTING AND CLASS B VOTING SHARES POTENTIALLY ISSUABLE		
Convertible notes	17,856,599	48,687,441
Warrants	-	7,288,282
Stock options	5,304,745	4,420,051
Total shares potentially issuable	23,161,344	60,395,774
Total outstanding and potentially issuable shares	381,523,602	418,237,631

Warrants

In April 2021, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada (acting through Canada Enterprise Emergency Funding Corporation), including the issuance of shares and warrants. Air Canada exercised its call right to purchase and cancel the 7,288,282 vested warrants at fair market value of \$82 million, with settlement completed in January 2022.

Convertible Notes

In June 2020, Air Canada closed US\$748 million (\$1,011 million) of convertible unsecured notes (Convertible Notes), for net proceeds of \$986 million. The Convertible Notes bear interest semi-annually in arrears at a rate of 4.0% per annum and will mature on July 1, 2025, unless earlier repurchased, redeemed or converted. The initial conversion rate of the Convertible Notes is 65.1337 shares per US\$1,000 principal amount of Convertible Notes, or an initial conversion price of approximately US\$15.35 per share. The Convertible Notes are convertible at the Corporation's election, into cash, or into Class A Variable Voting shares and/or Class B Voting shares of the Corporation, or a combination of cash and shares. The Convertible Notes are convertible prior to the close of business on the business day immediately preceding March 1, 2025 only under the circumstances and subject to satisfaction of the conversion conditions set out in the indenture for the Convertible Notes, and at any time on or after March 1, 2025 until the close of business on the second scheduled trading day immediately preceding July 1, 2025, the maturity date of the Notes, regardless of the foregoing conditions, in each case at the option of the noteholders.

In 2022, Air Canada repurchased and cancelled \$635 million (US\$473 million) aggregate principal amount of its outstanding Convertible Notes. As at December 31, 2022, a total of \$372 million (US\$274 million) aggregate principal amount of Convertible Notes remains outstanding.

9 | QUARTERLY FINANCIAL DATA

The table below summarizes quarterly financial results for Air Canada for the last eight quarters.

(Canadian dollars in millions, except per share figures)	2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenues	\$ 729	\$ 837	\$ 2,103	\$ 2,731	\$ 2,573	\$ 3,981	5,322	\$ 4,680
Operating expenses	1,778	1,970	2,467	3,234	3,123	4,234	4,678	4,708
Operating income (loss)	(1,049)	(1,133)	(364)	(503)	(550)	(253)	644	(28)
Non-operating income (expense)	(338)	(165)	(315)	(114)	(264)	(99)	(1,148)	174
Income (loss) before income taxes	(1,387)	(1,298)	(679)	(617)	(814)	(352)	(504)	146
Income tax recovery (expense)	83	133	39	124	(160)	(34)	(4)	22
Net income (loss)	\$ (1,304)	\$ (1,165)	\$ (640)	\$ (493)	\$ (974)	\$ (386)	\$ (508)	\$ 168
Diluted earnings (loss) per share	\$ (3.90)	\$ (3.31)	\$ (1.79)	\$ (1.38)	\$ (2.72)	\$ (1.60)	\$ (1.42)	\$ 0.41
Adjusted EBITDA⁽¹⁾	\$ (763)	\$ (656)	\$ (67)	\$ 22	\$ (143)	\$ 154	\$ 1,057	\$ 389
Adjusted pre-tax income (loss)⁽¹⁾	\$ (1,335)	\$ (1,210)	\$ (649)	\$ (574)	\$ (740)	\$ (447)	\$ 446	\$ (211)
Adjusted net income (loss)⁽¹⁾	\$ (1,332)	\$ (1,207)	\$ (652)	\$ (577)	\$ (747)	\$ (455)	\$ 431	\$ (217)
Adjusted earnings (loss) per share – diluted⁽¹⁾	\$ (3.98)	\$ (3.40)	\$ (1.82)	\$ (1.61)	\$ (2.09)	\$ (1.12)	\$ 1.07	\$ (0.61)

(1) Adjusted EBITDA, adjusted pre-tax income (loss) and adjusted net income (loss) are non-GAAP financial measures. Adjusted earnings (loss) per share is a non-GAAP financial ratio. For additional information, refer to section 20 "Non-GAAP Financial Measures" of this MD&A.

10 | SELECTED ANNUAL INFORMATION

(Canadian dollars in millions, except per share figures)

	FULL YEAR		
	2022	2021	2020
Operating revenues	\$ 16,556	\$ 6,400	\$ 5,833
Operating expenses	16,743	9,449	9,609
Operating loss	(187)	(3,049)	(3,776)
Loss before income taxes	(1,524)	(3,981)	(4,853)
Income tax recovery (expense)	(176)	379	206
Net loss	\$ (1,700)	\$ (3,602)	\$ (4,647)
Basic loss per share	\$ (4.75)	\$ (10.25)	\$ (16.47)
Diluted loss per share	\$ (4.75)	\$ (10.25)	\$ (16.47)
Adjusted EBITDA ⁽¹⁾	\$ 1,457	\$ (1,464)	\$ (2,043)
Adjusted pre-tax loss ⁽¹⁾	\$ (952)	\$ (3,768)	\$ (4,425)
Adjusted net loss ⁽¹⁾	\$ (988)	\$ (3,768)	\$ (4,389)
Adjusted loss per share – diluted ⁽¹⁾	\$ (2.76)	\$ (10.74)	\$ (15.56)
Cash, cash equivalents and short-term investments ⁽²⁾	\$ 7,988	\$ 8,969	\$ 7,607
Total assets	\$ 29,507	\$ 30,614	\$ 28,913
Total long-term liabilities	\$ 21,709	\$ 23,681	\$ 20,059
Total liabilities	\$ 31,062	\$ 30,605	\$ 27,198

(1) Adjusted EBITDA, adjusted pre-tax income (loss) and adjusted net income (loss) are non-GAAP financial measures. Adjusted earnings (loss) per share is a non-GAAP financial ratio. For additional information, refer to section 20 "Non-GAAP Financial Measures" of this MD&A.

(2) Refer to section 12 "Accounting Policies" of this MD&A for a description of the change in presentation related to restricted cash and pursuant to which certain amounts have been reclassified to cash and cash equivalents with the 2021 and 2020 comparative figures also reclassified.

11 | FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Gain (Loss) on Financial Instruments Recorded at Fair Value

The following is a summary of gains (losses) on financial instruments recorded at fair value included in non-operating income (expense) on Air Canada's consolidated statement of operations for the periods indicated.

(Canadian dollars in millions)	FOURTH QUARTER		FULL YEAR	
	2022	2021	2022	2021
Embedded derivative on convertible notes	\$ 45	\$ 64	\$ 219	\$ (45)
Short-term investments	(2)	(5)	(86)	(36)
Warrants	-	2	-	27
Share forward contracts	1	(2)	-	(1)
Gain (loss) on financial instruments recorded at fair value	\$ 44	\$ 59	\$ 133	\$ (55)

As described in section 8.9 "Share Information" of this MD&A, Air Canada exercised its call right to purchase and cancel the 7,288,282 vested warrants at fair market value of \$82 million, with settlement completed in January 2022.

Risk Management

Under its risk management policy, Air Canada manages its market risk through the use of various financial derivative instruments. Air Canada uses these instruments solely for risk management purposes, not for generating trading profit. As such, any change in cash flows associated with derivative instruments is designed to be an economic hedge and offset by changes in cash flows of the relevant risk being hedged.

The fair values of derivative instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair value of these derivatives is determined using prices in active markets, where available. When no such market is available, valuation techniques such as discounted cash flow analysis are applied. The valuation technique incorporates all factors that would be considered in setting a price, including Air Canada's own credit risk as well as the credit risk of the counterparty.

Fuel Price Risk Management

Fuel price risk is the risk that future cash flows will fluctuate because of changes in jet fuel prices. To manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, the Corporation can elect to enter into derivative contracts with financial intermediaries. The Corporation may use derivative contracts based on jet fuel, heating oil and crude-oil based contracts. The Corporation's policy permits hedging of up to 75% of the projected jet fuel purchases for the current calendar year, 50% of the projected jet fuel purchases for the next calendar year, and 25% of projected jet fuel purchases for any calendar year thereafter. These are maximum (but not mandated) limits. There is no minimum monthly hedging requirement. There are regular reviews to adjust the strategy in light of market conditions.

There was no fuel hedging activity during 2022 or 2021.

Foreign Exchange Risk

Air Canada's financial results are reported in Canadian dollars, while a large portion of its expenses, debt obligations and capital commitments are in foreign currencies, primarily in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. Air Canada's risk management objective is to reduce cash flow risk related to foreign denominated cash flows.

Air Canada generates certain sales in U.S. dollars and in other foreign currencies which are converted to U.S. dollars under Air Canada's risk management program. In 2022, these net operating cash inflows totalled approximately US\$3.8 billion and U.S. denominated operating costs amounted to approximately US\$7.4 billion. Non-operating cash outflows in U.S. dollars, primarily related to interest payments on U.S. dollar denominated debt and net financing outflows, amounted to approximately US\$2.4 billion. In 2022, this resulted in a U.S. dollar net cash flow exposure of approximately US\$6.0 billion.

Air Canada has a target coverage of 60% on a rolling 18-month basis to manage the net U.S. dollar cash flow exposure described above utilizing the following risk management strategies:

- Holding U.S. dollar cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash, short and long-term investment balances as at December 31, 2022 amounted to \$693 million (US\$511 million) (\$1,403 million (US\$1,110 million) as at December 31, 2021). A portion of the cash and investment reserves are an economic hedge against long-term U.S. dollar debt while the remainder of the cash is operational cash and investment reserves which are applied against the rolling 18-month net U.S. dollar cash flow exposure. In 2022, a gain of \$72 million (gain of \$10 million in 2021) was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short and long-term investment balances held.
- Locking in the foreign exchange rate through the use of a variety of foreign exchange derivatives which have maturity dates corresponding to the forecasted dates of U.S. dollar net outflows.

The level of foreign exchange derivatives entered into and their related maturity dates are dependent upon a number of factors, which include the amount of foreign revenue conversion available, U.S. dollar net cash outflows, as well as the amount attributed to aircraft and debt payments.

Based on the notional amount of currency derivatives outstanding at December 31, 2022, as further described below, approximately 69% of net U.S. cash outflows are hedged for 2023 and 43% for 2024, resulting in derivative coverage of 60% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 60% coverage.

As at December 31, 2022, Air Canada had outstanding foreign currency options and swap agreements, settling in 2023 and 2024, to purchase at maturity \$5,798 million (US\$4,310 million) of U.S. dollars at a weighted average rate of \$1.2986 per US\$1.00 (2021 – \$2,423 million (US\$1,925 million) with settlements in 2022 and 2023 at a weighted average rate of \$1.2742 per \$1.00 U.S. dollar). Air Canada also has protection in place to sell a portion of its excess Euros, Sterling, YEN, YUAN, and AUD (EUR €198 million, GBP £244 million, JPY ¥17,405 million, CNH ¥355 million and AUD \$126 million) which settle in 2023 and 2024 at weighted average rates of €1.0828, £1.2467, ¥0.0082, ¥0.1419, and AUD \$0.7072 per \$1.00 U.S. dollar, respectively (as at December 31, 2021 – EUR €260 million, GBP £56 million, JPY ¥4,577 million, CNH ¥31 million and AUD \$36 million with settlement in 2022 and 2023 at weighted average rates of €1.1704, £1.4125, ¥0.0092, ¥0.1471, and AUD \$0.7300 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 December 31, 2022 was \$140 million in favour of the counterparties (2021 – \$268 million in favour of the counterparties). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During 2022, a gain of \$174 million was recorded in Foreign exchange gain (loss) related to these derivatives (2021 – \$114 million loss). In 2022, foreign exchange derivative contracts cash settled with a net fair value of \$46 million in favour of Air Canada (2021 – \$437 million in favour of the counterparties).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Air Canada enters into both fixed and floating rate debt and also leases certain assets where the rental amount fluctuates based on changes in short term interest rates. Air Canada manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to Air Canada. The cash and short-term investment portfolio which earns a floating rate of return is an economic hedge for a portion of the floating rate debt.

The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in the Corporation's capital structure and is based upon a long-term objective of 60% fixed and 40% floating but allows flexibility to adjust to prevailing market conditions. The ratio at December 31, 2022 is 71% fixed and 29% floating (73% and 27%, respectively as at December 31, 2021).

12 | ACCOUNTING POLICIES

Information on Air Canada's accounting policies is provided in Note 2 of Air Canada's audited consolidated financial statements and notes for 2022, including future changes in accounting policies for amendments to standards not yet effective. Information on the initial application of an interpretation on IAS 7 Statement of Cash Flows is provided below. Presentation changes made in the consolidated statement of operations for costs related to capacity purchase agreements and figures previously classified as special items is described below. Comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

IAS 7 Statement of Cash Flows

In 2022, the IFRS Interpretations Committee finalized its decision on IAS 7 Statement of Cash Flows that restrictions on the use of demand deposits arising from a contract with a third party do not preclude those deposits from being classified as cash and cash equivalents when they are available to the company on demand. Such deposits should therefore be included in cash and cash equivalents in the statements of cash flows and financial position, with disclosure provided on significant cash and cash equivalents balances with restrictions on use.

Previously, Air Canada recorded restricted cash under current assets representing funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. While these funds are in trust pursuant to the applicable regulations, Air Canada may access these funds as services are rendered or as disbursements are made on behalf of the customer. As a result of this guidance on application of IAS 7 Statement of Cash Flows, Air Canada has reclassified these amounts to Cash and cash equivalents with the 2021 comparative figures also reclassified. The presentation change impacted cash flows from operating activities, with an increase of \$61 million for the year ended December 31, 2021. Cash and cash equivalents include \$386 million related to these funds at December 31, 2022 (\$167 million at December 31, 2021).

Capacity purchase agreements

Previously, operating expenses under capacity purchase agreements, were aggregated in a separate line item in the consolidated statement of operations titled Regional airlines expense, and included the capacity purchase fees, pass-through costs, which are direct costs incurred by the regional carrier and charged to Air Canada and other costs incurred by Air Canada which are directly related to regional carrier operations, excluding fuel.

For the year ended December 31, 2022, these costs are no longer allocated to regional airline expenses on the consolidated statement of operations. Capacity purchase fees are now presented as a separate line item in the consolidated statement of operations and continue to exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16. This reclassification provides improved presentation of the total cost by nature of each expense associated with Air Canada's operations. This presentation change has no impact on total operating expenses.

Reclassification of certain operating expenses

Figures previously classified as special items in the consolidated statement of operations have been reclassified to Wages, salaries and benefits, Restructuring and transaction costs, and Impairment of assets. The nature of transactions included in these items are further described in Sections 5 and 6 "Results of Operations". This change in presentation did not change any subtotals within the consolidated statement of operations, nor any other line items presented.

These presentation changes impacted Air Canada's previously reported consolidated statement of operations as presented in the following table. Line items that were not affected by the presentation change have not been included in the table below. As a result, the total operating expenses cannot be recalculated from the table provided.

(Canadian dollars in millions)	For the year ended Dec. 31, 2021 as previously reported	Reclassification for Regional airlines expense	Reclassification for Special items	For the year ended Dec. 31, 2021 as restated
OPERATING EXPENSES				
Wages, salaries and benefits	\$ 2,283	\$ 104	\$ (244)	\$ 2,143
Regional airlines expense, excluding fuel	1,042	(1,042)		-
Airport and navigation fees	562	161		723
Sales and distribution costs	244	42		286
Capacity purchase fees	-	558		558
Aircraft maintenance	656	55		711
Communications and information technology	362	11		373
Catering and onboard services	165	19		184
Special items	(31)		31	-
Impairment of assets	-		38	38
Restructuring and transaction costs	-		175	175
Other	854	92		946
Total operating expenses	\$ 9,449	\$ -	\$ -	\$ 9,449

The \$244 million reclassification to Wages, salaries and benefit is comprised of a credit of \$451 million government wage subsidy offset by \$82 million for benefit plan amendments and \$125 million for a benefit plan settlement. These items are further described in Notes 2Z and 10 to Air Canada's 2022 annual consolidated financial statements dated February 17, 2023.

13 | CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates are those estimates of management that are most important to the portrayal of Air Canada's financial condition and results of operations. They require management's most difficult, subjective or complex judgments, often because of the need to make estimates and judgments about the effect of matters that are inherently uncertain. Actual results could differ materially from those estimates and judgments.

Significant estimates and judgments made in the preparation of Air Canada's consolidated financial statements include, but are not limited to, the following areas.

Impairment Considerations on Long-lived Assets

When required, an impairment test is performed by comparing the carrying amount of the asset or cash-generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to dispose and its value in use. Fair value less costs to dispose may be calculated based upon a discounted cash flow analysis, which requires management to make a number of significant market participant assumptions including assumptions relating to cash flow projections, discount rates and future growth rates.

Aeroplan Loyalty Program

Loyalty program accounting requires management to make several estimates including the ETV of Aeroplan Points issued and the breakage on Aeroplan Points. The ETV of Aeroplan Points issued is determined based on the value a passenger receives by redeeming Points for a ticket rather than paying cash. This ETV is estimated with reference to historical Aeroplan redemptions as compared to equivalent ticket purchases after considering similar fare conditions, advance booking periods and other relevant factors including the selling price of Points to third parties. ETV estimates and assumptions are considered for updates at least annually. A change in the ETV rate is accounted for prospectively.

Breakage represents the estimated Points that are not expected to be redeemed. 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 future redemptions. Management uses statistical and simulation

models to estimate breakage. A change in assumptions as to the number of Points expected to be redeemed could have a significant impact on revenue in the year in which the change occurs. Given the unique impact of the COVID-19 pandemic on travel demand and consumer spending patterns, and considering the launch of the new Aeroplan program in 2020 and the special benefits and accommodations for Aeroplan members in response to the COVID-19 pandemic, the breakage estimate is unchanged in 2022 and is based on a qualitative update of the prior assessment. In addition, the estimate is based on management's long-term expectations of breakage over the life of the program.

As at December 31, 2022, the Aeroplan points deferred revenue balance was \$3,409 million. For illustrative purposes, a hypothetical 1% change in the number of outstanding points estimated to be redeemed would result in an approximate impact of \$34 million on revenue with a corresponding adjustment to Aeroplan deferred revenue.

Breakage

Breakage estimates and resulting amount of breakage revenues recorded are estimated based on historical breakage patterns and are subject to measurement uncertainty. Estimates of breakage may vary in future periods. These estimates have been impacted by the COVID-19 pandemic including: (i) flight cancellations, (ii) the conversion of certain tickets into non-expiring travel vouchers for flights that were cancelled with travel dates after February 1, 2020 and purchased before April 13, 2021, and (iii) changes in ticket usage and exchange patterns.

Depreciation and Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current and future fair values of the assets, the Corporation's fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in jet fuel prices and other operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are

accounted for on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on aircraft with remaining useful lives greater than five years results in an increase of \$15 million to annual depreciation expense. For aircraft with shorter remaining useful lives, the residual values are not expected to change significantly.

Maintenance Provisions

The recording of maintenance provisions related to return conditions on aircraft leases requires management to make estimates of the future costs associated with the maintenance events required under the lease return condition and estimates of the expected future maintenance condition of the aircraft at the time of lease expiry. These estimates take into account current costs of these maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Any difference in the actual maintenance cost incurred at the end of the lease and the amount of the provision is recorded in Aircraft maintenance expense in the period. The effect of any changes in estimates, including changes in discount rates, inflation assumptions, cost estimates or lease expiries, is recognized as an adjustment to the right-of-use asset.

Employee Future Benefits

The cost and related liabilities of the Corporation's pension, other post-retirement and post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions and estimates including discount rates and mortality assumptions. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty.

Assumptions

Management is required to make estimates about actuarial and financial assumptions to determine the cost and related liabilities of Air Canada's employee future benefits.

Discount Rate

The discount rate used to determine the pension obligation was determined by reference to market interest rates on corporate bonds rated "AA" or better with cash flows that approximate the timing and amount of expected benefit payments.

Future Increases in Compensation

Estimates surrounding assumptions of future increases in compensation are based upon the current compensation policies, Air Canada's long-range plans, labour and employment agreements and economic forecasts.

Mortality Assumptions

Mortality tables and improvement scales issued by the Canadian Institute of Actuaries (revised in 2014) were taken into account in selecting management's best estimate mortality assumption used to calculate the accrued benefit obligation as at December 31, 2022 and 2021.

The weighted average assumptions used to determine the Corporation's accrued benefit obligations and cost are as follows:

	PENSION BENEFITS		OTHER EMPLOYEE FUTURE BENEFITS	
	2022	2021	2022	2021
Discount rate used to determine:				
Net interest on the net defined benefit obligation for the year ended December 31	3.20%	2.82% ⁽¹⁾	3.20%	2.59%
Service cost for the year ended December 31	3.37%	3.10% ⁽¹⁾	3.37%	3.16% ⁽¹⁾
Accrued benefit obligation as at December 31	5.28%	3.20%	5.28%	3.20%
Rate of future increases in compensation used to determine:				
Accrued benefit cost and service cost for the year ended December 31	2.50%	2.50%	Not applicable	Not applicable
Accrued benefit obligation as at December 31	2.75%	2.50%	Not applicable	Not applicable

(1) Weighted average reflecting re-measurements during the year due to items related to early retirement incentive programs.

Sensitivity Analysis

Sensitivity analysis is based on changing one assumption while holding all other assumptions constant. In practice, this may be unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated statement of financial position.

Sensitivity analysis on 2022 pension expense and net financing expense relating to pension benefit liabilities, based on different actuarial assumptions with respect to discount rate is set out below. The effects on each pension plan of a change in an assumption are weighted proportionately to the total plan obligation to determine the total impact for each assumption presented.

(Canadian dollars in millions)	0.25 PERCENTAGE POINT	
	Decrease	Increase
Discount rate on obligation assumption		
Pension expense	\$ 15	\$ (15)
Net interest relating to pension benefit liabilities	10	(10)
Total	\$ 25	\$ (25)
Increase (decrease) in pension obligation		
	\$ 536	\$ (520)

The increase (decrease) in the pension obligation for a 0.25-percentage-point change in the discount rate relates to the gross amount of the pension liabilities and is before the impact of any change in plan assets. As at December 31, 2022, approximately 75% of Air Canada's pension assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk.

An increase of one year in life expectancy would increase the pension benefit obligation by \$399 million.

Assumed health care cost trend rates impact the amounts reported for the health care plans. A 4.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2022 (2021 – 5%). The rate is assumed to decrease to 4.5% in 2023 and thereafter (2021 – assumed to decrease gradually to 4.5% by 2023). A one-percentage-point increase in assumed health care trend rates would have increased the total of current service and interest costs by \$7 million and the obligation by \$56 million. A one-percentage-point decrease in assumed health care trend rates would have decreased the total of current service and interest costs by \$6 million and the obligation by \$58 million.

A 0.25-percentage-point decrease in discount rate for other employee future benefits would have increased the total of current and interest costs by less than \$1 million and the obligation by \$32 million. A 0.25-percentage-point increase in discount rate would have decreased the total of current and interest costs by less than \$1 million and the obligation by \$30 million.

14 | OFF-BALANCE SHEET ARRANGEMENTS

Guarantees

Air Canada participates in fuel facility arrangements operated through nine Fuel Facility Corporations, and three aircraft de-icing service facilities, along with other airlines that contract for fuel and de-icing services at various major airports in Canada. These entities operate on a cost recovery basis. The aggregate debt of these entities that has not been consolidated by the Corporation under IFRS 10 Consolidated Financial Statements is approximately \$1,181 million as at December 31, 2022 (December 31, 2021 – \$1,038 million), which is Air Canada's maximum exposure to loss before taking into consideration the value of the assets that secure the obligations and any cost sharing that would occur among the other contracting airlines. Air Canada views this loss potential as remote. Each contracting airline participating in these entities shares pro rata, based on system usage, in the guarantee of this debt. The maturities of these debt arrangements vary but generally extend beyond five years.

Indemnification Agreements

In the ordinary course of Air Canada's business, Air Canada enters into a variety of agreements, such as real estate leases or operating agreements, aircraft financing or leasing agreements, technical service agreements, and director/officer contracts, and other commercial agreements, some of which may provide for indemnifications to counterparties that may require Air Canada to pay for costs and/or losses incurred by such counterparties. Air Canada cannot reasonably estimate the potential amount, if any, it could be required to pay under such indemnifications. Such amount would also depend on the outcome of future events and conditions, which cannot be predicted. While certain agreements specify a maximum potential exposure, certain others do not specify a maximum amount or a limited period. Historically, Air Canada has not made any significant payments under these indemnifications.

Air Canada expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities.

15 | RELATED PARTY TRANSACTIONS

At December 31, 2022, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

16 | SENSITIVITY OF RESULTS

Air Canada's financial results are subject to many different internal and external factors which can have a significant impact on operating results. The following table describes, on an indicative basis, the financial impact that changes in fuel prices and the value of the Canadian dollar would generally have had on Air Canada's past operating results. An equivalent but opposite movement of the sensitivity factor in the table below would have generally resulted in a similar but opposite impact. These guidelines were derived from 2022 levels of activity and are based on management estimates. The impacts are not additive, do not reflect the interdependent relationship of the elements and may not be indicative of future trends or results which may vary significantly due to a wide range of factors many of which are beyond the control of Air Canada.

Key Variable	2022 Measure	Sensitivity Factor	Favourable/(Unfavourable) Estimated Operating Income Impact/Pre-tax Income (Canadian dollars in millions)
FUEL			
Fuel – Jet fuel price (US\$/barrel) ⁽¹⁾	\$154.3	US\$1/barrel increase	\$ (42)
Fuel – Jet fuel price (C\$/litre) ⁽¹⁾	\$1.30	1% increase	\$ (65)
CURRENCY EXCHANGE			
C\$ to US\$	US\$1=C\$1.33	1 cent appreciation (i.e. from \$1.34 to \$1.33 per US\$)	
		Operating income ⁽²⁾	\$ 36
		Net interest expense	5
		Revaluation of long-term debt and lease liabilities, U.S. dollar cash, cash equivalents and short-term investments, and other long-term monetary items, net	89
		Remeasurement of outstanding currency derivatives	(43)
		Pre-tax income impact	\$ 87

(1) Excludes the impact of carrier surcharges and fuel hedging (if any).

(2) The operating income impact of currency exchange movements is before the impact of hedging activities, such as through the use of foreign currency derivatives and holding U.S. dollar cash reserves. The gains and losses related to these hedging activities are recorded in non-operating income (expense) on Air Canada's consolidated statement of operations.

Overview

The management of opportunities and risks is an integral part of Air Canada's business processes. Strategic decisions are made by the executive team with consideration of risk implications to the business and its stakeholders. Risks which may be material to Air Canada are identified and monitored on an on-going basis through Air Canada's Enterprise Risk Management (ERM) program which provides insight on a regular basis to the Board of Directors through the Board's Audit, Finance and Risk Committee.

Board Oversight

Risk management is an integral part of Air Canada's corporate governance. The Board of Directors has established board committees (Audit, Finance and Risk Committee; Safety, Health, Environment and Security Committee; Governance and Nominating Committee; and Human Resources and Compensation Committee) to assist in the oversight responsibilities.

Risk information is reviewed by the Board or the relevant Board committee on a quarterly basis. In addition, Board committees review and discuss with management, on a regular basis, all key enterprise risk exposures based on their respective terms of reference set out in committee charters and the steps taken that seek to monitor/control and mitigate those exposures to satisfy themselves as to the effective risk management of the individual risks. These processes seek to appropriately mitigate rather than eliminate risk.

The Audit, Finance and Risk Committee is responsible for the oversight of the ERM program and the work carried out by the Corporate Audit and Advisory department, as stated in its committee charter.

ERM risk reporting is maintained by the Corporate Audit and Advisory department, which provides an independent update as to the state of each enterprise risk on a quarterly basis.

Risk Management Framework and Structure

Air Canada's enterprise risk management framework has been developed to support governance and oversight over Air Canada's most important strategic risks and is aligned to the ISO 31000 standard and COSO ERM 2017 framework.

Formal policies and management committees are in place to manage specific risks such as safety, security, fraud, information security, privacy, environment and fuel price.

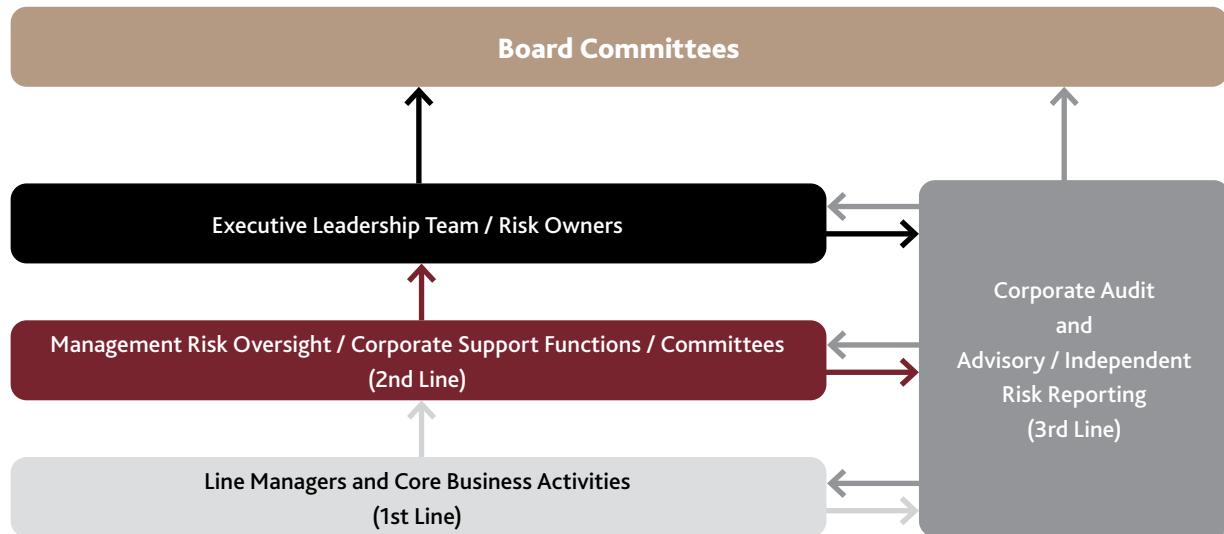
Sound business practices and ethical behaviour are also fundamental to Air Canada's risk governance culture.

Air Canada has in place (and updates, as required) a Corporate Policy and Guidelines on Business Conduct (Code of Conduct), which sets out guiding principles and ethical standards that apply to all Air Canada's corporate activities. A confidential, anonymous reporting process and ethics committee are also in place to oversee adherence to the Code of Conduct.

Air Canada's risk management structure is aligned with the "Three Lines Model" approach to risk management:

- **1st line** – Business functions are expected to integrate risk management when performing their day-to-day core commercial and operational activities.
- **2nd line** – Support functions establish policies, provide guidance and expertise, and risk oversight (e.g. Safety, Security, Legal and Compliance, Finance/Treasury/ Tax, Sourcing and Procurement, Government Affairs, People, Environment, IT Operations and IT Security).
- **3rd line** – Corporate Audit and Advisory department provides an independent and objective perspective on Air Canada's governance, risk management practices and controls.

Air Canada's ERM and governance structure is as follows:



Although the risk management framework described in this section is aligned with industry best practices, there can be no assurance that it will be sufficient to prevent the occurrence of events that could have a material adverse effect on our financial position, financial performance, cash flows, business or reputation.

18 | RISK FACTORS

The risks described below should be read carefully when evaluating Air Canada's business and the forward-looking statements contained in this report and other statements Air Canada may make from time to time. Any of these risks, individually or in combination, could materially and adversely affect Air Canada's business, results from operations, financial condition and the outcome of matters as to which forward-looking statements are made. Should a risk materialize, circumstances at the time may also cause that risk to have a different impact than that which might otherwise have been expected. In addition, these risks may not be the only risks faced by Air Canada. Other risks of which Air Canada is not aware or which Air Canada currently deems not to be material may surface and have a material and adverse impact on Air Canada, its business, results from operations, financial condition and the outcome of matters as to which forward-looking statements are made.

Economic and geopolitical conditions – Changes in economic and geopolitical conditions could have a material adverse effect on Air Canada, its business, results from operations and financial condition

Air Canada's results from operations, like those of other airlines, are sensitive to and may be significantly impacted by economic and geopolitical conditions, which may impact demand for air transportation in general or to or from certain destinations, operating costs, operating revenues, costs and availability of fuel, foreign exchange costs, tax costs and costs and availability of capital and supplies. Any prolonged or significant impact arising from economic and geopolitical conditions, including in relation to the COVID-19 pandemic (or emergence of a new pandemic), the military conflict between Russia and Ukraine (which is also causing overflight restrictions and impacting Air Canada's ability to operate certain routes optimally or at all), ongoing geopolitical conflicts and civil unrest, and the related response and restrictions imposed by various governments and authorities (or lack thereof), weakness of the Canadian, U.S. or world economies, inflation, changes to political, economic, fiscal or trade relationships within or between jurisdictions where Air Canada operates flights or does business, or threatened or actual outbreaks of hostilities in or adjacent to regions Air Canada serves or over which it operates flights or does business could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Operating results – Air Canada may sustain significant losses and not be able to successfully achieve and/or sustain positive net profitability or realize the objectives of any or all its initiatives

A variety of factors, including economic conditions and other factors described in this MD&A, may result in Air Canada incurring significant losses. The airline industry has historically been characterized by low profit margins and high fixed costs, and the costs of operating a flight do not vary significantly with the number of passengers carried. Therefore, a change in the number of passengers, fare pricing, margins or traffic mix, or increased costs, could have a significant impact on Air Canada's operating and financial results. Due to the competitive nature of the airline industry and customer sensitivity to travel costs, Air Canada may not be able to pass on cost increases to its customers. Despite a focus on improving resiliency to downturns in its business as well as ongoing and planned strategic and business initiatives, Air Canada may not be able to successfully achieve and/or sustain positive net profitability or realize all of its objectives, including those that seek to increase revenues, decrease costs, improve margins, profitably deploy additional capacity, generate sufficient returns on its capital expenditures or offset or mitigate risks facing Air Canada, including those described in this MD&A.

Fares and market demand – Fluctuations in fares and demand for air travel could materially adversely impact Air Canada, its business, results from operations and financial condition

Air Canada fares and passenger demand, like those of other airlines, have fluctuated significantly in the past and may fluctuate significantly in the future, including due to the impact of the COVID-19 pandemic. Air Canada cannot predict with certainty market conditions and the fares that Air Canada may be able to charge. Customer expectations and perception can change rapidly due to many factors, and the demand for lower fares or alternative modes of transportation may impact revenues. Travel, especially leisure travel, is a discretionary consumer expense. Demand for business and premium travel is also impacted by a variety of factors such as economic and geopolitical conditions and the COVID-19 pandemic. Many factors such as epidemic diseases, depressed economic conditions, geopolitical instability and concerns about the environmental impacts of air travel and tendencies toward

less environmentally impactful travel, could each have the effect of reducing demand for air travel and fares and could materially adversely impact Air Canada, its business, results from operations and financial condition.

Competition – Air Canada operates in a highly competitive environment and faces increasing competition in Canada, North America and internationally

Air Canada operates within a highly competitive industry and continuously encounters substantial price competition. Carriers, including low-cost, ultra-low-cost, domestic, U.S. and foreign carriers, have entered, announced their intention to enter or continue to enter or expand into markets Air Canada operates in or plans to operate in, including domestic, U.S. transborder, international and leisure-oriented markets, as well as cargo transportation markets, including and more recently as a result of potential and changing opportunities created by the COVID-19 pandemic.

Certain carriers against which Air Canada competes have received airline sector-specific government aid in relation to the COVID-19 pandemic that may strengthen their ability to compete, including against airlines that have not received, or that have not made use of, such (or as much) government support. Carriers against which Air Canada competes, including U.S. and Canadian carriers, may also undergo (and some have undergone) substantial reorganizations (including by way of merger with or acquisition by another carrier or entity), creating greater access to capital, reduced levels of indebtedness, lower operating costs and other competitive advantages, and may therefore be able to more effectively compete against Air Canada. Consolidation within the airline industry and carriers increasingly entering into integrated commercial co-operation arrangements may also strengthen the ability of carriers to compete.

The prevalence of Internet travel websites and other travel product distribution channels has also resulted in a substantial increase in new routings and discounted and promotional fares initiated by Air Canada's competitors. Competitors also continue to pursue commissions/incentive actions and, in many cases, increase these payments. Air Canada's ability to reduce its fares in order to effectively compete is dependent on its ability to achieve acceptable operating margins and may be limited by applicable laws or government policies to encourage competition.

Increased competition, from existing or new competitors, including competitors entering into new or expanded joint ventures and other arrangements, or using disruptive business models or technologies, and other competitive

actions, or benefitting from foreign subsidies, government aid or other advantages not available to Air Canada, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

COVID-19 – The effects of the COVID-19 pandemic have materially affected Air Canada and could have a further material adverse impact on Air Canada's business, results from operations and financial position

During the period from March 2020 until early- to mid-2022, Air Canada and the rest of the global airline industry faced significantly lower traffic than in 2019, and a corresponding decline in revenue and cash flows, as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world including in Canada. Conditions have improved significantly, and travel restrictions have been lifted in many countries, including in Canada, however, there can be no assurance that there will not be further impacts from the COVID-19 pandemic or that the recovery will continue as expected, including as a result of further waves, supply chain disruptions and inflationary pressures.

Dependence on technology – Air Canada relies heavily on technology to operate its business and any technology systems failure or data breach could have a material adverse effect on Air Canada, its business, results from operations and financial condition

Air Canada relies heavily on technology, including to operate its business, increase its revenues and reduce its costs. Air Canada's technology systems include those relating to its websites, passenger sales and services, cargo services, airport customer services, flight operations, loyalty program, communications, accounting, business and administrative systems. Air Canada's websites and other technology systems must efficiently accommodate a high volume of traffic, and must securely and effectively process and deliver information critical to Air Canada's business and operations. The technology systems Air Canada relies on also depend on the performance of its many suppliers, whose performance is in turn dependent upon their respective technology ecosystems.

Air Canada's business requires the secure collection, processing and storage of sensitive data, including personal information of its passengers, Aeroplan members, employees business partners and others. The effective, reliable and secure operation of the networks and systems (including third party systems) on which sensitive information is stored, transmitted, processed and maintained is critical to Air Canada's business.

Technology systems may be vulnerable to a variety sources of failure, interruption or misuse, including by reason of human error, third-party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunications failures, power failures, unauthorized or fraudulent users (including cyber-attacks, malware, ransomware, computer viruses and the like), and other operational and security issues. Like other entities operating in today's digital business environment, we are subject to threats to the security of our networks, systems and data. These threats continue to increase as the frequency, intensity and sophistication of attempted attacks and intrusions increase around the world. We have been the target of cybersecurity attacks in the past and expect that we will continue to be in the future.

The increase in remote working arrangements since the onset of the COVID-19 pandemic has also increased the risk of cybersecurity incidents. Air Canada invests in initiatives in an attempt to mitigate these risks, including security initiatives and disaster recovery plans; however, these initiatives may not be successful or adequately address the highly dynamic and continuously evolving threat landscape.

Any technology system failure, degradation, interruption or misuse, security breach, failures in migrating to a new system, or failure to comply with applicable confidentiality, privacy, security or other related obligations, whether at Air Canada or a third party on which Air Canada or its suppliers rely, could adversely affect Air Canada, including by damaging its reputation and exposing Air Canada to litigation, claims for contract breach, fines, sanctions and/or remediation costs, any of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Strategic, business, technology and other important initiatives – A delay or failure to identify and devise, invest in and implement certain important initiatives could have a material impact on Air Canada, its business, results from operations and financial condition

In order to operate its business, achieve its goals and remain competitive, Air Canada continually seeks to identify and devise, invest in, implement and pursue strategic, business, technology and other important initiatives, including those relating to the expansion of its cargo business (including operating dedicated cargo freighter aircraft), the renewal of its aircraft fleet, participation in the leisure or lower-cost market (including through Air Canada Rouge), initiatives to address climate change, expansion of joint venture arrangements, enhancement of revenues, reduction of

costs, improvement of business processes, implementation of new technologies, expansion of flying capacity (including in respect of new aircraft and routes), and corporate culture transformation initiatives seeking to ensure a consistently high-quality customer service experience and others. These initiatives, including activities relating to their development and implementation, may be adversely impacted by a wide range of factors, many of which are beyond Air Canada's control. Such factors include the need to seek legal or regulatory approvals, the performance of third parties (including suppliers), their services and their products, the implementation and integration of such initiatives into Air Canada's other activities and processes as well as the adoption and acceptance of these initiatives by Air Canada's customers, suppliers and personnel. A delay or a failure to sufficiently and successfully identify and devise, invest in or implement any of these or other significant initiatives could adversely affect Air Canada's ability to operate its business, achieve its goals and remain competitive and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Fuel costs – Significant fluctuations or increases in fuel prices could have a material adverse effect on Air Canada, its business, results from operations and financial condition

Fuel costs constitute one of Air Canada's largest operating cost items. Fuel prices fluctuate widely depending on many factors, including international market conditions, geopolitical events, jet fuel supply and refining costs, carbon pricing, as further described below, or other climate change related regulations, taxes, levies or other measures, and the Canada/U.S. dollar exchange rate. Air Canada cannot accurately predict the future price of fuel and it may not be able to sufficiently, or may not, hedge the risk associated with fluctuations in fuel prices. Due to the competitive nature of the airline industry, Air Canada may not be able to pass on increases in fuel prices to its customers by increasing its pricing. Significant fluctuations (including increases) in fuel prices could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Financial Leverage – Air Canada has a significant amount of financial leverage. Air Canada may also not be able to obtain sufficient funds in a timely manner and on acceptable terms to provide adequate liquidity and to finance necessary operating and capital expenditures

Air Canada has a significant amount of financial leverage from fixed obligations, including substantial obligations under aircraft leases, aircraft purchases and other

financings, and may incur greater levels of indebtedness than currently exist or are planned.

Although prior to the COVID-19 pandemic Air Canada had been focusing on reducing its level of indebtedness and improving its leverage ratio. Air Canada was required to significantly increase its level of indebtedness as a result of the COVID-19 pandemic. The amount of indebtedness that Air Canada has and which it may incur in the future could have a material adverse effect on Air Canada. The ability of Air Canada to make scheduled payments under its indebtedness may depend on, among other things, its future operating performance and its ability to refinance its indebtedness, if necessary. Air Canada incurs a significant proportion of its indebtedness in foreign currencies, primarily in U.S. dollars, and as a result, future debt servicing repayments are subject to foreign exchange risk. There can be no assurance that Air Canada will at all times be able to generate sufficient cash from its operations to satisfy its debts, lease and other obligations and continue to pursue capital expenditures, and other business initiatives or strategic plans. Each of these factors is, to a large extent, subject to economic, financial, competitive, regulatory, operational and other factors, many of which are beyond Air Canada's control.

Need for capital and liquidity – Air Canada may not be able to obtain sufficient funds in a timely way and on acceptable terms to provide adequate liquidity and to finance necessary operating and capital expenditures

Air Canada's liquidity levels may be adversely impacted by risks identified in this MD&A, including the effects of the COVID-19 pandemic, geopolitical, economic and public health conditions, foreign exchange rates, increased competition, volatile fuel prices, labour issues, and contractual covenants. As part of Air Canada's efforts to manage risk and to support its business strategy, significant liquidity and significant ongoing operating and capital expenditures are required.

Air Canada's substantial level of indebtedness, particularly following the additional liquidity transactions completed in response to the impact of the COVID-19 pandemic, as well as market conditions and the availability of assets as collateral for loans or other indebtedness, together with the effect the COVID-19 pandemic has had on the global economy generally and the air transportation industry specifically, may make it difficult for Air Canada to raise additional capital if needed to meet its liquidity needs on acceptable terms, or at all.

There can be no assurance that Air Canada will continue to

maintain sufficient liquidity, whether from operations or by obtaining funds on terms acceptable to Air Canada, to finance the operating and capital expenditures necessary to manage any challenges and support its business strategy.

A major decline in the market price of Air Canada's securities, including a major decline in capital markets in general, a downgrade in Air Canada's credit ratings, differences between Air Canada's actual or anticipated financial results and the published expectations of financial analysts, as well as events affecting its business or operating environment, may negatively impact Air Canada's ability to raise capital, issue debt, borrow on acceptable terms, attract and/or retain key employees, make strategic acquisitions, enter into business arrangements or operate its business, and such factors may contribute to volatility in the market price of Air Canada's securities.

Interruptions or disruptions in service – Interruptions or disruptions in service could have a material adverse effect on Air Canada, its business, results from operations and financial condition

Air Canada's business is significantly dependent upon its ability to operate without interruption to or from a number of airports, including its main hubs at Toronto, Montréal, and Vancouver. Delays or disruptions in service, including those due to a variety of factors, such as the inability of airline industry participants on which Air Canada's operations are dependent (including airports, security, customs, air navigation and other participants or services), security issues, computer malfunctions or other incidents, weather conditions, labour shortages or conflicts in respect of personnel not employed by Air Canada such as airport workers, baggage handlers, air traffic controllers, security personnel and others supporting airport-related operations, epidemics, pandemics and public health restrictions (including in relation to the COVID-19 pandemic) or other causes beyond the control of Air Canada could have a material adverse impact on Air Canada, its business, results from operations and financial condition.

Interruptions and disruptions in service may be caused by, and the demand and cost of air travel may also be adversely impacted by, environmental conditions, technology issues and factors in addition to those relating to the weather, including those identified in this MD&A. Environmental conditions and factors, such as climate change, volcanic eruptions or other natural phenomena, as well as those arising from man-made sources, may also increase the frequency, duration and intensity of severe weather events, including on the ground and at altitude (including

turbulence events). Such events, including at airports or destinations served or flight routes used by Air Canada may impact the viability or cost of flying to such destinations, cause interruptions and disruptions in service, increase Air Canada's costs or adversely impact demand for air travel, any of which could have a material adverse impact on Air Canada, its business, results from operations and financial condition.

Key supplies and suppliers – Air Canada's failure or inability to source certain goods and services from key suppliers, including on favourable terms and on a timely basis could have a material adverse effect on Air Canada, its business, results from operations and financial condition

Air Canada is dependent upon its ability to source, on favourable terms and costs, and without disruption, sufficient quantities of goods and services of desirable quality, in a timely manner or within planned timeframes, required for Air Canada's business or operations, such as fuel, aircraft and related parts, catering, airport services (including customs and security services and infrastructure to support demand), de-icing services, airport slots, aircraft maintenance services, cargo handling services and facilities, and information technology systems and services. In certain cases, Air Canada may only be able to source goods and services from a limited number of suppliers (or from sole source suppliers) and the transition to new or alternative suppliers, which may be necessitated by reason of such suppliers increasing their rates or by their failure, refusal or inability to deliver or perform, may not be possible or may take a significant amount of time or require significant resources. A failure, refusal, delay or inability of a supplier to supply Air Canada with goods and services of desirable quality on terms and pricing and within timeframes acceptable to Air Canada may arise as a result of a wide range of causes, many of which are beyond Air Canada's control, including as a result of the COVID 19 pandemic and related disruptions in supply chains or labour shortages. Any failure or the inability of Air Canada to successfully source goods and services of desirable quality on terms and pricing and within the timeframes acceptable to Air Canada could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Regional carrier service – The failure by Air Canada's regional carrier to fulfill its obligations to Air Canada could have a material adverse effect on Air Canada, its business, results from operations and financial condition

Air Canada enhances its network through a capacity purchase agreement with Jazz that operates flights on

behalf of Air Canada. Pursuant to the terms of the Jazz CPA, Air Canada pays Jazz a number of fees, some of which are fixed and others that are determined based upon certain costs incurred by Jazz. Air Canada also reimburses Jazz for certain pass-through costs incurred by Jazz (or arranges to provide the related supplies to Jazz), such as fuel costs, navigation fees, landing fees and terminal fees. In addition, the Jazz CPA requires that Jazz maintain a minimum fleet size and contains a minimum average daily utilization guarantee, which requires Air Canada to use Jazz for that amount of flying. Significant increases in Jazz's costs, the failure by Jazz to adequately fulfill its obligations under the Jazz CPA, factors that may reduce the utilization of the Jazz fleet, including economic or market downturns or the effects of the COVID-19 pandemic, and unexpected interruptions or cessation of Jazz's services, as well as similar circumstances relating to other airlines from whom Air Canada may source regional capacity, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Personnel – Air Canada is dependent on key employees and having sufficient personnel and could be materially adversely affected by a shortfall or substantial turnover

Air Canada is dependent on its ability to attract and retain a variety of employees, including senior leadership, managers, airline flight, technology and operations personnel and other key employees having the necessary industry experience, qualifications and knowledge in order to execute its business plan and operate its business. If Air Canada were to experience a shortfall or a substantial turnover in its key employees (including as a result of the more competitive labour market), Air Canada, its business, results from operations and financial condition could be materially adversely affected.

Infectious diseases – Infectious diseases could impact passenger demand for air travel.

Outbreaks or the threat of outbreaks of viruses or other contagions or infectious diseases, including an epidemic or a pandemic such as COVID-19, influenza, SARS, Ebola, Zika, as well as any travel or other advisories relating to same, whether domestic or international or whether relating to Canadian cities or regions or other cities, regions or countries, could have a material adverse effect on demand for air travel and could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Regulatory matters – Air Canada is subject to extensive and continually evolving domestic and international legal, regulatory and administrative controls and oversight

Air Canada and the airline industry are subject to extensive and continually evolving domestic and international legal, regulatory and administrative controls and oversight, including in relation to taxes, airport fees and operations, route rights, airport slots, aircraft operations and maintenance, security, passenger and consumer rights, public health and safety, accessibility of transportation, flight crew and other labour rules, privacy, data security, marketing and advertising, licensing, competition, joint ventures, pensions, environment (including in relation to fuel management, pollution, climate change, greenhouse gas emissions and noise levels), customs, immigration, foreign exchange controls and, in some measure, pricing.

Air Canada is subject to significant and continually evolving tax laws, regulations and interpretations, which apply to its operations in various jurisdictions throughout the world. A significant majority of countries in the Organisation for Economic Co-operation and Development's (OECD) Inclusive Framework have agreed, in principle, to proposed changes to long-standing tax principles. Such changes focus on nexus, profit reallocation to market jurisdictions and a global minimum tax. As these changes are subject to further negotiation and implementation by each member country, the final rules, timing and ultimate impact of any such changes on Air Canada's tax obligations are uncertain.

Air Canada cannot predict whether, or the manner in which, proposed domestic and international laws, regulations and administrative requirements or similar initiatives will ultimately be implemented or their impact on Air Canada. While Air Canada seeks to comply with all applicable laws, regulations and administrative requirements, compliance may involve significant judgment in interpreting them. Furthermore, interpretations as well as the application and enforcement of such requirements may evolve due to numerous factors, including decisions by courts, regulators, administrative and other bodies. Compliance (including failure to comply) with current or future domestic and international laws, regulations and administrative requirements, including potentially inconsistent or conflicting laws or regulations, or laws or regulations that disproportionately apply to Canadian airlines or Air Canada specifically, may impose significant costs (including taxes, fines, penalties and/or levies), impediments and/or competitive disadvantages. There cannot be any assurance that current or future laws, regulations and administrative requirements will not materially adversely affect Air Canada,

its business, results from operations and financial condition.

Labour costs and labour relations – Air Canada may not be able to maintain labour costs at appropriate levels or secure labour agreements that permit it to successfully pursue its strategic initiatives. There can be no assurance that collective bargaining agreements will be renewed without labour conflicts and/or disruptions

Labour costs constitute one of Air Canada's largest operating cost items. There can be no assurance that Air Canada will be able to maintain such costs at levels that do not negatively affect its business, results from operations and financial condition. Most of Air Canada's employees are unionized. While Air Canada had established long-term arrangements with unions representing a significant portion of its unionized employees, these agreements are scheduled to reach the end of their term over the next few years. Further, due to the impact of the COVID-19 pandemic, Air Canada is not expected to meet a wide body benchmark under the long-term arrangement it concluded in 2014 with the Air Canada Pilots Association, which may result in ACPA and Air Canada engaging in collective bargaining as early as mid-2023. Any future agreements or outcomes of negotiations or arbitrations, including in relation to wages or other labour costs or work rules, may result in increased labour costs or other charges, or terms and conditions restricting or reducing Air Canada's ability to sustain its business objectives or pursue its strategic initiatives, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

There can be no assurance that collective agreements will be further renewed, including on terms consistent with Air Canada's expectations or comparable to its competitors' labour agreements, without labour conflict or action or that there will not otherwise be any labour conflict or action that could also lead to a degradation, interruption or stoppage in Air Canada's service or otherwise adversely affect the ability of Air Canada to execute on its business plans or operate its business, either of which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

In respect of the unions for Canadian-based employees, strikes or lockouts may lawfully occur following the term and negotiations of the renewal of collective agreements once a number of pre-conditions prescribed by the Canada Labour Code have been satisfied.

Any labour disruption or work stoppage by any of the unionized work groups of Jazz or other airlines operating flights on behalf of Air Canada, or other key suppliers, or of

other parties with which Air Canada conducts business or relies on could have a material adverse effect on Air Canada, its business, results from operations and financial condition. In addition, labour conflicts at Star Alliance® partners or involving the operations of key airports could result in lower demand for connecting traffic with Air Canada, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Terrorist attacks and security measures – Terrorist attacks and related consequences could have a material adverse effect on Air Canada, its business, results from operations and financial condition

The potential for terrorist attacks and terrorist activity causes concern and uncertainty in the minds of the travelling public. The occurrence of a terrorist attack, an attempted attack or the perceived threat of one (whether or not involving Air Canada or another carrier, or involving Air Canada's destinations, or other destinations or regions) and restrictive security measures, such as those relating to the content of carry-on baggage, passenger identification document requirements and passenger screening procedures, could have a material adverse effect on passenger demand for air travel and on the number of passengers travelling on Air Canada's flights. It could also lead to a substantial increase in insurance, security and other costs. Any resulting reduction in revenues and/or increases in costs could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Aeroplan loyalty program – Loss of redemption or accrual partners, changes to accrual or redemption settlement rates, increased redemption rates of loyalty points, or disruptions or other interruptions of services affecting the Aeroplan loyalty program could have a material adverse effect on Air Canada, its business, results from operations and financial condition

In 2020, Air Canada implemented a new, redesigned Aeroplan loyalty program. Air Canada offers its customers who are Aeroplan Members the opportunity to earn Aeroplan points, which management believes is a significant factor in many customers' decision to travel with Air Canada and contributes to building customer loyalty. The success of the Aeroplan program is dependent on attracting new and retaining current members and on maintaining sufficient accumulation and redemption partners. Increases in redemption rates for outstanding Aeroplan points, failures to adequately operate the Aeroplan program, reductions in the prevailing interchange rates in Canada, or interruptions or disruptions of Aeroplan program services, could have a

material adverse effect on Air Canada, its business, results from operations and financial condition.

Casualty losses – Air Canada's business makes it subject to large liability claims for serious personal injury or death arising out of accidents or disasters

Due to the nature of its core business, Air Canada may be subject to liability claims arising out of accidents or disasters involving aircraft on which Air Canada's customers are travelling or involving aircraft of other carriers maintained or otherwise serviced by Air Canada or through third parties providing services to Air Canada, including claims for serious personal injury or death. Any such accident or disaster may significantly harm Air Canada's reputation for safety, which would have a material adverse effect on Air Canada, its business, results from operations and financial condition. There can be no assurance that Air Canada's insurance coverage will be sufficient to cover one or more large claims and any shortfall may be material.

Accidents and disasters may occur despite all appropriate measures being taken, and as a result of a variety of factors beyond Air Canada's control including acts of terrorism and sabotage, security breaches, equipment failures, human error, severe weather, lightning strikes and other natural phenomenon, bird strikes as well as the increasing prevalence of unmanned aerial vehicles.

Star Alliance and Joint Ventures – Departure of a key member from Star Alliance or the failure by a key member to meet its obligations, including under joint ventures arrangements, could have a material adverse effect on Air Canada, its business, results from operations and financial condition

The strategic and commercial arrangements with Star Alliance members, including Air Canada's joint venture counterparties, Lufthansa AG, United Airlines and Air China, provide Air Canada with important benefits, including codesharing, efficient connections and transfers, reciprocal participation in frequent flyer programs and use of airport lounges from the other members. Should a key member leave Star Alliance or otherwise fail to meet its obligations toward Air Canada, Air Canada, its business, results from operations and financial condition could be materially adversely affected.

Air Canada's brand – The failure to preserve or grow the value of Air Canada's brand could have a material adverse effect on Air Canada, its business, results from operations and financial condition

Air Canada believes that its success is dependent on the value of its brand and on Air Canada's ability to preserve, grow and leverage that value. The Air Canada brand is recognized throughout the world, and Air Canada has received high ratings in external brand value studies, based in part on consumer perceptions on a variety of subjective qualities. Air Canada believes it has and continues to build an excellent reputation globally for the safety and quality of its services, and for the delivery of a consistently positive passenger experience. Air Canada's reputation and brand could be damaged if they are exposed to significant adverse publicity including through social media. Adverse publicity, whether justified or not, can rapidly spread through social or digital media. To the extent we are subject to, or unable to respond timely and appropriately to adverse publicity, our brand and reputation may be damaged. Any failure to preserve or grow Air Canada's brand, including by reason of the conduct of Air Canada or any of its business partners or other external parties, could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Legal proceedings – Air Canada may be subject to legal proceedings which could have a material adverse impact

In the course of conducting its business, Air Canada is subject to various claims and litigation (including class action claims), including with respect to its contractual arrangements and current or new laws and regulations. Any future claims or litigation could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Foreign exchange – A significant deterioration of the Canadian dollar relative to the U.S. dollar could have a material adverse effect on Air Canada, its business, results from operations and financial condition

Air Canada's financial results are sensitive to the fluctuating value of the Canadian dollar. Air Canada incurs significant expenses in U.S. dollars for items such as fuel, aircraft purchases, aircraft leasing and maintenance, airport charges, ground package costs, sales and distribution costs, interest and debt servicing payments, while a substantial portion of its revenues are generated in Canadian dollars. In addition, Air Canada may not be able to sufficiently, or may not, hedge the risk associated with fluctuations in exchange rates. A significant deterioration of the Canadian dollar

relative to the U.S. dollar or other foreign currencies would increase the costs of Air Canada relative to its U.S. or other foreign competitors. Any of these factors could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Limitations due to restrictive covenants – Covenants in agreements that Air Canada has entered into or may enter into may affect or limit the manner in which Air Canada operates its business

Some of the financing and other major agreements to which Air Canada is a party contain, and in the future may contain, restrictive, financial (including in relation to asset valuations, liquidity, fixed charge coverage ratio) and other covenants that affect and, in some cases, significantly limit or prohibit, among other things, the manner in which Air Canada may structure or operate its business, including by reducing Air Canada's liquidity, limiting Air Canada's ability to incur indebtedness, create liens, sell assets, pay dividends, make capital expenditures, and engage in acquisitions, mergers or restructurings or a change of control. Future financing and other significant agreements may be subject to similar or stricter covenants that limit Air Canada's operating and financial flexibility, which could materially and adversely affect Air Canada's ability to operate its business and its profitability.

A failure by Air Canada to comply with its contractual obligations (including restrictive, financial and other covenants) or to pay its indebtedness and fixed costs could result in a variety of material adverse consequences, including the acceleration of its indebtedness, the withholding of credit card proceeds by the credit card service providers and the exercise of remedies by its creditors, lessors or other co-contracting parties, and such defaults could trigger additional defaults under other indebtedness or agreements. In such a situation, Air Canada may not be able to repay the accelerated indebtedness or fulfill its obligations under certain contracts, make required aircraft lease payments or otherwise cover its fixed costs. Also, the lenders under the financing arrangements could foreclose upon all or substantially all of the assets of Air Canada that secure Air Canada's obligations.

Availability of insurance coverage and increased insurance costs

Increases in insurance costs or reduction in insurance coverage could have a material adverse effect on Air Canada, its business, results from operations and financial condition

The insurance industry in general, including the aviation insurance industry, has been experiencing increasing losses and decreased insurer profitability in recent years, resulting in reduced capacity levels and premium increases. These conditions may adversely affect some of Air Canada's existing insurance carriers or Air Canada's ability to obtain future insurance coverage (including war risk insurance coverage), including desired levels of coverage or on terms acceptable to Air Canada. To the extent that Air Canada's existing insurance carriers are unable or unwilling to provide required coverage (and in the absence of measures by the Government of Canada to provide the required coverage), Air Canada's insurance costs may increase further and may result in Air Canada being in breach of regulatory requirements or contractual arrangements requiring that specific insurance be maintained, which could have a material adverse effect on Air Canada, its business, results from operations and financial condition.

Pension plans – Failure or inability by Air Canada to make required cash contributions to its pension plans could have a material adverse effect on Air Canada, its business, results from operations and financial condition

Air Canada maintains several defined benefit pension plans, including domestic registered pension plans and supplemental pension plans.

Canadian federal pension legislation requires that the funded status of defined benefit registered pension plans be determined periodically, on both a going concern basis (essentially assuming indefinite plan continuation) and a solvency basis (essentially assuming immediate plan termination). Canadian federal pension legislation prescribes the minimum contributions that plan sponsors must make to their defined benefit registered pension plans. Current service contributions are required to be paid monthly, except to the extent they are funded through the surplus in such plan (subject to applicable plan rules and legislation). Air Canada's pension funding obligations (including projected funding obligations) may vary significantly based on a wide variety of factors, including the plan's solvency financial position, regulatory developments, plan demographics, changes to plan provisions, the success of its pension asset investment strategies, assumptions and methods used and changes in economic conditions (mainly the return on fund

assets and changes in interest rates) and other factors.

Air Canada has taken significant steps to reduce its pension plan risk, and its domestic defined benefit registered pension plans are in a surplus position, but there can be no assurance that such a risk will not materialize and adversely impact Air Canada's ability to meet its funding obligations, which in turn could have a material adverse effect on Air Canada, its business, results from operations and financial condition. See section 8.7 "Pension Funding Obligations" of this MD&A for additional information.

19 | CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within Air Canada have been designed to provide reasonable assurance that all relevant information is identified to its President and Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) and its Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, under the supervision of, and with the participation of Air Canada's CEO and CFO, to provide reasonable assurance regarding the reliability of Air Canada's financial reporting and its preparation of financial statements for external purposes in accordance with GAAP.

Air Canada will file certifications, signed by its CEO and CFO, with the Canadian Securities Administrators (CSA) upon filing of Air Canada's Annual Information Form. In those filings, Air Canada's CEO and CFO will certify, as required by National Instrument 52-109, the appropriateness of the financial disclosure, the design and effectiveness of Air Canada's disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. Air Canada's CEO and CFO also certify the appropriateness of the financial disclosures in Air Canada's interim filings with securities regulators. In those interim filings, Air Canada's CEO and CFO also certify the design of Air Canada's disclosure controls and procedures and the design of internal controls over financial reporting.

Air Canada's Audit, Finance and Risk Committee reviewed this MD&A and the audited consolidated financial statements, and Air Canada's Board of Directors approved these documents prior to their release.

Management's Report on Disclosure Controls and Procedures

Management, under the supervision of and with the participation of Air Canada's CEO and CFO, evaluated the effectiveness of Air Canada's disclosure controls and procedures (as defined under National Instrument 52-109) and concluded, as at December 31, 2022, that such disclosure controls and procedures were effective.

Management's Report on Internal Controls over Financial Reporting

Management, under the supervision of and with the participation of Air Canada's CEO and CFO, evaluated the effectiveness of Air Canada's internal controls over financial reporting (as defined under National Instrument 52-109). In making this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) in Internal Control - Integrated Framework (2013). Based on that evaluation, management and the CEO and CFO have concluded that, as at December 31, 2022, Air Canada's internal controls over financial reporting were effective. This evaluation took into consideration Air Canada's Corporate Disclosure Policy and the functioning of its Disclosure Policy Committee.

Changes in Internal Controls over Financial Reporting

There have been no changes to Air Canada's internal controls over financial reporting during 2022 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

20 | NON-GAAP FINANCIAL MEASURES

Below is a description of certain non-GAAP financial measures and ratios used by Air Canada to provide readers with additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results.

When calculating adjusted EBITDA, adjusted EBITDA margin, adjusted CASM, adjusted pre-tax income (loss), adjusted net income (loss), and adjusted earnings (loss) per share – diluted, Air Canada excludes the effects of the government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful. As described in notes 2Z, 4, 6 and 10 of Air Canada's 2022 annual audited consolidated financial statements and notes dated February 17, 2023, these items, which were previously classified as special items in the consolidated statement of operations, have now been reclassified as follows:

- Government wage subsidy, benefit plan amendment and benefit plan settlement are now classified in wages, salaries and benefits.
- Impairments is now classified as a separate line item called impairment of assets.
- Workforce reduction provisions and other items are now classified in restructuring and transaction costs.

Refer to Section 12 "Accounting Policies" of this MD&A for information on the reclassifications on the consolidated statement of operations.

EBITDA and Adjusted EBITDA

EBITDA (earnings before interest, taxes, depreciation and amortization) is commonly used in the airline industry and is used by Air Canada as a means to view operating results before interest, taxes, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. In adjusted EBITDA, Air Canada excludes the effects of the government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

Adjusted EBITDA Margin

Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenues) is commonly used in the airline industry and is used by Air Canada as a means to measure the operating margin before interest, taxes, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets. Further, the effects of the government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs are also removed in computing adjusted EBITDA margin as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

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

(Canadian dollars in millions, except where indicated)	FOURTH QUARTER			FULL YEAR		
	2022	2021	\$ Change	2022	2021	\$ Change
Operating loss – GAAP	\$ (28)	\$ (503)	\$ 475	\$ (187)	\$ (3,049)	\$ 2,862
Add back:						
Depreciation and amortization	417	399	18	1,640	1,616	24
EBITDA	\$ 389	\$ (104)	\$ 493	\$ 1,453	\$ (1,433)	\$ 2,886
Remove:						
Government wage subsidy, net	-	(27)	27	-	(451)	451
Benefit plan amendments	-	6	(6)	-	82	(82)
Benefit plan settlement	-	125	(125)	-	125	(125)
Impairment of assets	-	24	(24)	4	38	(34)
Restructuring and transaction costs	-	(2)	2	-	175	(175)
Adjusted EBITDA	\$ 389	\$ 22	\$ 367	\$ 1,457	\$ (1,464)	\$ 2,921
Operating revenues	\$ 4,680	\$ 2,731	\$ 1,949	\$ 16,556	\$ 6,400	\$ 10,156
Operating margin (%)	(0.6)	(18.4)	17.8 pp	(1.1)	(47.6)	46.5 pp
Adjusted EBITDA margin (%)	8.3	0.8	7.5 pp	8.8	(22.9)	31.7 pp

Adjusted CASM

Air Canada uses adjusted CASM to assess the operating and cost performance of its ongoing airline business without the effects of aircraft fuel expense, the cost of ground packages at Air Canada Vacations, government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs, and freighter costs as these items may distort the analysis of certain business trends and render comparative analysis across periods less meaningful and generally allows for a more meaningful analysis of Air Canada's operating expense performance and a more meaningful comparison to that of other airlines.

In calculating adjusted CASM, aircraft fuel expense is excluded from operating expense results as it fluctuates widely depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and Canada/U.S. currency exchange rates. Air Canada also incurs expenses related to ground packages at Air Canada Vacations which some airlines, without comparable tour operator businesses, may not incur. In addition, these costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

Air Canada also incurs expenses related to the operation of freighter aircraft which some airlines, without comparable cargo businesses, may not incur. Air Canada introduced one Boeing 767 dedicated freighter to its operating fleet in December 2021, and had three dedicated freighter aircraft in service as at December 31, 2022. Prior to 2021, Air Canada did not incur any costs related to the operation of dedicated freighter aircraft. These costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison of the passenger airline business across periods.

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)	FOURTH QUARTER			FULL YEAR		
	2022	2021	\$ Change	2022	2021	\$ Change
Operating expense – GAAP	\$ 4,708	\$ 3,234	\$ 1,474	\$ 16,743	\$ 9,449	\$ 7,294
Adjusted for:						
Aircraft fuel	(1,459)	(665)	(794)	(5,276)	(1,576)	(3,700)
Ground package costs	(163)	(91)	(72)	(474)	(120)	(354)
Government wage subsidy, net	-	27	(27)	-	451	(451)
Benefit plan amendments	-	(6)	6	-	(82)	82
Benefit plan settlement	-	(125)	125	-	(125)	125
Impairment of assets	-	(24)	24	(4)	(38)	34
Restructuring and transaction costs	-	2	(2)	-	(175)	175
Freighter costs (excluding fuel)	(27)	-	(27)	(86)	-	(86)
Operating expense, adjusted for the above-noted items	\$ 3,059	\$ 2,352	\$ 707	10,903	7,784	3,119
ASMs (millions)	22,368	14,057	59.1%	82,558	33,384	147.3%
Adjusted CASM (cents)	¢ 13.68	¢ 16.74	¢ (3.06)	¢ 13.21	¢ 23.32	¢ (10.11)

Adjusted Pre-tax Income (Loss)

Adjusted pre-tax income (loss) is used by Air Canada to assess the overall pre-tax financial performance of its business without the effects of government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs, foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on disposal of assets, gains or losses on debt settlements and modifications, as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

Adjusted pre-tax income (loss) is reconciled to GAAP income (loss) before income taxes as follows:

(Canadian dollars in millions)	FOURTH QUARTER			FULL YEAR		
	2022	2021	\$ Change	2022	2021	\$ Change
Income (loss) before income taxes – GAAP	\$ 146	\$ (617)	\$ 763	\$ (1,524)	\$ (3,981)	\$ 2,457
Adjusted for:						
Government wage subsidy, net	-	(27)	27	-	(451)	451
Benefit plan amendments	-	6	(6)	-	82	(82)
Benefit plan settlement	-	125	(125)	-	125	(125)
Impairment of assets	-	24	(24)	4	38	(34)
Restructuring and transaction costs	-	(2)	2	-	175	(175)
Foreign exchange (gain) loss	(316)	(22)	(294)	732	52	680
Net interest relating to employee benefits	(7)	(2)	(5)	(24)	8	(32)
(Gain) loss on financial instruments recorded at fair value	(44)	(59)	15	(133)	55	(188)
Loss on debt settlements and modifications	31	-	31	14	129	(115)
Gain on disposal of assets	(21)	-	(21)	(21)	-	(21)
Adjusted pre-tax loss	\$ (211)	\$ (574)	\$ 363	\$ (952)	\$ (3,768)	\$ 2,816

Adjusted Net Income (loss) and Adjusted Earnings (Loss) per Share – Diluted

Air Canada uses adjusted net income (loss) and adjusted earnings (loss) per share – diluted as a means to assess the overall financial performance of its business without the after-tax effects of government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs, foreign exchange gains or losses, net financing expense relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets as these items may distort the analysis of certain business trends and render comparative analysis to other airlines less meaningful.

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

(Canadian dollars in millions)	FOURTH QUARTER			FULL YEAR		
	2022	2021	\$ Change	2022	2021	\$ Change
Net income (loss) – GAAP	\$ 168	\$ (493)	\$ 661	\$ (1,700)	\$ (3,602)	\$ 1,902
Adjusted for:						
Government wage subsidy, net	-	(27)	27	-	(451)	451
Benefit plan amendments	-	6	(6)	-	82	(82)
Benefit plan settlement	-	125	(125)	-	125	(125)
Impairment of assets	-	24	(24)	4	38	(34)
Restructuring and transaction costs	-	(2)	2	-	175	(175)
Foreign exchange (gain) loss	(316)	(22)	(294)	732	52	680
Net interest relating to employee benefits	(7)	(2)	(5)	(24)	8	(32)
(Gain) loss on financial instruments recorded at fair value	(44)	(59)	15	(133)	55	(188)
Loss on debt settlements and modifications	31	-	31	14	129	(115)
Gain on disposal of assets	(21)	-	(21)	(21)	-	(21)
Income tax, including for the above reconciling items ⁽¹⁾	(28)	(127)	99	140	(379)	519
Adjusted net loss	\$ (217)	\$ (577)	\$ 360	\$ (988)	\$ (3,768)	\$ 2,780
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	358	358	-	358	351	7
Adjusted loss per share – diluted	\$ (0.61)	\$ (1.61)	\$ 1.00	\$ (2.76)	\$ (10.74)	\$ 7.98

(1) In 2022, the deferred income tax recovery recorded in other comprehensive income related to remeasurements on employee benefit liabilities is offset by a deferred income tax expense which was recorded through Air Canada's consolidated statement of operations. This expense is removed from adjusted net income (loss). In comparison, a deferred income tax recovery was removed from adjusted net income (loss) for the year 2021.

The table below reflects the share amounts used in the computation of basic and diluted earnings per share on an adjusted earnings per share basis.

(In millions)	FOURTH QUARTER		FULL YEAR	
	2022	2021	2022	2021
Weighted average number of shares outstanding – basic	358	358	358	351
Effect of dilution	-	-	-	-
Weighted average number of shares outstanding – diluted	358	358	358	351

Free Cash Flow

Air Canada uses free cash flow as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada can generate from operations and after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment, and intangible assets, and is net of proceeds from sale and leaseback transactions. Refer to section 8.5 "Cash Flow Movements" of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP.

Net Debt

Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Refer to section 8.3 "Net Debt" of this MD&A for a reconciliation of this non-GAAP measure to the nearest measure under GAAP.

21 | GLOSSARY

Adjusted CASM – Refers to operating expense per ASM adjusted to remove the effects of aircraft fuel expense, ground packages costs at Air Canada Vacations, government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs, and freighter costs. Adjusted CASM is a non-GAAP financial measure. Refer to section 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted EBITDA – Refers to earnings before interest, taxes, depreciation and amortization excluding government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs. Adjusted EBITDA is a non-GAAP financial measure. Refer to section 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted EBITDA margin – Refers to adjusted EBITDA as a percentage of operating revenue. Refer to section 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted net income (loss) – Refers to the consolidated net income (loss) of Air Canada adjusted to remove the after-tax effects of government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs, foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets. Adjusted net income (loss) is a non-GAAP financial measure. Refer to section 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted pre-tax income (loss) – Refers to the consolidated income (loss) of Air Canada before income taxes and adjusted to remove the effects of government wage subsidy, benefit plan amendments, benefit plan settlement, impairment of assets, restructuring and transaction costs, foreign exchange gains or losses, net interest relating

to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets. Adjusted pre-tax income (loss) is a non-GAAP financial measure. Refer to section 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Aeroplan – Refers to Aeroplan Inc.

Atlantic – In reference to passenger and cargo revenues, means revenues from flights that cross the Atlantic Ocean with origins and destinations principally in Europe, India, the Middle East and North Africa.

Available seat miles or ASMs – Refers to a measure of passenger capacity calculated by multiplying the total number of seats available for passengers by the miles flown.

Average stage length – Refers to the average mile per departure seat and is calculated by dividing total ASMs by total seats dispatched.

CASM – Refers to operating expense per ASM.

Domestic – In reference to passenger and cargo revenues, means revenues from flights within Canada.

Free cash flow – Refers to net cash flows from operating activities minus additions to property, equipment, and intangible assets, and is net of proceeds from sale and leaseback transactions. Free cash flow is a non-GAAP financial measure. Refer to sections 8.5 “Cash Flow Movements” and 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Jazz – Refers to Jazz Aviation LP.

Jazz CPA – Refers to the capacity purchase agreement between Air Canada and Jazz.

Leverage ratio – Also known as Net debt to adjusted EBITDA ratio. Refers to the ratio of net debt to trailing 12-month adjusted EBITDA (calculated by dividing net debt by trailing 12-month adjusted EBITDA). Leverage ratio is a non-GAAP financial measure. Refer to sections 8.3

“Net Debt” and 20 “Non-GAAP Financial Measures” of this MD&A for additional information.

Net debt – Refers to total long-term debt liabilities (including current portion) less cash, cash equivalents, and short- and long-term investment. Refer to section 8.3 “Net Debt” of this MD&A for a reconciliation of this capital management measure to the nearest measure under GAAP.

Other – In reference to passenger and cargo revenues, means revenues from flights with origins and destinations principally in Central and South America, the Caribbean and Mexico.

Pacific – In reference to passenger and cargo revenues, means revenues from flights that cross the Pacific Ocean with origins and destinations principally in Asia and Australia.

Passenger load factor – Refers to a measure of passenger capacity utilization derived by expressing Revenue Passenger Miles as a percentage of Available Seat Miles.

Passenger revenue per available seat mile or PRASM – Refers to average passenger revenue per available seat mile.

Percentage point (pp) – Refers to a measure for the arithmetic difference of two percentages.

Revenue passenger carried – Refers to the International Air Transport Association’s (IATA) definition of passenger carried whereby passengers are counted on a flight number basis rather than by journey/itinerary or by leg.

Revenue passenger miles or RPMs – Refers to a measure of passenger traffic calculated by multiplying the total number of revenue passengers carried by the miles they are carried.

Seats dispatched – Refers to the number of seats on non-stop flights. A non-stop flight refers to a single takeoff and landing.

Yield – Refers to average passenger revenue per RPM.

2022

Consolidated Financial Statements and Notes



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements have been prepared by management. Management is responsible for the fair presentation of the consolidated financial statements in conformity with generally accepted accounting principles in Canada which incorporates International Financial Reporting Standards, as issued by the International Accounting Standards Board. Management is responsible for the selection of accounting policies and making significant accounting judgments and estimates. Management is also responsible for all other financial information included in management's discussion and analysis and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting which includes those policies and procedures that provide reasonable assurance over the safeguarding of assets and over the completeness, fairness and accuracy of the consolidated financial statements and other financial information.

The Audit, Finance and Risk Committee, which is comprised entirely of independent directors, reviews the quality and integrity of the Corporation's financial reporting and provides its recommendations in respect of the approval of the financial statements to the Board of Directors; oversees management's responsibilities as to the adequacy of the supporting systems of internal controls; provides oversight of the independence, qualifications and appointment of the external auditor; and pre-approves audit, audit-related, and non-audit fees and expenses. The Board of Directors approves the Corporation's consolidated financial statements and management's discussion and analysis disclosures prior to their release. The Audit, Finance and Risk Committee meets with management, the internal auditors and external auditors at least four times each year to review and discuss financial reporting, disclosures, auditing and other matters.

The external auditors, PricewaterhouseCoopers LLP, conduct an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards and express their opinion thereon. Those standards require that the audit is planned and performed to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. The external auditors have unlimited access to the Audit, Finance and Risk Committee and meet with the Committee on a regular basis.



Michael Rousseau
President and Chief Executive Officer



Amos Kazzaz
Executive Vice President and Chief Financial Officer

February 16, 2023

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Air Canada

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Air Canada and its subsidiaries (together, the Corporation) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity (deficiency) for the years then ended;
- the consolidated statements of cash flow for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Passenger and cargo revenue recognition

Refer to note 2 – Basis of presentation and summary of significant accounting policies and note 20 – Revenue to the consolidated financial statements.

Passenger and cargo revenues are recognized when the transportation is provided. Total passenger and cargo revenues recognized for the year ended December 31, 2022 amounted to \$14,238 million and \$1,266 million, respectively.

Such transactions rely on multiple Information Technology (IT) systems and controls to process, record, and recognize a high volume of low value revenue transactions through a combination of IT systems and outsourced service providers.

We considered this a key audit matter due to the significance of passenger and cargo revenues and the volume of these transactions resulting in significant audit effort to test the revenue recognized.

How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

- Tested the operating effectiveness of internal controls related to passenger and cargo revenue recognition which included the following:
 - Tested the controls over the relevant IT systems that management used to recognize passenger and cargo revenues.
 - For the IT systems or processes that are outsourced to third party service providers, assessed the assurance reports attesting to the appropriateness and effectiveness of the internal control systems established by the service providers.
- Tested a sample of passenger and cargo revenue transactions recorded during the year by inspecting the consideration received and the evidence of when the transportation was provided for passengers or cargo.

Key audit matter

Measurement of the total benefit obligation

Refer to note 2 – Basis of presentation and summary of significant accounting policies, note 3 – Critical accounting estimates and judgments, and note 10 – Pensions and other benefit liabilities to the consolidated financial statements.

The Corporation has a net benefit asset of \$612 million, which includes a total benefit obligation associated with pension benefit obligations of \$16,927 million and other employee future benefit obligations of \$1,007 million as at December 31, 2022.

The total benefit obligation associated with pension benefit obligations and other employee future benefit obligations is actuarially determined annually as at December 31 and is prepared by the Corporation's consulting actuaries (management's experts). The total benefit obligation is determined using the projected unit credit method. Management applied significant judgment in determining the discount rates and mortality assumptions to develop the estimates for the total benefit obligation.

We considered this a key audit matter due to the significance of the total benefit obligation and the significant judgment made by management, including the use of management's experts, in determining the discount rates and mortality assumptions, which resulted in a high degree of auditor judgment and subjectivity in performing procedures related to those assumptions. The audit effort involved the use of professionals with specialized skill and knowledge in the field of actuarial services.

How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

- Tested how management developed the estimates for the total benefit obligation which included the following:
 - The work of management's experts was used in performing the procedures to evaluate the reasonableness of the total benefit obligation associated with pension benefit obligations and other employee future benefit obligations. As a basis for using this work, management's experts' competence, capabilities and objectivity were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluating the methods and assumptions used by management's experts, testing the data used by management's experts and evaluating their findings.
 - Professionals with specialized skill and knowledge in the field of actuarial services assisted in evaluating the appropriateness of the projected unit credit method and the reasonableness of the discount rates and mortality assumptions.
- Tested the disclosures, including the sensitivity analysis, made in the consolidated financial statements with regard to the measurement of the pension benefit obligations and other employee future benefit obligations.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis of Results of Operations and Financial Condition, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael Trudeau.

*PricewaterhouseCoopers LLP*¹

Montréal, Quebec
February 16, 2023

¹ CPA auditor, public accountancy permit No. A113048

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars in millions)		December 31, 2022	December 31, 2021 Restated - Note 2P
ASSETS			
Current			
Cash and cash equivalents	Note 2P	\$ 2,693	\$ 4,415
Short-term investments		5,295	4,554
Total cash, cash equivalents and short-term investments		7,988	8,969
Accounts receivable	Note 20	1,037	691
Aircraft fuel inventory		200	122
Spare parts and supplies inventory	Note 2Q	118	102
Prepaid expenses and other current assets	Note 20	322	169
Total current assets		9,665	10,053
Investments, deposits and other assets	Note 5	1,073	858
Property and equipment	Note 6	11,950	11,740
Pension assets	Note 10	2,444	3,571
Deferred income tax	Note 12	48	39
Intangible assets	Note 7	1,054	1,080
Goodwill	Note 8	3,273	3,273
Total assets		\$ 29,507	\$ 30,614
LIABILITIES			
Current			
Accounts payable and accrued liabilities		\$ 2,691	\$ 2,603
Advance ticket sales	Note 20	4,104	2,326
Aeroplan and other deferred revenue	Note 20	1,295	983
Current portion of long-term debt and lease liabilities	Note 9	1,263	1,012
Total current liabilities		9,353	6,924
Long-term debt and lease liabilities	Note 9	15,043	15,511
Aeroplan and other deferred revenue	Note 20	3,160	3,656
Pension and other benefit liabilities	Note 10	1,770	2,588
Maintenance provisions	Note 11	1,352	1,032
Other long-term liabilities		311	821
Deferred income tax	Note 12	73	73
Total liabilities		\$ 31,062	\$ 30,605
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	Note 13	2,743	2,735
Contributed surplus		118	104
Accumulated other comprehensive loss		(46)	(45)
Deficit		(4,370)	(2,785)
Total shareholders' equity (deficiency)		(1,555)	9
Total liabilities and shareholders' equity (deficiency)		\$ 29,507	\$ 30,614

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

On behalf of the Board of Directors:

Vagn Sørensen
Chairman

Christie J.B. Clark
Chair of the Audit, Finance and Risk Committee

CONSOLIDATED STATEMENTS OF OPERATIONS

For the year ended December 31
 (Canadian dollars in millions except per share figures)

		2022	2021
		Restated – Note 2AA	
OPERATING REVENUES			
Passenger	Note 20	\$ 14,238	\$ 4,498
Cargo	Note 20	1,266	1,495
Other		1,052	407
Total revenues		16,556	6,400
OPERATING EXPENSES			
Aircraft fuel		5,276	1,576
Wages, salaries and benefits	Notes 2Z & 10	3,260	2,143
Depreciation and amortization	Note 6	1,640	1,616
Airport and navigation fees		1,213	723
Sales and distribution costs		797	286
Capacity purchase fees	Note 2D	763	558
Aircraft maintenance	Note 2J	706	711
Ground package costs		474	120
Communications and information technology		468	373
Catering and onboard services		425	184
Impairment of assets	Note 6	4	38
Restructuring and transaction costs	Note 4	-	175
Other		1,717	946
Total operating expenses		16,743	9,449
Operating loss		(187)	(3,049)
NON-OPERATING INCOME (EXPENSE)			
Foreign exchange loss		(732)	(52)
Interest income		168	72
Interest expense	Note 9	(909)	(749)
Interest capitalized		13	17
Net interest relating to employee benefits	Note 10	24	(8)
Financial instruments recorded at fair value	Note 17	133	(55)
Loss on debt settlements and modifications	Note 9	(14)	(129)
Other		(20)	(28)
Total non-operating expense		(1,337)	(932)
Loss before income taxes		(1,524)	(3,981)
Income tax recovery (expense)	Note 12	(176)	379
Net loss		\$ (1,700)	\$ (3,602)
NET LOSS PER SHARE			
Basic and diluted loss per share	Note 15	\$ (4.75)	\$ (10.25)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the year ended December 31 (Canadian dollars in millions)	2022	2021
COMPREHENSIVE INCOME (LOSS)		
Net loss	\$ (1,700)	\$ (3,602)
Other comprehensive income (loss), net of tax:	Note 12	
Items that will not be reclassified to net income		
Remeasurements on employee benefit liabilities	Note 10	115
Remeasurements on equity investments		(1)
Total comprehensive loss	\$ (1,586)	\$ (2,297)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

(Canadian dollars in millions)	Share capital	Contributed surplus	Accumulated OCI	Deficit	Total shareholders' equity (deficiency)
January 1, 2021	\$ 2,150	\$ 98	\$ (39)	\$ (494)	\$ 1,715
Net loss	–	–	–	(3,602)	(3,602)
Remeasurements on employee benefit liabilities	–	–	–	1,311	1,311
Remeasurements on equity investments	–	–	(6)	–	(6)
Total comprehensive loss	–	–	(6)	(2,291)	(2,297)
Share-based compensation	–	12	–	–	12
Shares issued, net (Note 13)	585	(6)	–	–	579
December 31, 2021	\$ 2,735	\$ 104	\$ (45)	\$ (2,785)	\$ 9
Net loss	–	–	–	(1,700)	(1,700)
Remeasurements on employee benefit liabilities	–	–	–	115	115
Remeasurements on equity investments	–	–	(1)	–	(1)
Total comprehensive loss	–	–	(1)	(1,585)	(1,586)
Share-based compensation	–	16	–	–	16
Shares issued (Note 13)	8	(2)	–	–	6
December 31, 2022	\$ 2,743	\$ 118	\$ (46)	\$ (4,370)	\$ (1,555)

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For the year ended December 31
(Canadian dollars in millions)

	2022	2021
	Restated – Note 2P	
Cash flows from (used for)		
OPERATING		
Net loss	\$ (1,700)	\$ (3,602)
Adjustments to reconcile to net cash from operations		
Deferred income tax	Note 12 129	(395)
Depreciation and amortization	Note 6 1,640	1,616
Foreign exchange (gain) loss	Note 17 735	(339)
Employee benefit funding less than expense	Note 10 128	571
Financial instruments recorded at fair value	Note 17 (133)	55
Loss on debt settlements and modifications	Note 9 14	129
Change in maintenance provisions	111	(129)
Changes in non-cash working capital balances	1,498	473
Impairment of assets	Note 6 4	38
Restructuring and transaction costs	Note 4 -	(13)
Other	(58)	94
Net cash flows from (used in) operating activities	2,368	(1,502)
FINANCING		
Proceeds from borrowings	Note 9 202	8,171
Repayment of long-term debt and lease liabilities	Note 9 (1,814)	(4,510)
Issue of shares	Note 13 6	555
Financing fees	Note 9 (6)	(205)
Net cash flows from (used in) financing activities	(1,612)	4,011
INVESTING		
Investments, short-term and long-term	(959)	(862)
Additions to property, equipment and intangible assets	(1,572)	(1,073)
Proceeds from sale of assets	36	19
Proceeds from sale and leaseback of assets	Note 6 -	11
Other	(3)	36
Net cash flows (used in) investing activities	(2,498)	(1,869)
Effect of exchange rate changes on cash and cash equivalents	20	11
Increase (decrease) in cash and cash equivalents	(1,722)	651
Cash and cash equivalents, beginning of year	4,415	3,764
Cash and cash equivalents, end of year	\$ 2,693	\$ 4,415

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

1 | GENERAL INFORMATION

The accompanying audited 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, Aeroplan Inc. ("Aeroplan"), Touram Limited Partnership doing business under the brand name Air Canada Vacations® ("Air Canada Vacations"), and Air Canada Rouge LP doing business under the brand name Air Canada Rouge® ("Air Canada Rouge").

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

Air Canada is Canada's largest domestic, U.S. transborder and international airline and the largest provider of scheduled passenger services in the Canadian market, the Canada-U.S. transborder market as well as the international market to and from Canada. Certain of the scheduled passenger services offered on domestic and Canada-U.S. transborder routes are operated under the brand name "Air Canada Express" by a third party, namely Jazz Aviation LP ("Jazz"), a wholly-owned subsidiary of Chorus Aviation Inc. ("Chorus"), through a capacity purchase agreement. Through Air Canada's global route network, virtually every major market throughout the world is served either directly or through the Star Alliance network. Air Canada also offers air cargo services on domestic and U.S. transborder routes as well as on international routes between Canada and major markets in Europe, Asia, South America and Australia.

Aeroplan operates a loyalty rewards and recognition program that allows individuals to enroll as members and open an Aeroplan account, to accumulate Aeroplan Points through the purchase of products and services from participating partners and suppliers, and to redeem Aeroplan Points for a variety of travel, merchandise, gift card, and other rewards provided directly by participating partners or made available through Aeroplan's intermediary suppliers.

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 were approved for issue by the Board of Directors of the Corporation on February 16, 2023.

These financial statements are based on the accounting policies described below. These policies have been consistently applied to all the periods presented, except as otherwise stated. Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year. Refer to Note 2AA for information on the reclassifications on the consolidated statement of operations and Note 2P for information on the reclassification on the consolidated statement of financial position.

A) BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for the revaluation of cash, cash equivalents, short-term investments, restricted cash, long-term investments, the equity investment in Chorus, and derivative instruments which are measured at fair value.

B) PRINCIPLES OF CONSOLIDATION

These financial statements include the accounts of Air Canada and its subsidiaries. Subsidiaries are all entities (including structured entities) which Air Canada controls. For accounting purposes, control is established by an investor when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All inter-company balances and transactions are eliminated.

C) PASSENGER AND CARGO REVENUES

Passenger and cargo revenues are recognized when the transportation is provided, except for revenue on unlimited flight passes which is recognized on a straight-line basis over the period during which the travel pass is valid. The Corporation has formed alliances with other airlines encompassing loyalty program participation, interline agreements and code sharing and coordination of services including reservations, baggage handling and flight schedules. Revenues are allocated based upon formulas specified in the agreements and are recognized as transportation is provided. Passenger revenue also includes certain fees and surcharges and revenues from passenger-related services such as seat selection and excess baggage which are recognized when transportation is provided. Passenger revenues are reduced for any passenger compensation for delayed and cancelled flights paid directly to a customer. Airline passenger and cargo advance sales are deferred and included in Current liabilities. The Corporation records an estimate of breakage revenue, which is recorded at the time when transportation was scheduled to be provided, for tickets that will expire unused. These estimates are based on historical experience and other considerations.

D) CAPACITY PURCHASE AGREEMENT

Air Canada has a capacity purchase agreement with Jazz. Under this agreement, Air Canada markets, tickets and enters into other commercial arrangements relating to these flights and records the revenue it earns under Passenger revenue when transportation is provided.

Previously, operating expenses under capacity purchase agreements, were aggregated in a separate line item in the consolidated statement of operations titled Regional airlines expense, and included the capacity purchase fees, pass-through costs, which are direct costs incurred by the regional carrier and charged to the Corporation and other costs incurred by the Corporation which are directly related to regional carrier operations, excluding fuel.

For the year ended December 31, 2022, these costs are no longer allocated to regional airline expenses on the consolidated statement of operations. Capacity purchase fees are now presented as a separate line item in the

consolidated statement of operations and continue to exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16. This reclassification provides improved presentation of the total cost by nature of each expense associated with the Corporation's operations. This presentation change has no impact on total operating expenses. Comparative figures for 2021 have been reclassified to conform to the financial statement presentation adopted for the current year. Refer to Note 2AA for presentation of the line items that were affected.

E) AEROPLAN LOYALTY PROGRAM

The Aeroplan loyalty program generates customer loyalty by rewarding customers who travel with Air Canada. This program allows program members to earn Aeroplan Points by flying on Air Canada, Star Alliance partners and other airlines that participate in the Aeroplan loyalty program. When travelling, program members earn redeemable Aeroplan Points based on a number of factors including the passenger's loyalty program status, distance travelled, booking class and travel fare paid. Members can also earn Aeroplan Points through participating Aeroplan program partners such as credit card companies, hotels, car rental agencies and other program partners. Aeroplan Points 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 Points: (i) through travel and (ii) based on spending with program partners.

Points Earned with Travel

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

Points Sold to Program Partners

Aeroplan members can earn Aeroplan Points based on their spending with participating Aeroplan partners such as credit card companies, hotels and car rental agencies and other program partners. Aeroplan Points 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 Points issued to Aeroplan members under these agreements is recorded as Aeroplan deferred revenue.

Breakage represents the estimated Aeroplan Points 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 Points redeemed in a period in relation to the total number of Aeroplan Points expected to be redeemed. The number of Aeroplan Points 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.

F) OTHER REVENUES

Other revenue is primarily comprised of revenues from the sale of the ground portion of vacation packages, ground handling services, on-board sales, lounge pass sales and loyalty program marketing fees. Vacation package revenue is recognized as services are provided over the period of the vacation. Other airline related service revenues are recognized as the products are sold to passengers or the services are provided.

Redemption of Aeroplan Points for non-air goods and services is recorded in other revenue. 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 Points are redeemed for non-air goods and services, the net margin is recorded in other revenue when the performance obligation is satisfied.

In certain subleases of aircraft to Jazz, for accounting purposes, the Corporation acts as an agent and accordingly reports the sublease revenues net against capacity purchase fees. The Corporation acts as lessee and sublessor in these matters.

G) EMPLOYEE BENEFITS

The cost of pensions, other post-retirement and post-employment benefits earned by employees is actuarially determined annually as at December 31 and is prepared by the Corporation's consulting actuaries. The cost is determined using the projected unit credit method and assumptions including discount rates, future increases in compensation, retirement ages of employees, mortality rates, and health care costs.

Past service costs are recognized in the period of a plan amendment, irrespective of whether the benefits have vested. Gains and losses on curtailments or settlements are recognized in the period in which the curtailment or settlement occurs.

The current service cost and any past service cost, gains and losses on curtailments or settlements are recorded in Wages, salaries and benefits generally, with certain gains and losses on termination benefits separately disclosed in restructuring and transaction costs as described in Note 4. The interest arising on the net benefit obligations are presented in Net financing expense relating to employee benefits. Net actuarial gains and losses, referred to as remeasurements, are recognized in Other comprehensive income and Retained earnings without subsequent reclassification to income.

The current service cost is estimated utilizing different discount rates derived from the yield curve used to measure the defined benefit obligation at the beginning of the year, reflecting the different timing of benefit payments for past service (the defined benefit obligation) and future service (the current service cost).

The liability in respect of minimum funding requirements, if any, is determined using the projected minimum funding requirements, based on management's best estimates of the actuarially determined funded status of the plan, market discount rates and salary escalation estimates. The liability in respect of the minimum funding requirement and any subsequent remeasurement of that liability are recognized immediately in Other comprehensive income and Retained earnings (deficit) without subsequent reclassification to income.

Recognized pension assets are limited to the present value of any reductions in future contributions or any future refunds.

H) EMPLOYEE PROFIT SHARING PLANS

The Corporation has employee profit sharing plans. Payments are calculated based on full calendar year results and an expense recorded throughout the year, as applicable, as a charge to Wages, salaries and benefits based on the estimated annual payments under the plans.

I) SHARE-BASED COMPENSATION PLANS

Certain employees of the Corporation participate in Air Canada's Long-Term Incentive Plan, which provides for the grant of stock options, performance share units ("PSUs") and restricted share units ("RSUs"), as further described in Note 14. PSUs and RSUs are notional share units which are exchangeable on a one-to-one basis for Air Canada shares or the cash equivalent, as determined by the Board of Directors.

Options are expensed using a graded vesting model over the vesting period. The Corporation recognizes compensation expense and a corresponding adjustment to Contributed surplus equal to the fair value of the equity instruments granted using the Black-Scholes option pricing model taking into consideration forfeiture estimates. Compensation expense is adjusted for subsequent changes in management's estimate of the number of options that are expected to vest.

PSUs and RSUs are accounted for as cash settled instruments based on settlement experience. In accounting for cash settled instruments, compensation expense is adjusted for subsequent changes in the fair value of the PSUs and RSUs taking into account forfeiture estimates. The liability related to cash settled PSUs and RSUs is recorded in Other long-term liabilities. Refer to Note 17 for a description of derivative instruments used by the Corporation to economically hedge the cash flow exposure to PSUs and RSUs.

Air Canada also maintains an employee share purchase plan. Under this plan, contributions by the Corporation's employees are matched to a specific percentage by the Corporation. Employees must remain with the Corporation and retain their shares until March 31 of the subsequent year for vesting of the Corporation's contributions. These contributions are expensed in Wages, salaries, and benefits expense over the vesting period. The Corporation's matching of employee contributions was suspended on May 1, 2020 and reinstated on June 1, 2022.

J) MAINTENANCE AND REPAIRS

Maintenance and repair costs for both leased and owned aircraft are charged to Aircraft maintenance as incurred, with the exception of maintenance and repair costs related to return conditions on aircraft under lease, which are accrued over the term of the lease, and major maintenance expenditures on owned and leased aircraft, which are capitalized as described below in Note 2R.

Maintenance and repair costs related to return conditions on aircraft leases are recorded over the term of the lease for the end-of-lease maintenance return condition obligations within the Corporation's leases, offset by a prepaid maintenance asset to the extent of any related power-by-the-hour maintenance service agreements. 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, taking into account the specific risks of the liability over the remaining term of the lease. Interest accretion on the provision is recorded in Other non-operating expense. 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. Any difference in the actual maintenance cost incurred and the amount of the provision are recorded in Aircraft maintenance.

In connection with an amended agreement between Air Canada and a third-party service provider concluded in 2022, a favourable adjustment of \$159 million was recorded in 2022 in Aircraft maintenance expense arising from the adjustment to maintenance accruals and the recognition of future credits that will be available under the amended agreement. Given the significantly reduced aircraft operations and fleet reductions during the COVID-19 pandemic, this agreement was amended by the parties to convert the nature of the services from a power-by-the-hour basis to a time and materials contract and to reduce the number of items covered under the agreement. Until the contract amendment was completed, cost accruals continued on the previous contract basis.

K) OTHER OPERATING EXPENSES

Included in Other operating expenses are expenses related to building rent and maintenance, airport terminal handling costs, professional fees and services, crew meals and hotels, advertising and promotion, insurance costs, and other expenses. Other operating expenses are recognized as incurred.

L) FINANCIAL INSTRUMENTS

Recognition

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statement of financial position when the Corporation becomes a party to the financial instrument or derivative contract.

Classification

The Corporation classifies its financial assets and financial liabilities in the following measurement categories:

(i) those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss) and (ii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at fair value through profit or loss (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Corporation reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

The Corporation has implemented the following classifications:

- Cash and cash equivalents, short-term investments, restricted cash, and long-term investments are classified as assets at fair value through profit and loss and any period change in fair value is recorded through Interest income and Financial instruments recorded at fair value in the consolidated statement of operations, as applicable.
- The equity investment in Chorus is classified as an asset at fair value through other comprehensive income and any period change in fair value is

recorded through other comprehensive income in the consolidated statement of comprehensive income, as applicable.

- Accounts receivable and Aircraft-related and other deposits are classified as assets at amortized cost and are measured using the effective interest rate method. Interest income is recorded in the consolidated statement of operations, as applicable.
- Accounts payable, credit facilities, and long-term debt are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in the consolidated statement of operations, as applicable.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent to initial recognition, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition).

Impairment

The Corporation assesses all information available, including, on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Corporation compares the risk of a default occurring on the asset as at the reporting date with the risk of default as

at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Corporation applies the simplified approach as permitted by IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of receivables.

Derivatives and Hedge Accounting

The Corporation enters into foreign currency, fuel derivatives and share forward contracts to manage the associated risks. Derivative instruments are recorded on the consolidated statement of financial position at fair value, including those derivatives that are embedded in financial or non-financial contracts that are required to be accounted for separately. Changes in the fair value of derivative instruments are recognized in Non-operating income (expense), except for effective changes for designated fuel derivatives under hedge accounting as described below. Derivative instruments are recorded in Prepaid expenses and other current assets, Deposits and other assets, Accounts payable and accrued liabilities, and Other long-term liabilities based on the terms of the contractual agreements. All cash flows associated with purchasing and selling derivatives are classified as operating cash flows in the consolidated statement of cash flow.

The Corporation applies hedge accounting for designated fuel derivatives. Crude oil prices, while not contractually specified in the Corporation's jet fuel purchase contracts, are economically related to jet fuel prices. The Corporation enters into option contracts on crude oil and designates the contracts in cash flow hedges of the crude oil component of its future jet fuel purchases. The Corporation has established a hedge ratio of 1:1 for its hedging relationships. Under hedge accounting, to the extent effective, the gain or loss on fuel hedging derivatives is recorded in other comprehensive income. Premiums paid for option contracts and the time value of the option contracts are deferred as a cost of the hedge in other comprehensive income. Amounts accumulated in other comprehensive income are presented as hedging reserve in equity and are reclassified to Aircraft fuel expense when the underlying hedged jet fuel is used. Any ineffective gain or loss on fuel hedging derivatives is recorded in non-operating expense in Gain on financial instruments recorded at fair value.

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains

in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

M) FOREIGN CURRENCY TRANSLATION

The functional currency of Air Canada and its subsidiaries is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the date of the consolidated statement of financial position. Non-monetary assets and liabilities, revenues and expenses arising from transactions denominated in foreign currencies, are translated at the historical exchange rate or the average exchange rate during the period, as applicable. Adjustments to the Canadian dollar equivalent of foreign denominated monetary assets and liabilities due to the impact of exchange rate changes are recognized in Foreign exchange gain (loss).

N) INCOME TAXES

The tax expense for the period comprises current and deferred income tax. Tax expense is recognized in the consolidated statement of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the tax is netted with such items.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Corporation and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

O) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to the shareholders of Air Canada by the weighted average number of shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of shares outstanding for dilutive potential shares. The Corporation's potentially dilutive shares are comprised of stock options, convertible notes, and warrants. The number of shares included with respect to time vesting options and warrants is computed using the treasury stock method unless they are anti-dilutive. Under this method, the proceeds from the exercise of such instruments are assumed to be used to purchase shares at the average market price for the period and the difference between the number of shares issued upon exercise and the number of shares assumed to be purchased is included in the calculation. The number of shares included with respect to performance-based employee share options is treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time. If the specified conditions are met, then the number of shares included is also computed using the treasury stock method unless they are anti-dilutive.

The weighted average number of shares outstanding in diluted EPS is also adjusted for the number of shares that would be issued on the conversion of the convertible notes. Additionally, the net income (loss) is adjusted for the after-tax effect of any changes to net income (loss) that would result from the conversion of the convertible notes or the exercise of the warrants, including interest recognized in the period, foreign exchange recognized on the debt principal, the mark to market revaluation of the embedded derivative, and the change in fair value of the warrants liability unless the result of the adjustments is anti-dilutive. As described in Note 13, all remaining warrants were fully settled in January 2022 and are no longer outstanding.

P) RESTRICTED CASH

In 2022, the IFRS Interpretations Committee finalized its decision on IAS 7 Statement of Cash Flows that restrictions on the use of demand deposits arising from a contract with a third party do not preclude those deposits from being classified as cash and cash equivalents when they are available to the company on demand. Such deposits should therefore be included in cash and cash equivalents in the statements of cash flows and financial position, with disclosure provided on significant cash and cash equivalents balances with restrictions on use.

Previously, the Corporation recorded restricted cash under current assets representing funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. While these funds are in trust pursuant to the applicable regulations, the Corporation may access these funds as services are rendered or as disbursements are made on behalf of the customer. As a result of this guidance on application of IAS 7 Statement of Cash Flows, the Corporation has reclassified these amounts to Cash and cash equivalents with the 2021 comparative figures also reclassified. The presentation change impacted cash flows from operating activities with an increase of \$61 million for the year ended December 31, 2021. Cash and cash equivalents include \$386 million related to these funds at December 31, 2022 (\$167 million at December 31, 2021).

Funds held in trust with various financial institutions as collateral for letters of credit and other items continue to be classified as restricted cash, and are recorded in Investments, deposits and other assets.

Q) AIRCRAFT FUEL INVENTORY AND SPARE PARTS AND SUPPLIES INVENTORY

Inventories of aircraft fuel, spare parts and supplies are measured at cost being determined using a weighted average formula, net of related obsolescence provision, as applicable.

The Corporation did not recognize any write-downs on inventories or reversals of any previous write-downs during the periods presented. Included in Aircraft maintenance is \$51 million related to spare parts and supplies consumed during the year (2021 – \$33 million).

R) PROPERTY AND EQUIPMENT

Property and equipment are recognized using the cost model. Property under leases, recognized as right-of-use assets, and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the asset and the present value of those lease payments.

The Corporation allocates the amount initially recognized in respect of an item of property and equipment to its significant components and depreciates separately each component. Property and equipment are depreciated to estimated residual values based on the straight-line method over their estimated service lives. Aircraft and flight equipment are componentized into airframe, engine, and cabin interior equipment and modifications. Airframes and engines are depreciated over periods not exceeding 25 years, with residual values initially estimated at 10% of the original cost and updated for changes in estimates over time. Spare engines and related parts ("rotables") are depreciated over the average remaining useful life of the fleet to which they relate with residual values initially estimated at 10%. Cabin interior equipment and modifications are depreciated over the lesser of eight years or the remaining useful life of the aircraft. Cabin interior equipment and modifications to aircraft on lease are amortized over the lesser of eight years or the term of the lease. Major maintenance of airframes and engines, including replacement spares and parts, labour costs and/or third-party maintenance service costs, are capitalized and amortized over the average expected life between major maintenance events. Major maintenance events typically consist of more complex inspections and servicing of the aircraft. All power-by-the-hour fleet maintenance contract costs are charged to operating expenses in the income statement as incurred. Buildings are depreciated on a straight-line basis over their useful lives not exceeding 50 years or the term of any related lease, whichever is less. Leasehold improvements are amortized over the lesser of the lease term or 10 years. Ground and other equipment is depreciated over periods ranging from 3 to 25 years.

Residual values and useful lives are reviewed at least annually, and depreciation rates are adjusted accordingly on a prospective basis. Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of non-operating gains and losses in the consolidated statement of operations.

S) INTEREST CAPITALIZED

Borrowing costs are expensed as incurred. For borrowing costs attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, the costs are capitalized as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized up to the date when the project is completed and the related asset is available for its intended use.

To the extent that funds are borrowed specifically for the purpose of obtaining such assets, the amount of borrowing costs eligible for capitalization is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Corporation that are outstanding during the period. Borrowings made specifically for the purpose of obtaining a qualifying asset are excluded from this calculation until substantially all the activities necessary to prepare the asset for its intended use are complete.

T) 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.

Changes to the terms and conditions, or events impacting the extension of a lease would usually require an assessment of whether it is a lease modification which could involve recalculating lease assets and liabilities using a revised discount rate.

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.

Sale and Leaseback

For sale and leaseback transactions, the Corporation applies the requirements of IFRS 15 Revenue to determine whether the transfer of the asset should be accounted for as a sale and is generally considered as such if there is no repurchase option on the asset at the end of the lease term. If the transfer of the asset is a sale, the Corporation de-recognizes the underlying asset and recognizes a right-of-use asset arising from the leaseback equal to the retained portion of the previous carrying amount of the sold asset. The residual is recognized through the statement of operations as a gain on sale and leaseback of assets.

Aircraft Leases

As at December 31, 2022 the Corporation had 71 aircraft under right-of-use leases (78 aircraft as at December 31, 2021), and Air Canada recorded such aircraft as right-of-use assets and lease liabilities of Air Canada in accordance with the requirements of IFRS 16. Additionally, Air Canada is the lessee in respect of aircraft used by its regional carrier providing services under a capacity purchase agreement and recorded such aircraft as right-of-use assets and lease liabilities of Air Canada. As at December 31, 2022, there were 99 aircraft (99 aircraft as at December 31, 2021) 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.

U) INTANGIBLE ASSETS

Intangible assets are initially recorded at cost. Indefinite life intangible assets are not amortized while assets with finite lives are amortized on a straight-line basis over their estimated useful lives.

	Estimated Useful Life	Remaining amortization period as at December 31, 2022
International route rights and slots	Indefinite	Not applicable
Marketing-based trade names	Indefinite	Not applicable
Technology-based (internally developed)	5 to 15 years	1 to 13 years
Contract-based (Aeroplan commercial agreements)	11.5 years	8 years

Air Canada has international route rights and slots which enable the Corporation to provide services internationally. The value of the recorded intangible assets relates to the cost of route and slot rights at Tokyo's Narita International Airport, Washington's Reagan National Airport and London's Heathrow Airport. Air Canada expects to provide service to these international locations for an indefinite period.

Air Canada and certain of its subsidiaries have trade names, trademarks, and domain names (collectively, "Trade Names"). These items are marketing-based intangible assets as they are primarily used in the sale and promotion of Air Canada's and/or a subsidiary's products and services. The Trade Names create brand recognition with customers and potential customers and are capable of contributing to cash flows for an indefinite period of time. Air Canada intends to continually re-invest in, and market, the Trade Names to support classification as indefinite life intangibles. If there were plans to cease using any of the Trade Names, the specific names would be classified as finite and amortized over the expected remaining useful life.

Development costs that are directly attributable to the design, development, implementation and testing of identifiable software products are recognized as technology-based intangible assets if certain criteria are met, including technical feasibility and intent and ability to develop and use the technology to generate probable future economic benefits; otherwise, they are expensed as incurred. Directly attributable costs that are capitalized as part of the technology-based intangible assets include software-related, employee and third-party development costs and an appropriate portion of relevant overhead. Configuration or customization costs in a cloud computing arrangement are also included when they meet the capitalization criteria as an intangible asset.

Contract-based and marketing-based trade name intangible assets were recorded upon the acquisition of Aeroplan. The contract-based intangible assets have an estimated remaining useful life of 8 years, being the initial term of the primary commercial agreements with program partners at acquisition. The marketing-based trade name is considered an indefinite life intangible asset.

V) GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Corporation's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. For the purpose of impairment testing, goodwill is tested for impairment at the lowest level within the entity at which the goodwill is monitored for internal management purposes, being the operating segment level (Note 2Y).

W) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets include property and equipment, finite lived intangible assets, indefinite lived intangible assets and goodwill. Assets that have an indefinite useful life, including goodwill are tested at least annually for impairment or when events or circumstances indicate that the carrying value may not be recoverable. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment test is performed by comparing the carrying amount of the asset or group of assets to their recoverable amount. Recoverable amount is calculated as the higher of an asset's or cash-generating unit's fair value less costs to dispose and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or CGUs). Management has determined that the appropriate level for assessing impairments is at the narrow-body and wide-body fleet levels for aircraft and related assets supporting the operating fleet. Parked aircraft (not including aircraft that are parked but are expected to be so temporarily and returned to service) not used in operations and aircraft leased or subleased to third parties are assessed for impairment at the individual asset level. An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount.

Long-lived assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Management assesses whether there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased. In assessing whether there is a possible reversal of an impairment loss, management considers the indicators that gave rise to the impairment loss. If any such indicators

exist that an impairment loss has reversed, management estimates the recoverable amount of the long-lived asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of any individual asset in the CGU is not increased above the carrying value that would have been determined had the original impairment not occurred. A reversal of an impairment loss is recognized immediately in the consolidated statement of operations.

X) PROVISIONS

Provisions are recognized when there exists a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the obligation. If the effect is significant, the expected cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, interest accretion on the provision is recorded in Other non-operating expense.

Y) SEGMENT REPORTING

Air Canada is managed as one operating segment based on how financial information is produced internally for the purposes of making operating decisions. The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the President and Chief Executive Officer.

Z) GOVERNMENT GRANTS

The Corporation recognizes government grants when there is reasonable assurance that the Corporation will comply with the conditions of the grant and the grant will be received. The Corporation recognizes government grants in the consolidated statement of operations in the same period as the expenses for which the grant is intended to compensate.

In 2020, in response to challenges posed by the COVID-19 pandemic, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") in order to help employers retain and/or return Canadian-based employees to payrolls. Air Canada continued its participation in the CEWS program until the program ended in October 2021. In October 2021, the Government of Canada announced two

new programs designed to support businesses that were still facing challenges due to the COVID-19 pandemic: the Hardest Hit Business Recovery Program ("HHBRP") and the Tourism and Hospitality Recovery Program ("THRP").

In 2021, the Corporation recorded a total gross subsidy under the CEWS and HHBRP programs of \$457 million; \$451 million net of the cost for inactive employees who were eligible for the wage subsidy under the programs was recognized in Wages, salaries and benefits. Cash payments of \$518 million were received in 2021. No such subsidy was recorded in 2022 as the Corporation no longer qualified under the new programs.

AA) COMPARATIVE FIGURES – CONSOLIDATED STATEMENT OF OPERATIONS

Comparative figures have been reclassified to conform to the financial presentation adopted for the current year.

Previously, operating expenses under capacity purchase agreements, were aggregated in a separate line item in the consolidated statement of operations titled Regional airlines expense, and included the capacity purchase fees, pass-through costs, which are direct costs incurred by the regional carrier and charged to the Corporation and other costs incurred by the Corporation which are directly related to regional carrier operations, excluding fuel. For the year ended December 31, 2022, these costs are no longer allocated to regional airline expenses on the consolidated statement of operations. Capacity purchase fees are now presented as a separate line item in the consolidated statement of operations and continue to exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16.

Figures previously classified as special items in the consolidated statement of operations have been reclassified to Wages, salaries and benefits, Restructuring and transaction costs (Note 4), and Impairment of assets (Note 6).

These presentation changes impacted the Corporation's previously reported consolidated statement of operations as presented in the following table. Line items that were not affected by the presentation change have not been included in the table below. As a result, the total operating expenses cannot be recalculated from the table provided.

(Canadian dollars in millions)	For the year ended Dec. 31, 2021 as previously reported	Reclassification for Regional airlines expense	Reclassification for Special items	For the year ended Dec. 31, 2021 as restated
OPERATING EXPENSES				
Wages, salaries and benefits	\$ 2,283	\$ 104	\$ (244)	\$ 2,143
Regional airlines expense, excluding fuel	1,042	(1,042)		-
Airport and navigation fees	562	161		723
Sales and distribution costs	244	42		286
Capacity purchase fees	-	558		558
Aircraft maintenance	656	55		711
Communications and information technology	362	11		373
Catering and onboard services	165	19		184
Special items	(31)		31	-
Impairment of assets	Note 6	-	38	38
Restructuring and transaction costs	Note 4	-	175	175
Other	854	92		946
Total operating expenses	\$ 9,449	\$ -	\$ -	\$ 9,449

The \$244 million reclassification to Wages, salaries and benefit is comprised of a \$451 million government wage subsidy offset by \$82 million for benefit plan amendments and \$125 million for a benefit plan settlement. These items are further described in Notes 2Z and 10.

BB) ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

Amendments to IAS 1, Presentation of Financial Statements - Disclosure of Accounting Policies

In February 2021, the IASB issued amendments to IAS 1 that require entities to disclose material accounting policy information instead of significant accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023, but earlier application is permitted. The Corporation is evaluating the impact of the amendments on the disclosure of its accounting policies.

Amendments to IAS 1, Presentation of Financial Statements – Classification of Liabilities as Current or Non-current

In October 2022, the IASB published amendments to the *Classification of Liabilities as Current or Non-current* in IAS 1 Presentation of Financial Statements. The amendments aim to improve the information companies provide when the right to defer settlement of a liability for at least 12 months is subject to the entity complying with covenants after the reporting date. The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. The amendments require an entity to disclose information about these covenants in the notes to the financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2024, with earlier application permitted. The Corporation is evaluating the impact of the amendments.

3 | CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. These estimates and associated assumptions are based on historical experience, future operating plans and various other factors believed to be reasonable under the circumstances, and the results of such estimates form the basis of judgments about carrying values of assets and liabilities. These underlying assumptions are reviewed on an ongoing basis. Actual results could differ materially from those estimates.

Significant estimates and judgments made in the preparation of these financial statements include the following areas, with further information contained in the applicable accounting policy or note:

Impairment Considerations on Long-lived Assets

When required, an impairment test is performed by comparing the carrying amount of the asset or cash-generating unit to their recoverable amount, which is calculated as the higher of an asset's or cash-generating unit's fair value less costs to dispose and its value in use. Fair value less costs to dispose may be calculated based upon a discounted cash flow analysis, which requires management to make a number of significant market participant assumptions including assumptions relating to cash flow projections, discount rates and future growth rates. Refer to Note 7.

Employee Future Benefits

The cost and related liabilities of the Corporation's pension, other post-retirement and post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions and estimates including discount rates and mortality assumptions. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty. Refer to Note 10 for additional information.

Aeroplan Loyalty Program

Loyalty program accounting requires management to make several estimates including the ETV of Aeroplan Points issued and the breakage on Aeroplan Points. The ETV of Aeroplan Points issued is determined based on the value a passenger receives by redeeming Points for a ticket rather than paying cash. This ETV is estimated with reference to

historical Aeroplan redemptions as compared to equivalent ticket purchases after considering similar fare conditions, advance booking periods and other relevant factors including the selling price of Points to third parties. ETV estimates and assumptions are considered for updates at least annually. A change in the ETV rate is accounted for prospectively.

Breakage represents the estimated Points that are not expected to be redeemed. 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 future redemptions. Management uses statistical and simulation models to estimate breakage. A change in assumptions as to the number of Points expected to be redeemed could have a significant impact on revenue in the year in which the change occurs. Given the unique impact of the COVID-19 pandemic on travel demand and consumer spending patterns, and considering the launch of the new Aeroplan program in 2020 and the special benefits and accommodations for Aeroplan members in response to the COVID-19 pandemic, the breakage estimate is unchanged in 2022 and is based on a qualitative update of the prior assessment. In addition, the estimate is based on management's long-term expectations of breakage over the life of the program.

As at December 31, 2022, the Aeroplan Points deferred revenue balance was \$3,409 million. For illustrative purposes, a hypothetical 1% change in the number of outstanding Points estimated to be redeemed would result in an approximate impact of \$34 million on revenue with a corresponding adjustment to Aeroplan deferred revenue.

Breakage

Breakage estimates and resulting amount of breakage revenues recorded are estimated based on historical breakage patterns and are subject to measurement uncertainty. Estimates of breakage may vary in future periods. These estimates have been impacted by the COVID-19 pandemic including: (i) flight cancellations, (ii) the conversion of certain tickets into non-expiring travel vouchers for flights that were cancelled with travel dates after February 1, 2020 and purchased before April 13, 2021, and (iii) changes in ticket usage and exchange patterns.

Depreciation and Amortization Period for Long-lived Assets

The Corporation makes estimates about the expected useful lives of long-lived assets and the expected residual value of the assets based on the estimated current and future fair values of the assets, the Corporation's fleet plans and the cash flows they generate. Changes to these estimates, which can be significant, could be caused by a variety of factors, including changes to maintenance programs, changes in jet fuel prices and other operating costs, changes in utilization of the aircraft, and changing market prices for new and used aircraft of the same or similar types. Estimates and assumptions are evaluated at least annually. Generally, these adjustments are accounted for on a prospective basis, through depreciation and amortization expense. For the purposes of sensitivity analysis on these estimates, a 50% reduction to residual values on aircraft with remaining useful lives greater than five years results in an increase of \$15 million to annual depreciation expense. For aircraft with shorter remaining useful lives, the residual values are not expected to change significantly.

Maintenance Provisions

The recording of maintenance provisions related to return conditions on aircraft leases requires management to make estimates of the future costs associated with the maintenance events required under the lease return condition and estimates of the expected future maintenance condition of the aircraft at the time of lease expiry. These estimates take into account current costs of these maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Any difference in the actual maintenance cost incurred at the end of the lease and the amount of the provision is recorded in Aircraft maintenance expense in the period. The effect of any changes in estimates, including changes in discount rates, inflation assumptions, cost estimates or lease expiries, is recognized as an adjustment to the right-of-use asset. Refer to Note 11(a) for additional information.

4 | RESTRUCTURING AND TRANSACTION COSTS

Restructuring and transaction costs recorded within operating expenses consist of the following:

(Canadian dollars in millions)	2022	2021
Workforce reduction provisions	\$ -	161
Other	-	14
Restructuring and transaction costs	\$ -	\$ 175

Workforce Reduction Provisions

As a result of the COVID-19 pandemic and to mitigate the number of employees who were on layoff status, Air Canada offered early retirement incentive programs to its unionized workforce. These programs provided for pension improvements which were payable from the defined benefit pension plan for eligible employees, and as such did not impact the Corporation's liquidity position. Termination benefits and a curtailment loss of \$161 million were recorded for the year ended December 31, 2021.

Other

Termination of Transat Arrangement Agreement

In April 2021, Air Canada announced that the arrangement agreement for the proposed acquisition by Air Canada of Transat A.T. Inc. ("Transat") was terminated, including the payment of a \$12.5 million termination fee to Transat.

Amendments to Capacity Purchase Agreements

In March 2021, Air Canada announced an agreement to amend the capacity purchase agreement with Jazz, under which Jazz operates regional flights under the Air Canada Express brand. Through the revised agreement, Air Canada transferred the operation of its Embraer E175 fleet to Jazz from Sky Regional and Jazz became the sole operator of flights under the Air Canada Express brand. The capacity purchase agreement with Sky Regional was terminated. The Corporation recorded a net expense of \$2 million, related to the capacity purchase agreement revisions and consolidation of regional flying.

5 | INVESTMENTS, DEPOSITS AND OTHER ASSETS

(Canadian dollars in millions)		2022	2021
Long-term investments		\$ 823	\$ 601
Investment in Chorus (a)		51	52
Restricted cash	Note 2P	79	75
Aircraft related deposit		47	57
Prepayments under maintenance agreements		53	52
Other investments		13	-
Other deposits		7	14
Share forward contracts		-	7
		\$ 1,073	\$ 858

(a) The investment represents Air Canada's holding of 15,561,600 class B voting shares in the capital of Chorus.

6 | PROPERTY AND EQUIPMENT

(Canadian dollars in millions)	December 31, 2022			December 31, 2021		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Owned tangible assets						
Aircraft and flight equipment	\$ 14,777	\$ 6,152	\$ 8,625	\$ 13,704	\$ 5,610	\$ 8,094
Buildings and leasehold improvements	1,091	646	445	1,050	599	451
Ground and other equipment	664	491	173	656	472	184
Purchase deposits and assets under development	470	-	470	549	-	549
Owned tangible assets	\$ 17,002	\$ 7,289	\$ 9,713	\$ 15,959	\$ 6,681	\$ 9,278
Air Canada aircraft	\$ 4,042	\$ 2,750	\$ 1,292	\$ 4,083	\$ 2,599	\$ 1,484
Regional aircraft	1,982	1,394	588	1,924	1,254	670
Land and buildings	578	221	357	508	200	308
Right-of-use assets	\$ 6,602	\$ 4,365	\$ 2,237	\$ 6,515	\$ 4,053	\$ 2,462
Property and equipment	\$ 23,604	\$ 11,654	\$ 11,950	\$ 22,474	\$ 10,734	\$ 11,740

Additions to owned aircraft in 2022 include five new Airbus A220, nine new Boeing 737 MAX-8 and two new Boeing 767 freighter aircraft.

In response to COVID-19 related capacity reductions in 2020, the Corporation accelerated the retirement of certain older aircraft from its fleet. In 2021, a charge of \$46 million, net of impairment reversals of \$8 million, was recorded as a result of reductions to the estimates of the expected disposal proceeds on owned aircraft and flight equipment, partially offset by lower-than-expected costs to meet contractual return conditions on lease returns. An impairment charge of \$4 million was recorded in 2022 related to the return of leased aircraft.

Included in aircraft and flight equipment are 15 aircraft and 13 spare engines (2021 – 15 aircraft and 15 spare engines) which are leased to Jazz with a cost of \$425 million (2021 – \$400 million) less accumulated depreciation of \$215 million (2021 – \$198 million) for a net book value of \$210 million (2021 – \$202 million). Depreciation expense for 2022 for these aircraft and flight equipment amounted to \$29 million (2021 – \$26 million).

In 2021, the Corporation sold and leased back two Boeing 767 aircraft for total proceeds of \$11 million.

Certain property and equipment are pledged as collateral as further described under the applicable debt instruments in Note 9.

(Canadian dollars in millions)	January 1, 2022	Additions	Reclassifica- tions	Disposals	Depreciation	December 31, 2022
Owned tangible assets						
Aircraft and flight equipment	\$ 8,094	\$ 954	\$ 464	\$ (18)	\$ (869)	\$ 8,625
Buildings and leasehold improvements	451	3	39	-	(48)	445
Ground and other equipment	184	26	2	-	(39)	173
Purchase deposits and assets under development	549	426	(505)	-	-	470
Owned tangible assets	\$ 9,278	\$ 1,409	\$ -	\$ (18)	\$ (956)	\$ 9,713
Right-of-use assets						
Air Canada aircraft	\$ 1,484	\$ 181	\$ -	\$ (2)	\$ (371)	\$ 1,292
Regional aircraft	670	72	-	-	(154)	588
Land and buildings	308	75	-	-	(26)	357
Right-of-use assets	\$ 2,462	\$ 328	\$ -	\$ (2)	\$ (551)	\$ 2,237
Property and equipment	\$ 11,740	\$ 1,737	\$ -	\$ (20)	\$ (1,507)	\$ 11,950

(Canadian dollars in millions)	January 1, 2021	Additions	Reclassifica- tions	Disposals	Depreciation and impairment	December 31, 2021
Owned tangible assets						
Aircraft and flight equipment	\$ 7,832	\$ 767	\$ 411	\$ (48)	\$ (868)	\$ 8,094
Buildings and leasehold improvements	480	-	22	-	(51)	451
Ground and other equipment	226	7	-	-	(49)	184
Purchase deposits and assets under development	754	228	(433)	-	-	549
Owned tangible assets	\$ 9,292	\$ 1,002	\$ -	\$ (48)	\$ (968)	\$ 9,278
Right-of-use assets						
Air Canada aircraft	\$ 1,679	\$ 190	\$ -	\$ (10)	\$ (375)	\$ 1,484
Regional aircraft	833	36	-	(24)	(175)	670
Land and buildings	333	1	-	-	(26)	308
Right-of-use assets	\$ 2,845	\$ 227	\$ -	\$ (34)	\$ (576)	\$ 2,462
Property and equipment	\$ 12,137	\$ 1,229	\$ -	\$ (82)	\$ (1,544)	\$ 11,740

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

(Canadian dollars in millions)	2022	2021
Aircraft and flight equipment	\$ 869	\$ 822
Buildings and leasehold improvements	48	51
Ground and other equipment	39	49
Owned tangible assets	956	922
Air Canada aircraft	371	375
Regional aircraft	154	175
Land and buildings	26	26
Right-of-use assets	551	576
Property and equipment	1,507	1,498
Spare part and supplies inventory	8	14
Intangible assets	125	104
Depreciation and amortization	\$ 1,640	\$ 1,616

7 | INTANGIBLE ASSETS

(Canadian dollars in millions)	International route rights and slots	Contract-based	Marketing-based trade names	Technology-based (internally developed)	Total
Year ended December 31, 2021					
At January 1, 2021	\$ 97	\$ 187	\$ 178	\$ 672	\$ 1,134
Additions	-	-	-	50	50
Amortization	-	(20)	-	(84)	(104)
At December 31, 2021	\$ 97	\$ 167	\$ 178	\$ 638	\$ 1,080
At December 31, 2021					
Cost	\$ 97	\$ 225	\$ 178	\$ 1,021	\$ 1,521
Accumulated amortization	-	(58)	-	(383)	(441)
	\$ 97	\$ 167	\$ 178	\$ 638	\$ 1,080
Year ended December 31, 2022					
At January 1, 2022	\$ 97	\$ 167	\$ 178	\$ 638	\$ 1,080
Additions	-	-	-	99	99
Amortization	-	(19)	-	(106)	(125)
At December 31, 2022	\$ 97	\$ 148	\$ 178	\$ 631	\$ 1,054
At December 31, 2022					
Cost	\$ 97	\$ 225	\$ 178	\$ 1,106	\$ 1,606
Accumulated amortization	-	(77)	-	(475)	(552)
	\$ 97	\$ 148	\$ 178	\$ 631	\$ 1,054

In 2022, technology-based assets with cost and accumulated amortization of \$14 million (2021 – \$80 million) were retired.

International route rights and slots are pledged as security for senior secured notes and debt as described in Note 9.

Impairment Assessment

Due to the recoverable amount of the cash-generating units exceeding their respective carrying values by an aggregate amount of approximately \$13 billion, the most recent calculation from the 2021 period was carried forward and used in the impairment test in the current period. Management considered reasonably possible changes in key assumptions using multiple modelling scenarios and sensitivity analysis and determined such changes would not cause the recoverable amount of each CGU to be less than the carrying value. In addition, management has updated the impairment review to take into account the most recent projections from the annual business plan and it did not have an impact to this conclusion.

The assessment of the recoverable amount of the Corporation's cash-generating units compared to their carrying values was performed based on cash flow projections prepared in 2021 taking into account the COVID-19 pandemic. This review was performed in conjunction with the annual impairment review conducted on all intangible assets that have an indefinite life. The allocation of the indefinite lived intangible assets to the cash-generating units was \$165 million to wide-body aircraft and \$110 million to narrow-body aircraft. The recoverable amount of the cash-generating units was measured based on fair value less cost to dispose, using a discounted cash flow model. The discounted cash flow model represents a level 3 fair value measurement within the IFRS 13 fair value hierarchy. The cash flows are management's best estimates using current and anticipated market conditions covering a five-year period.

Key assumptions used for the fair value less cost to dispose calculations in fiscal 2021 were as follows:

Key Assumption	2021	Approach used to determine values
Average discount rate	9.25%	<p>Derived from market participant assumptions regarding the Corporation's weighted average cost of capital adjusted for taxes and specific risks applicable to each cash-generating unit being tested.</p> <p>Inputs to the various scenarios ranged from 9.5%-11% for the wide-body CGU and 7.5%-9% for the narrow-body CGU.</p>
Long-term growth rate	2.5%	Cash flows beyond the five-year period are projected to increase at 2.5% consistent with the long-term growth assumption of the airline industry considering various factors such as the Corporation's fleet plans and industry growth assumptions.
Jet fuel price range per barrel	US\$92 – US\$97	<p>Jet fuel prices are assumed to follow the global market recovery and represent management's best estimate of the range of future market conditions.</p> <p>Emerging issues in climate-related matters, such as change in regulations, may impact this assumption in future years.</p>

8 | GOODWILL

Goodwill is tested at least annually for impairment. Goodwill is tested for impairment using the fair value less cost to dispose model at the operating segment level. Air Canada is managed as one operating segment based on how financial information is produced internally for the purposes of making operating decisions, and it is the lowest level at which goodwill is monitored for internal management purposes.

In assessing the goodwill for impairment, the Corporation compares the aggregate recoverable amount consisting of the sum of its quoted equity market capitalization and the fair value of its debt to the carrying value of its net assets excluding long-term debt. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment losses have been recorded against the value of goodwill since its acquisition.

No impairment charges have arisen as a result of the reviews performed as at December 31, 2022 and 2021. Reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value.

9 | LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	December 31, 2022 (Canadian dollars in millions)	December 31, 2021 (Canadian dollars in millions)
Aircraft financing (a)				
Fixed rate U.S. dollar financing	2023 – 2030	4.92	\$ 3,408	\$ 3,471
Floating rate U.S. dollar financing	2026 – 2027	6.42	399	427
Fixed rate CDN dollar financing	2026 – 2030	3.78	182	206
Floating rate CDN dollar financing	2026 – 2033	6.61	1,240	1,169
Fixed rate Japanese yen financing	2027	1.84	121	129
Floating rate Japanese yen financing			-	2
Convertible notes (b)	2025	4.00	313	723
Credit facility – CDN dollar (c)	2028	1.21	1,054	1,018
Senior secured notes – CDN dollar (d)	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar (d)	2026	3.88	1,626	1,516
Senior secured credit facility – U.S. dollar (d)	2028	8.13	3,102	2,907
Long-term debt		5.33	13,445	13,568
Lease liabilities				
Air Canada aircraft	2023 – 2031	5.02	1,667	1,792
Regional aircraft	2023 – 2035	5.93	917	981
Land and buildings	2023 – 2078	5.37	454	406
Lease liabilities (e)		5.35	3,038	3,179
Total debt and lease liabilities		5.34	16,483	16,747
Unamortized debt issuance costs and discounts			(177)	(224)
Current portion – Long-term debt			(713)	(511)
Current portion – Air Canada aircraft			(337)	(310)
Current portion – Regional aircraft			(187)	(166)
Current portion – Land and buildings			(26)	(25)
Long-term debt and lease liabilities			\$ 15,043	\$ 15,511

(a) Aircraft financing (US\$2,809 million, CDN \$1,412 million and JPY ¥11,748 million) (2021 – US\$3,085 million, CDN \$1,375 million and JPY ¥11,884 million) is secured primarily by specific aircraft with a carrying value of \$5,745 million (2021 – \$6,025 million). For the majority of the financing, principal and interest is repayable quarterly until maturity and can be repaid at any time with the payment of applicable fees. US\$91 million and CDN \$155 million of the financing is supported by a loan guarantee by the Export-Import Bank of the United States ("EXIM").

In May 2021, US\$84 million (\$101 million) related to the series 2013-1B equipment notes were refinanced, at their original maturity, with an interest rate of 4.75% per annum and a final expected distribution date of May 2025.

In March 2021, Air Canada concluded a committed secured facility totalling US\$475 million to finance the purchase of 15 Airbus A220 aircraft scheduled for delivery in 2021 and 2022. As at December 31, 2022, Air Canada has drawn \$494 million, and financing remains available for an additional two A220 aircraft under this facility. Loans for each aircraft have a final maturity date 10 years after delivery of the applicable aircraft. Interest rates, which can be floating or fixed, are set on draw down of each loan. Floating interest rates are generally CDOR plus a margin of 2.28%. Fixed interest rates are based on the rate to swap floating rate debt of CDOR plus a margin of 2.28% to a fixed rate debt plus a margin of 2.49%.

(b) In June 2020, Air Canada closed US\$748 million (\$1,011 million) of convertible unsecured notes ("Convertible Notes"), for net proceeds of \$986 million. The Convertible Notes bear interest semi-annually in arrears at a rate of 4.0% per annum and will mature on July 1, 2025, unless earlier repurchased, redeemed or converted. The Convertible Notes are convertible at the Corporation's election, into cash, or into Class A Variable Voting shares and/or Class B Voting shares of the Corporation, or a combination of cash and shares. The Convertible Notes are convertible prior to the close of business on the business day immediately preceding March 1, 2025 only under the circumstances and subject to satisfaction of the conversion conditions set out in the indenture for the Convertible Notes, and at any time on or after March 1, 2025 until the close of business on the second scheduled trading day immediately preceding July 1, 2025, the maturity date of the Notes, regardless of the foregoing conditions, in each case at the option of the noteholders. The conversion rate of the Convertible Notes is 65.1337 shares per US\$1,000 principal amount of Convertible Notes, or a conversion price of approximately US\$15.35 per share, subject to adjustment in certain events in accordance with the indenture.

The Corporation's option to deliver cash or a combination of cash and shares on the conversion date in lieu of shares (based on the daily conversion values for 40 consecutive trading days) gives rise to an embedded derivative financial liability measured separately at fair value through profit or loss. The carrying value of the underlying notes is accreted to their face value using the effective interest method, which results in an effective interest rate of 10.76%. The fair value of the embedded derivative which is recorded in Other long-term liabilities was \$320 million at initial recognition. At December 31, 2022, the fair value was \$120 million (2021 - \$579 million) and the Corporation recorded a gain of \$219 million for the year ended December 31, 2022 (\$45 million loss for the year 2021). Refer to Note 17.

In September 2022, the Corporation repurchased \$273 million (US\$207 million) aggregate principal amount of outstanding Convertible Notes for an aggregate cash repurchase price of \$329 million (US\$249 million), including accrued interest. The Corporation recorded a \$17 million gain on debt settlement related to this repurchase. In December 2022, the Corporation repurchased an additional \$362 million (US\$266 million) aggregate principal amount of the outstanding Convertible Notes for an aggregate cash repurchase price of \$449 million (US\$330 million), including accrued interest. As at December 31, 2022,

\$372 million (US\$274 million) aggregate principal amount of Convertible Notes remains outstanding. The Corporation recorded a \$31 million loss on debt settlement related to this repurchase.

(c) Government of Canada unsecured credit facility to support customer refunds of non-refundable tickets. The facility has a seven-year term maturing April 2028 with a stated annual interest rate of 1.211%, with the balance due on maturity. The carrying value of the debt was recognized at inception using an effective interest rate of 4.90%. The difference accretes the carrying value of the underlying debt upwards to its face value using the effective interest rate method.

The debt and equity instruments issued under the financing agreement with the Government of Canada were measured at fair value at inception. The difference between fair value and proceeds received was recognized for accounting purposes as a government grant. The deferred grant income recorded at the inception of the agreement and taking into account the amounts drawn under the ticket refund facility up to December 31, 2021, was \$138 million. This deferred grant income reflects the aggregate net fair value adjustments of the ticket refund facility, the shares issued and the vested warrants, and is being amortized into Other revenues on a straight line basis over three years. The amortization period was based on the Corporation's approximation of the expected timing of the costs for which the grant is intended to compensate. During 2022, grant income of \$50 million (2021 - \$26 million) was recognized in Other revenues. The vested warrants (as described in Note 13) have since been repurchased and cancelled with settlement completed in January 2022.

(d) In February 2021, the Corporation had extended its US\$600 million revolving credit facility by one year to April 2024 with an increased interest rate of 75 basis points, to an interest rate margin of 250 basis points over LIBOR. The Corporation had also extended its \$200 million revolving credit facility by one year to December 2023 with an increased interest rate of 25 basis points, to an interest rate margin of 275 basis points over banker's acceptance rates. The Corporation recorded a \$19 million loss on debt modification related to this transaction. The US\$600 million revolver was repaid with the August 2021 refinancing described below and the Canadian dollar revolver was repaid in 2021.

In August 2021, Air Canada completed a private offering of \$2.0 billion of 4.625% senior secured notes due 2029 (the "Canadian Dollar Notes") and US\$1.2 billion of 3.875% senior secured notes due 2026 (the "US Dollar Notes", and together with the Canadian Dollar Notes, the "Notes"). Air Canada also closed a US\$2.9 billion new senior secured credit facility, comprised of a US\$2.3 billion new term loan B maturing in 2028 (the "Term Loan"), together with a new undrawn US\$600 million revolving credit facility maturing in 2025 (the "Revolving Facility" and, together with the Term Loan, the "Senior Secured Credit Facilities"). Air Canada received aggregate gross proceeds of approximately \$7.1 billion from the sale of the Notes and from the Senior Secured Credit Facilities. Air Canada applied the proceeds from the sale of the Canadian Dollar Notes, together with the proceeds from the Term Loan, to (i) satisfy and discharge all of the Corporation's outstanding \$200 million aggregate principal amount of its 4.75% senior secured notes due 2023 and redeem all of the Corporation's outstanding \$840 million aggregate principal amount of its 9% second lien notes due 2024, (ii) repay all of the Corporation's US\$1,178 million of indebtedness outstanding under the loan agreement dated as of October 6, 2016, which was comprised of a syndicated secured US dollar term loan B facility and a syndicated secured US dollar revolving credit facility and (iii) satisfy applicable transaction costs, fees and expenses. The Corporation recorded a \$110 million loss on debt settlements related to these repayments.

The Notes and Air Canada's obligations under the Senior Secured Credit Facilities are senior secured obligations of the Corporation, secured on a first-lien basis, subject to certain permitted liens, by certain collateral comprised of substantially all of the Corporation's international routes, airport slots and gate leaseholds.

Separate from the offering, in August 2021, the Corporation repaid its \$200 million revolving credit facility and it was extended to December 2024. In November 2022, this Canadian dollar revolving credit facility was extended to December 2025.

Both of the revolving credit facilities remain undrawn as of December 31, 2022.

(e) Lease liabilities, related to facilities and aircraft, total \$3,038 million (\$415 million, US\$1,923 million and GBP £10 million) (2021 – \$3,179 million (\$361 million, US\$2,195 million and GBP £12 million)). The carrying value of aircraft and facilities under lease liabilities amounted to \$1,882 million and \$355 million respectively (2021 – \$2,154 million and \$308 million).

Cash interest paid on Long-term debt and lease liabilities in 2022 by the Corporation was \$761 million (2021 – \$531 million).

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	2022	2021
Interest on debt	\$ 748	\$ 576
Interest on lease liabilities		
Air Canada aircraft	85	90
Regional aircraft	56	62
Land and buildings	20	21
Interest expense	\$ 909	\$ 749

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

(Canadian dollars in millions)	2022	2021
Short-term leases	\$ 17	\$ 10
Variable lease payments not included in lease liabilities	39	27
Expense related to leases (included in Other operating expenses)	\$ 56	\$ 37

Total cash outflows for payments on lease liabilities was \$673 million for the year ended December 31, 2022 (2021 – \$731 million), of which \$512 million was for principal repayments (2021 – \$558 million).

Maturity Analysis

Principal and interest repayment requirements as at December 31, 2022 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the December 31, 2022 closing rate of CDN\$1.3554.

PRINCIPAL (Canadian dollars in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 713	\$ 525	\$ 1,276	\$ 2,548	\$ 1,182	\$ 7,479	\$ 13,723
Air Canada aircraft	337	323	308	255	207	237	1,667
Regional aircraft	187	153	138	51	41	347	917
Land and buildings	26	25	25	25	25	328	454
Lease liabilities	550	501	471	331	273	912	3,038
Total long-term debt and lease liabilities	\$ 1,263	\$ 1,026	\$ 1,747	\$ 2,879	\$ 1,455	\$ 8,391	\$ 16,761
INTEREST (Canadian dollars in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Long-term debt obligations ⁽¹⁾	\$ 711	\$ 680	\$ 643	\$ 574	\$ 472	\$ 514	\$ 3,594
Air Canada aircraft	82	65	50	36	23	20	276
Regional aircraft	47	36	27	21	18	73	222
Land and buildings	23	22	21	19	18	228	331
Lease liabilities	152	123	98	76	59	321	829
Total long-term debt and lease liabilities	\$ 863	\$ 803	\$ 741	\$ 650	\$ 531	\$ 835	\$ 4,423

(1) Assumes the principal balance of the convertible notes, \$372 million (US\$274 million), remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of \$1,273 million for the unsecured credit facility is included and the carrying value is described in Note 9(c).

Principal repayments in the table above exclude discounts and transaction costs of \$177 million which are offset against Long-term debt and lease liabilities in the consolidated statement of financial position.

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				Dec. 31, 2022
	Jan. 1, 2022	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)		
(Canadian dollars in millions)									
Long-term debt	\$ 13,568	\$ 202	\$ (1,302)	\$ -	\$ 645	\$ 332	\$ -	\$ 13,445	
Air Canada aircraft	1,792	-	(313)	-	122	-	66	1,667	
Regional aircraft	981	-	(172)	-	67	-	41	917	
Land and buildings	406	-	(27)	-	1	-	74	454	
Lease liabilities	3,179	-	(512)	-	190	-	181	3,038	
Unamortized debt issuance costs and other adjustments	(224)	-	-	(6)	-	53	-	(177)	
Total liabilities from financing activities	\$ 16,523	\$ 202	\$ (1,814)	\$ (6)	\$ 835	\$ 385	\$ 181	\$ 16,306	

	Cash Flows				Non-Cash Changes				Dec. 31, 2021
	Jan. 1, 2021	Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)		
(Canadian dollars in millions)									
Long-term debt	\$ 9,561	\$ 8,171	\$ (3,952)	\$ -	\$ (40)	\$ (172)	\$ -	\$ 13,568	
Air Canada aircraft	1,996	-	(366)	-	(16)	-	178	1,792	
Regional aircraft	1,171	-	(167)	-	(9)	-	(14)	981	
Land and buildings	429	-	(25)	-	(1)	-	3	406	
Lease liabilities	3,596	-	(558)	-	(26)	-	167	3,179	
Unamortized debt issuance costs and other adjustments	(168)	-	-	(205)	-	149	-	(224)	
Total liabilities from financing activities	\$ 12,989	\$ 8,171	\$ (4,510)	\$ (205)	\$ (66)	\$ (23)	\$ 167	\$ 16,523	

10 | PENSIONS AND OTHER BENEFIT LIABILITIES

The Corporation maintains several defined benefit and defined contribution pension plans, as well as other post-retirement and post-employment benefit plans.

The Corporation is the administrator and sponsoring employer of eight domestic registered plans ("Domestic Registered Plans") with defined benefit commitments registered under the Pension Benefits Standard Act, 1985 (Canada). The defined benefit components of the Domestic Registered Plans are closed to new members, except for the hybrid component of three plans which are open to new members. The Corporation also has a U.S. plan, a UK plan and a Japan plan, which are international defined benefit plans covering members in those countries. In addition, the Corporation maintains a number of supplementary pension plans which are not registered. The defined benefit pension plans provide benefits upon retirement, termination or death based on the member's years of service and final average earnings for a specified period. Benefit payments are from trustee-administered funds, however there are also a number of unfunded plans where the Corporation meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by regulations. The governance of the plans, overseeing all aspects of the plans including investment decisions and contributions, lies primarily with the Corporation. The Human Resources and Compensation Committee, a committee of the Board of Directors, assists in the monitoring and oversight of the plans to ensure pension liabilities are appropriately funded, pension assets are prudently invested, risk is managed at an acceptable level and retirement benefits are administered in a proper and effective manner.

Other employee benefits include health, life and disability. These benefits consist of both post-employment and post-retirement benefits. The post-employment benefits relate to disability benefits available to eligible active employees, while the post-retirement benefits are comprised of health care and life insurance benefits available to eligible retired employees.

Pension Plan Cash Funding Obligations

As at January 1, 2022, the aggregate solvency surplus in the Domestic Registered Plans was \$4.8 billion. The next required valuation to be made as at January 1, 2023 will be completed in the first half of 2023. With the Corporation's Domestic Registered Plans in a solvency surplus position as at January 1, 2022, past service contributions were not required in 2022. In addition, in accordance with legislation and applicable plan rules, the excess over 105% on a solvency basis can be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan. Based on that, and including the international and supplemental plans, the total employer pension funding contributions during 2022 amounted to \$70 million (\$89 million employer contribution net of \$19 million of surplus used to fund employer contribution in defined contribution components of the same plans). Pension funding obligations for 2023 are expected to be \$88 million.

Benefit Obligation and Plan Assets

These consolidated financial statements include all the assets and liabilities of all Corporation-sponsored plans. The amounts recorded in the statement of financial position are as follows:

(Canadian dollars in millions)	Pension Benefits		Other Employee Future Benefits		Total	
	2022	2021	2022	2021	2022	2021
NON-CURRENT ASSETS						
Pension assets	\$ 2,444	\$ 3,571	\$ -	\$ -	\$ 2,444	\$ 3,571
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	-	-	62	67	62	67
NON-CURRENT LIABILITIES						
Pension and other benefit liabilities	825	1,192	945	1,396	1,770	2,588
Net benefit obligation (asset)	\$ (1,619)	\$ (2,379)	\$ 1,007	\$ 1,463	\$ (612)	\$ (916)

The current portion of the net benefit obligation represents an estimate of other employee future benefits claims to be paid during 2023.

The following table presents financial information related to the changes in the pension and other post-employment benefits plans:

(Canadian dollars in millions)	Pension Benefits		Other Employee Future Benefits	
	2022	2021	2022	2021
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	\$ 22,051	\$ 23,720	\$ 1,463	\$ 1,562
Current service cost	242	262	41	53
Past service cost	12	240	-	4
Plan settlements	-	125	-	-
Interest cost	750	641	45	42
Employees' contributions	71	60	-	-
Benefits paid	(1,045)	(1,071)	(50)	(42)
Settlement payments	-	(125)	-	-
Remeasurements:				
Experience loss (gain)	10	88	(136)	(19)
Loss (gain) from change in demographic assumptions	(5)	(1)	-	(3)
Loss (gain) from change in financial assumptions	(5,149)	(1,875)	(368)	(133)
Foreign exchange loss (gain)	(10)	(13)	12	(1)
Total benefit obligation	16,927	22,051	1,007	1,463
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	26,666	25,887	-	-
Return on plan assets, excluding amounts included in Net financing expense	(5,284)	1,149	-	-
Interest income	923	710	-	-
Employer contributions	70	79	50	42
Employees' contributions	71	60	-	-
Benefits paid	(1,045)	(1,071)	(50)	(42)
Settlements	-	(125)	-	-
Administrative expenses paid from plan assets	(9)	(9)	-	-
Foreign exchange gain (loss)	(14)	(14)	-	-
Total plan assets	21,378	26,666	-	-
(Surplus) deficit at end of year	(4,451)	(4,615)	1,007	1,463
Asset ceiling / additional minimum funding liability	2,832	2,236	-	-
Net benefit obligation (asset)	\$ (1,619)	\$ (2,379)	\$ 1,007	\$ 1,463

The actual return on plan assets was a loss of \$4,361 million (2021 – \$1,859 million gain).

Benefit Plan Amendments

In 2021, Air Canada received the decision of the arbitrator determining the cap on pensionable earnings recognized in the defined benefit pension plan for IAMAW-represented technical employees. The decision resulted in an increase to the maximum pensionable earnings, effective from 2021, with retroactivity to 2019 for employees that so elected. The Corporation recorded a one-time pension past service cost of \$82 million in 2021 as a result of this plan amendment. This amendment did not impact the Corporation's liquidity position as it is funded out of the surplus in the domestic registered pension plans.

Benefit Plan Settlement

Plan assets include an annuity contract for the UK plan defined benefit pension obligation. In 2021, a settlement loss of \$125 million was recognized and represented the difference between the premium paid on the purchase of an annuity to insure the liabilities and the related defined pension benefit obligation for the UK defined benefit pension plan.

The pension benefit deficit of only those plans that are not fully funded is as follows:

(Canadian dollars in millions)	2022	2021
Domestic Registered Plans	\$ 2	\$ 8
International plans	57	62
Supplementary plans	766	1,122
	\$ 825	\$ 1,192

The weighted average duration of the defined benefit obligation is 12.5 years (2021 – 14.0 years).

Pension and Other Employee Future Benefit Expense

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

(Canadian dollars in millions)	Pension Benefits		Other Employee Future Benefits	
	2022	2021	2022	2021
CONSOLIDATED STATEMENT OF OPERATIONS				
Components of cost				
Current service cost	\$ 242	\$ 262	\$ 41	\$ 53
Past service cost	12	82	-	(1)
Administrative and other expenses	9	9	-	-
Settlement loss	-	125	-	-
Actuarial losses (gains), including foreign exchange	-	-	(32)	(9)
Total cost recognized in Wages, salaries and benefits	\$ 263	\$ 478	\$ 9	\$ 43
Total cost recognized in Restructuring and transaction costs (note 4)	\$ -	\$ 158	\$ -	\$ 5
Net interest relating to employee benefits	\$ (70)	\$ (34)	\$ 46	\$ 42
Total cost recognized in statement of operations	\$ 193	\$ 602	\$ 55	\$ 90
CONSOLIDATED OTHER COMPREHENSIVE (INCOME) LOSS				
Remeasurements:				
Experience loss (gain), including foreign exchange	14	89	(96)	(14)
Loss (gain) from change in demographic assumptions	(5)	(1)	-	(3)
Loss (gain) from change in financial assumptions	(5,149)	(1,875)	(363)	(130)
Return on plan assets	5,138	(1,157)	-	-
Change in asset ceiling	492	1,360	-	-
Total cost (income) recognized in OCI	\$ 490	\$ (1,584)	\$ (459)	\$ (147)

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

(Canadian dollars in millions)		2022	2021
Net defined pension and other future employee benefits expense recorded in the consolidated statement of operations			
Wages, salaries and benefits		\$ 272	\$ 521
Restructuring and transaction costs	Note 4	-	163
Net interest relating to employee benefit liabilities		(24)	8
		\$ 248	\$ 692
Employee benefit funding by Air Canada			
Pension benefits		\$ 70	\$ 79
Other employee benefits		50	42
		\$ 120	\$ 121
Employee benefit funding less than expense		\$ 128	\$ 571

Composition of Defined Benefit Pension Plan Assets

Domestic Registered Plans

The composition of the Domestic Registered Plan assets and the target allocation are the following:

	2022	2021	TARGET ALLOCATION
Bonds	64%	60%	65%
Canadian equities	2%	3%	2%
Foreign equities	3%	7%	3%
Alternative investments	31%	30%	30%
	100%	100%	100%

For the Domestic Registered Plan assets, approximately 68% of assets as of December 31, 2022 have a quoted market price in an active market. Assets that do not have a quoted market price in an active market are mainly investments in privately held entities. The asset composition in the table represents the allocation of plan assets to each asset type.

Included in plan assets, for determining the net benefit obligation for accounting purposes, are 17,646,765 (2021 – 17,646,765) shares of Air Canada which were issued to a trust in 2009 in connection with pension funding agreements reached with all of the Corporation's Canadian-based unions. The trust arrangement provides that proceeds of any sale of the trust shares will be retained and applied to reduce future pension solvency deficits, if any should materialize. With the Corporation's Domestic Registered Plans now in a surplus position on a solvency basis, the accounting rules prevent the recognition of the value of the shares held in trust as part of the pension assets. The shares held in trust have a fair value of \$342 million at December 31, 2022 (2021 – \$373 million), although after giving effect to the asset ceiling, the recognized accounting value of the trust asset is nil.

In November 2021, Air Canada announced that its Canadian unions and the Air Canada Pionairs agreed in principle to permit certain other uses of the proceeds of the shares discussed above. If all conditions are met, shares in the trust will be gradually sold over a period of up to 15 years with the net proceeds from the sales used to make lump sum payments to Canadian pensioners and to fund voluntary separation packages for senior unionized employees and non-executive employees. There are several conditions to the completion of the agreement and effecting such sales and payments. These include the conclusion of definitive documentation, and the receipt of all required regulatory and other approvals which remain outstanding. While the satisfaction of the conditions is being pursued, there can be no assurance that these or any other conditions will be satisfied. The financial statements do not reflect any accounting consequences related to this, as these would only be determined upon the conditions and required approvals being met.

For the Domestic Registered Defined Benefit Plans, the investments conform to the Statement of Investment Policies and Procedures of the Air Canada Pension Funds. As permitted under the investment policy, the actual asset mix may deviate from the target allocation from time to time. The investment return objective is to achieve a total annualized rate of return that exceeds by a minimum of 1.0% before investment fees on average over the long term (i.e. 10 years) the total annualized return that could have been earned by passively managing the Liability Replicating Portfolio. The Liability Replicating Portfolio, which is referenced to widely used Canadian fixed income indices (FTSE Canada), closely matches the characteristics of the pension liabilities.

Recognizing the importance of surplus risk management, Air Canada manages the Domestic Registered Defined Benefit Plans in an effort to mitigate surplus risk (defined as the difference between asset value and pension liability value), which is considered to be the key risk to be minimized and monitored. In addition, the objective of the investment strategy is to invest the plan assets in a prudent and diversified manner to mitigate the risk of price fluctuation of asset classes and individual investments within those asset classes and to combine those asset classes and individual investments in an effort to reduce overall risk.

In addition to the broad asset allocation, as summarized in the asset allocation section above, the following policies apply to individual asset classes invested within the pension funds:

- Equities are required to be diversified among regions, industries and economic sectors. Limitations are placed on the overall allocation to any individual security.
- Alternative investments are investments in non-publicly traded securities and in non-traditional asset classes. They may comprise, but are not limited to, investments in real estate, agriculture, timber, private equity, venture capital, infrastructure, emerging markets debt, high yield bonds and commodity futures. Alternative investments are required to be diversified by asset class, strategy, sector and geography.
- Canadian bonds are oriented toward long-term investment grade securities rated "BBB" or higher. With the exception of Government of Canada securities or a province thereof or the U.S. Government, in which the plan may invest the entire fixed income allocation, these investments are required to be diversified among individual securities and sectors.

Derivatives are permitted provided that they are used for managing a particular risk (including interest rate risk related to pension liabilities) or to create exposures to given markets and currencies and that counterparties have a minimum credit rating of A. The Corporation manages interest rate risk related to its actuarial liabilities through a combination of financial instruments including, but not limited to, bonds, bond repurchase and reverse repurchase agreements, bond forwards, bond futures and interest rate swaps. As at December 31, 2022, approximately 75% of Air Canada's Domestic Registered Defined Benefit Plans' assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk. Counterparty credit risk associated with such financial instruments is mitigated by receiving collateral from counterparties based on collateralization agreements, as well as by monitoring the counterparties' credit ratings and ensuring compliance with the investment policy. The fair value of these derivative instruments is included in the Bonds in the asset composition table and is not a significant component of the aggregate bond fair values of the portfolio.

The trusts for the supplemental plans are invested 50% in a mix of indexed equity investments and alternative investments, in accordance with their investment policies, with the remaining 50% held by the Canada Revenue Agency as a refundable tax, in accordance with tax legislation. Due to unrealized gains and losses on invested assets, the market value of assets could deviate from this allocation from time to time.

Risks

Through its defined benefit pension plans, the Corporation is exposed to a number of risks, the most significant of which are detailed below:

Asset risk

Asset risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price. Asset risk comprises currency risk, credit risk, and other price risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This risk is mitigated through implementation of hedging strategies. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk is mitigated by receiving collateral from counterparties based on collateralization agreements and by monitoring the issuers' credit risk. Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. This risk is mitigated through proper diversification of plan assets.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A decrease in corporate and/or government bond yields will increase plan liabilities, which will be partially offset by an increase in the value of the plans' bond holdings. As at December 31, 2022, approximately 75% of Air Canada's Domestic Registered Defined Benefit Plans' assets were invested in fixed income instruments to mitigate a significant portion of the interest rate risk (discount rate risk).

Funding risk

Adverse changes in the value of plan assets or in interest rates, and therefore in the discount rate used to value liabilities, could have a significant impact on pension plan solvency valuations and future cash funding requirements.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Assumptions

Management is required to make estimates about actuarial and financial assumptions to determine the cost and related liabilities of the Corporation's employee future benefits.

Discount Rate

The discount rate used to determine the pension obligation was determined by reference to market interest rates on corporate bonds rated "AA" or better with cash flows that approximate the timing and amount of expected benefit payments.

Future Increases in Compensation

Estimates surrounding assumptions of future increases in compensation are based upon the current compensation policies, the Corporation's long-range plans, labour and employment agreements and economic forecasts.

Mortality Assumptions

Mortality tables and improvement scales issued by the Canadian Institute of Actuaries (revised in 2014) were taken into account in selecting management's best estimate mortality assumption used to calculate the accrued benefit obligation as at December 31, 2022 and 2021.

The weighted average assumptions used to determine the Corporation's accrued benefit obligations and cost are as follows:

	Pension Benefits		Other Employee Future Benefits	
	2022	2021	2022	2021
Discount rate used to determine:				
Net interest on the net defined benefit obligation for the year ended December 31	3.20%	2.82% ⁽¹⁾	3.20%	2.59%
Service cost for the year ended December 31	3.37%	3.10% ⁽¹⁾	3.37%	3.16% ⁽¹⁾
Accrued benefit obligation as at December 31	5.28%	3.20%	5.28%	3.20%
Rate of future increases in compensation used to determine:				
Accrued benefit cost and service cost for the year ended December 31	2.50%	2.50%	Not applicable	Not applicable
Accrued benefit obligation as at December 31	2.75%	2.50%	Not applicable	Not applicable

(1) Weighted average reflecting re-measurements during the year due to items as described in Note 4 related to early retirement incentive programs.

Sensitivity Analysis

Sensitivity analysis is based on changing one assumption while holding all other assumptions constant. In practice, this may be unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated statement of financial position.

Sensitivity analysis on 2022 pension expense and net financing expense relating to pension benefit liabilities, based on different actuarial assumptions with respect to discount rate is set out below. The effects on each pension plan of a change in an assumption are weighted proportionately to the total plan obligation to determine the total impact for each assumption presented.

(Canadian dollars in millions)	0.25 Percentage Point	
	Decrease	Increase
Discount rate on obligation assumption		
Pension expense	\$ 15	\$ (15)
Net interest relating to pension benefit liabilities	10	(10)
	\$ 25	\$ (25)
Increase (decrease) in pension obligation	\$ 536	\$ (520)

The increase (decrease) in the pension obligation for a 0.25 percentage point change in the discount rate relates to the gross amount of the pension liabilities and is before the impact of any change in plan assets. As at December 31, 2022, approximately 75% of Air Canada's pension assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk.

An increase of one year in life expectancy would increase the pension benefit obligation by \$399 million.

Assumed health care cost trend rates impact the amounts reported for the health care plans. A 4.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2022 (2021 – 5%). The rate is assumed to decrease to 4.5% in 2023 and thereafter (2021 – assumed to decrease gradually to 4.5% by 2023). A one percentage point increase in assumed health care trend rates would have increased the total of current service and interest costs by \$7 million and the obligation by \$56 million. A one percentage point decrease in assumed health care trend rates would have decreased the total of current service and interest costs by \$6 million and the obligation by \$58 million.

A 0.25 percentage point decrease in discount rate for other employee future benefits would have increased the total of current and interest costs by less than \$1 million and the obligation by \$32 million. A 0.25 percentage point increase in discount rate would have decreased the total of current and interest costs by less than \$1 million and the obligation by \$30 million.

Defined Contribution Pension Plans

Certain of the Corporation's management, administrative and unionized employees participate in a defined contribution pension plan, a defined contribution component of a plan which also includes a defined benefit component or a multi-employer plan which are accounted for as defined contribution plans. The Corporation contributes an amount expressed as a percentage of employees' contributions with such percentage varying by group and for some groups, based on the number of years of service. As permitted by legislation and applicable plan rules, surplus in the defined benefit component can be used to cover the employer contributions in the defined contribution component of such plan. As such, \$19 million of surplus in the defined benefit components of the Domestic Registered Plans was used to cover the employer contributions in the defined contribution components during 2022 (2021 – \$12 million).

The Corporation's expense for these pension plans amounted to \$61 million for the year ended December 31, 2022 (2021 – \$35 million). Net of the surplus in the defined benefit components which can be used to fund the employer contribution to a defined contribution component within the same pension plan, expected total employer contributions for 2023 are \$60 million.

11 | PROVISIONS FOR OTHER LIABILITIES

The following table provides a continuity schedule of all recorded provisions. Current provisions are recorded in Accounts payable and accrued liabilities.

(Canadian dollars in millions)	Maintenance ^(a)	Asset retirement ^(b)	Litigation	Total provisions
At December 31, 2021				
Current	\$ 139	\$ -	\$ 38	\$ 177
Non-current	1,032	35	-	1,067
	\$ 1,171	\$ 35	\$ 38	\$ 1,244
Provisions arising during the year	\$ 151	\$ -	\$ 16	\$ 167
Amounts utilized	(72)	-	(5)	(77)
Changes in estimated costs	32	-	(8)	24
Accretion expense	18	1	-	19
Foreign exchange loss	88	-	-	88
At December 31, 2022				
Current	\$ 36	\$ -	\$ 41	\$ 77
Non-current	1,352	36	-	1,388
	\$ 1,388	\$ 36	\$ 41	\$ 1,465

- (a) Maintenance provisions relate to the provision for the costs to meet the contractual return conditions on aircraft under operating leases. The provision relates to leases with expiry dates ranging from 2023 to 2035 with the average remaining lease term of approximately 4 years. The maintenance provisions take into account current costs of maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Assuming the aggregate cost for return conditions increases by 5%, holding all other factors constant, there would be a cumulative balance sheet adjustment to increase the provision by \$70 million at December 31, 2022 and an increase to maintenance expense in 2023 of approximately \$9 million. Expected future cash flows to settle the obligation are discounted. If the discount rates were to increase by 1%, holding all other factors constant, there would be a cumulative balance sheet adjustment to decrease the provision by \$31 million at December 31, 2022. An equivalent but opposite movement in the discount rate would result in a similar impact in the opposite direction.
- (b) Under the terms of certain land and facilities leases, the Corporation has an obligation to restore the land to vacant condition at the end of the lease and to rectify any environmental damage for which it is responsible. The related leases expire over terms ranging from 2023 to 2078. These provisions are based on numerous assumptions including the overall cost of decommissioning and remediation and the selection of alternative decommissioning and remediation approaches. The non-current provision is recorded in Other long-term liabilities.

12 | INCOME TAXES

Income Tax (Expense) Recovery

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

(Canadian dollars in millions)	2022	2021
Current income tax (expense)	\$ (47)	\$ (16)
Deferred income tax (expense) recovery	(129)	395
Income tax (expense) recovery	\$ (176)	\$ 379

The income tax (expense) recovery differs from the amount that would have resulted from applying the statutory income tax rate to income before income tax expense as follows:

(Canadian dollars in millions)	2022	2021
Loss before income taxes	\$ (1,524)	\$ (3,981)
Statutory income tax rate based on combined federal and provincial rates	26.46%	26.47%
Income tax recovery based on statutory tax rates	403	1,054
Effects of:		
Non-taxable (non-deductible) portion of capital gains (losses)	(80)	4
Unrecognized deferred income tax assets	(528)	(628)
Non-taxable (deductible) items	29	(45)
Other	-	(6)
Income tax (expense) recovery	\$ (176)	\$ 379

The applicable statutory tax rate is 26.46% (2021 – 26.47%). The Corporation's applicable tax rate is the Canadian combined tax rate applicable in the jurisdiction in which the Corporation operates. The income tax recovery in the consolidated statement of operations differs from the amount that would have resulted from applying the statutory income tax rate to the loss before income taxes in the consolidated statement of operations primarily due to not recognizing all deferred income tax assets.

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

(Canadian dollars in millions)	2022	2021
Remeasurements on employee benefit liabilities		
current income tax recovery (expense)	\$ 8	\$ (41)
deferred income tax recovery (expense)	138	(379)
Income tax recovery (expense)	\$ 146	\$ (420)

The income tax differs from the amount that would have resulted from applying the statutory income tax rate to other comprehensive income before income tax expense as follows:

(Canadian dollars in millions)	2022	2021
Other comprehensive (loss) income before income taxes	\$ (32)	\$ 1,725
Statutory income tax rate based on combined federal and provincial rates	26.46%	26.47%
Income tax recovery (expense) based on statutory tax rates	9	(457)
Non-deductible portion of capital loss	-	(1)
Recognition of deferred income tax assets	124	38
Other	13	-
Income tax recovery (expense)	\$ 146	\$ (420)

Deferred Income Tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to realize them. In making this assessment, consideration is given to available positive and negative evidence and relevant assumptions, including, historical financial results, and expectations relating to future taxable income, the overall business environment, and industry-wide trends.

As a result of the COVID-19 pandemic, there is considerable negative evidence relating to losses incurred in the current and prior years. Such negative evidence currently outweighs the positive historical evidence and, accordingly, net deferred tax assets are not being recognized. The future tax deductions underlying the unrecognized deferred income tax assets of \$2,123 million remain available for use in the future to reduce taxable income. The deferred income tax recovery recorded in Other comprehensive income (loss) related to remeasurements on employee benefit liabilities is offset by a deferred income tax expense which was recorded through the statement of operations. As such, a deferred income tax expense of \$129 million (2021 – deferred income tax recovery of \$395 million) was recorded for the year, which is partially offsetting the deferred income tax recovery of \$138 million (2021 – deferred income tax expense of \$379 million) recorded in Other comprehensive income (loss).

Deferred tax assets and liabilities of \$48 million are recorded net as a non-current deferred income tax asset and deferred tax liabilities of \$73 million are recorded as a non-current deferred income tax liability on the consolidated statement of financial position. Certain intangible assets with nominal tax cost and a carrying value of \$275 million have indefinite lives and accordingly, the associated deferred income tax liability of \$73 million (2021 – \$73 million) is not expected to reverse until the assets are disposed of, become impaired or amortizable and as a result is included as part of the non-current deferred income tax liability.

The significant components of deferred income tax assets and liabilities were as follows:

(Canadian dollars in millions)	2022	2021
DEFERRED INCOME TAX ASSETS		
Non-capital losses	\$ 1,693	\$ 1,502
Accounting provisions not currently deductible for tax	7	6
Lease liabilities	934	978
Maintenance provisions	-	215
	2,634	2,701
DEFERRED INCOME TAX LIABILITIES		
Post-employment obligations – pension	(423)	(593)
Property, equipment, technology-based and other intangible assets	(2,103)	(2,030)
Indefinite-lived intangible assets	(73)	(73)
Other	(60)	(39)
	(2,659)	(2,735)
Net recognized deferred income tax liabilities	\$ (25)	\$ (34)
BALANCE SHEET PRESENTATION		
Deferred income tax assets	48	39
Deferred income tax liabilities	(73)	(73)
Net recognized deferred income tax liabilities	\$ (25)	\$ (34)

The following table presents the variation of the components of deferred income tax balances:

(Canadian dollars in millions)	January 1, 2022	2022 income statement movement	2022 OCI movement	December 31, 2022
Non-capital losses	\$ 1,502	\$ 191	\$ -	\$ 1,693
Accounting provisions not currently deductible for tax	6	1	-	7
Lease liabilities	978	(44)	-	934
Maintenance provisions	215	(215)	-	-
Post-employment obligations – pension	(593)	32	138	(423)
Property, equipment, technology-based and other intangible assets	(2,030)	(73)	-	(2,103)
Indefinite-lived intangible assets	(73)	-	-	(73)
Other deferred tax liabilities	(39)	(21)	-	(60)
Total recognized deferred income tax assets (liabilities)	\$ (34)	\$ (129)	\$ 138	\$ (25)
(Canadian dollars in millions)	January 1, 2021	2021 income statement movement	2021 OCI movement	December 31, 2021
Non-capital losses	\$ 1,126	\$ 376	\$ -	\$ 1,502
Accounting provisions not currently deductible for tax	9	(3)	-	6
Lease liabilities	1,110	(132)	-	978
Maintenance provisions	215	-	-	215
Post-employment obligations – pension	(353)	139	(379)	(593)
Property, equipment, technology-based and other intangible assets	(2,023)	(7)	-	(2,030)
Indefinite-lived intangible assets	(73)	-	-	(73)
Other deferred tax liabilities	(61)	22	-	(39)
Total recognized deferred income tax assets (liabilities)	\$ (50)	\$ 395	\$ (379)	\$ (34)

At December 31, 2022, the Corporation has deductible temporary differences of an operating and a capital nature for which no deferred income tax asset has been recognized at this time as the ability to utilize these tax attributes is limited to future taxable income and capital gains. Net capital losses do not have an expiry date.

The following are the temporary differences and tax loss carryforwards for which no deferred income tax assets could be recognized:

(Canadian dollars in millions)	2022	2021
Unrecognized non-capital losses carryforwards	\$ 3,820	\$ 2,956
Post-employment obligations - other employee future benefits	1,009	1,472
Accounting provisions not currently deductible for tax	307	286
Maintenance provision	1,388	358
Deferred revenue	933	1,161
Unrecognized net capital losses carryforwards	118	124
Unrealized foreign exchange losses (gains)	309	(1)
Other	-	1
Total unrecognized net temporary differences	\$ 7,884	\$ 6,357
Deferred income tax rate based on combined federal and provincial rates	26.45%	26.46%
	\$ 2,085	\$ 1,682
Unrecognized recoverable taxes	38	37
Total unrecognized net deferred income tax assets	\$ 2,123	\$ 1,719

The following are the Federal non-capital tax losses expiry dates:

(Canadian dollars in millions)	Tax Losses
2030	\$ 16
2031	6
2032	6
2033	1
2034	3
2036	3
2037	2
2038	2
2040	4,251
2041	4,249
2042	1,596
Non-capital losses carryforwards	\$ 10,135

Cash income taxes paid in 2022 by the Corporation were \$67 million (2021 – \$2 million).

13 | SHARE CAPITAL

	Number of shares	Value (Canadian dollars in millions)
At January 1, 2021	332,172,288	\$ 2,150
Shares issued on the exercise of stock options	1,507,355	21
Shares issued on settlement of restricted share units	4,272	-
Shares issued in public offering	2,587,000	60
Shares issued to government	Note 9 21,570,942	504
At December 31, 2021	357,841,857	\$ 2,735
Shares issued on the exercise of stock options	350,535	6
Shares issued on settlement of restricted share units	169,866	2
At December 31, 2022	358,362,258	\$ 2,743

The issued and outstanding shares of Air Canada, along with the potential shares, were as follows:

	2022	2021
ISSUED AND OUTSTANDING		
Class A variable voting shares	72,431,001	82,897,507
Class B voting shares	285,931,257	274,944,350
Total issued and outstanding	358,362,258	357,841,857
POTENTIAL SHARES		
Convertible notes	Note 9 17,856,599	48,687,441
Warrants	-	7,288,282
Stock options	Note 14 5,304,745	4,420,051
Total outstanding and potentially issuable shares	381,523,602	418,237,631

Shares

As at December 31, 2022, the shares issuable by Air Canada consist of an unlimited number of Class A Variable Voting Shares ("Variable Voting Shares") and an unlimited number of Class B Voting Shares ("Voting Shares"). The two classes of shares have equivalent rights as shareholders except for voting rights.

Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the *Canada Transportation Act*). An issued and outstanding Variable Voting Share is converted into one Voting Share automatically and without any further act of Air Canada or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the *Canada Transportation Act*.

Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Voting Share is converted into one Variable Voting Share automatically and without any further act of Air Canada or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

Air Canada's articles provide that holders of Variable Voting Shares are entitled to one vote per share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of voting shares of Air Canada exceeds 49% or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 49% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class do not carry more than 49% of the aggregate votes attached to all issued and outstanding Voting Shares of Air Canada and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 49% of the votes that may be cast at such meeting. Air Canada's articles also provide for the automatic reduction of the voting rights attached to Variable Voting Shares in the event any of the following limits are exceeded. In such event, the votes attributable to Variable Voting Shares will be affected as follows:

- *first*, if required, a reduction of the voting rights of any single non-Canadian holder (including a single non-Canadian holder authorized to provide an air service) carrying more than 25% of the votes to ensure that such non-Canadian holder never carries more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders;
- *second*, if required and after giving effect to the first proration set out above, a further proportional reduction of the voting rights of all non-Canadian holders authorized to provide an air service to ensure that such non-Canadian holders authorized to provide an air service, in the aggregate, never carry more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders; and
- *third*, if required and after giving effect to the first two prorations set out above, a proportional reduction of the voting rights for all non-Canadian holders as a class to ensure that non-Canadians never carry, in aggregate, more than 49% of the votes which holders of Voting Shares cast at any meeting of shareholders.

Shareholder Rights Plan

Under the terms of the shareholder rights plan agreement (the "Rights Plan"), one right (a "Right") is issued with respect to each share of Air Canada issued and outstanding. These Rights would become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the outstanding shares of Air Canada calculated on a combined basis, without complying with the "Permitted Bid" provisions of the Rights Plan or, in certain cases, without the approval of the Board. Until such time, the Rights are not separable from the shares, are not exercisable and no separate rights certificates are issued. To qualify as a "Permitted Bid" under the Rights Plan, a bid must, among other things: (i) be made to all holders of shares, (ii) remain open for a period of not less than 105 days (or such shorter minimum period determined in accordance with National Instrument 62-104 - Take-Over Bids and Issuer Bids ("NI 62-104")), (iii) provide that no shares shall be taken up unless more than 50% of the then outstanding shares, other than the shares held by the person pursuing the acquisition and parties related to it, have been tendered and not withdrawn, and (iv) provide that if such 50% condition is satisfied, the bid will be extended for at least 10 days to allow other shareholders to tender.

Following the occurrence of an event which triggers the right to exercise the Rights and subject to the terms and conditions of the Rights Plan, each Right would entitle the holders thereof, other than the acquiring person or any related persons, to exercise their Rights and purchase from Air Canada two hundred dollars' worth of shares for one hundred dollars (i.e. at a 50% discount to the market price at that time). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Class B Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Class A Variable Voting Shares.

Pursuant to its terms, the Rights Plan will remain in effect until the close of business on the date of Air Canada's annual meeting of shareholders in 2023 and would be renewed in accordance with its terms for an additional period of three years (from 2023 to 2026) provided that the shareholders ratify such renewal at or prior to the annual meeting of shareholders to be held in 2023.

Share Offering and Warrants

In January 2021, the underwriters to a public offering which had been completed in December 2020, partially exercised their over-allotment option to purchase an additional 2,587,000 Air Canada shares for gross proceeds of \$62 million. After deduction of the underwriters' fees and expenses, net proceeds from the exercise of this over-allotment option were \$60 million.

In April 2021, and as described in Note 9, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada (acting through Canada Enterprise Emergency Funding Corporation), including the issuance of shares and warrants. Air Canada issued 21,570,942 shares to the Government of Canada for net proceeds of \$480 million. Air Canada exercised its call right on the vested warrants as per their terms at fair market value, purchasing and cancelling the warrants in January 2022 at a price of \$82 million which was equivalent to the carrying value of the vested warrants as at December 31, 2021, with settlement completed in January 2022.

Convertible Notes

As described in Note 9, in 2022, the Corporation repurchased and cancelled \$635 million (US\$473 million) aggregate principal amount of its convertible notes. The conversion rate of the convertible notes is 65.1337 shares per US\$1,000 principal amount of convertible notes, thereby reducing the potentially issuable shares.

14 | SHARE-BASED COMPENSATION

Air Canada Long-Term Incentive Plan

Certain of the Corporation's employees participate in the Air Canada Long-term Incentive Plan (the "Long-term Incentive Plan"). The Long-term Incentive Plan provides for the grant of stock options, performance share units and restricted share units to senior management and officers of Air Canada. With respect to the stock options, 19,381,792 shares were initially authorized for issuance under the Long-term Incentive Plan of which 5,374,445 remain available for future issuance. The outstanding performance share units and restricted share units will generally not result in the issuance of new shares as these share units will be redeemed for shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

Stock Options

The options to purchase shares granted under the Long-term Incentive Plan have a maximum term of up to ten years and an exercise price based on the fair market value of the shares at the time of the grant of the options. Fifty percent of options are time-based and vest over four years. The remaining options vest based upon performance conditions, which are based on operating margin (operating income over operating revenues) targets established by the Air Canada Board over the same time period. Each option entitles the employee to purchase one share at the stated exercise price.

The number of Air Canada stock options granted to employees, the related compensation expense recorded and the assumptions used to determine stock-based compensation expense, using the Black-Scholes option valuation model are as follows:

	2022	2021
Compensation expense (\$ millions)	\$ 16	\$ 12
Number of stock options granted to Air Canada employees	1,242,544	988,997
Weighted average fair value per option granted (\$)	\$ 11.39	\$ 11.56
Aggregated fair value of options granted (\$ millions)	\$ 14	\$ 11
Weighted average assumptions:		
Share price	\$ 24.25	\$ 25.36
Risk-free interest rate	1.43%-3.39%	0.29%-1.35%
Expected volatility	55.64%	55.04%
Dividend yield	0%	0%
Expected option life (years)	5.25	5.25

Expected volatility was determined at the time of grant using the share price on a historical basis. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

A summary of the Long-term Incentive Plan option activity is as follows:

	2022		2021	
	Options	Weighted Average Exercise Price/Share	Options	Weighted Average Exercise Price/Share
Beginning of year	4,420,051	\$ 25.72	5,903,174	\$ 22.06
Granted	1,242,544	24.25	988,997	25.36
Exercised	(350,535)	10.47	(1,507,355)	9.97
Expired	(306)	12.64	-	-
Forfeited	(7,009)	23.80	(964,765)	27.56
Outstanding options, end of year	5,304,745	\$ 26.39	4,420,051	\$ 25.72
Options exercisable, end of year	2,405,704	\$ 25.12	2,384,587	\$ 22.43

The weighted average share price on the date of exercise for options exercised in 2022 was \$20.30 (2021 – \$24.16).

Range of Exercise Prices	Expiry Dates	2022 Outstanding Options			2022 Exercisable Options	
		Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$9.23 – \$9.61	2023	154,825	1	\$ 9.37	154,825	\$ 9.37
\$12.83 – \$26.40	2027	451,405	5	14.82	451,405	14.82
\$22.53 – \$27.75	2028	851,506	6	26.53	846,843	26.52
\$33.11 – \$43.22	2029	837,189	7	33.28	401,914	33.26
\$15.35 – \$32.42	2030	1,183,930	8	30.80	461,819	30.78
\$23.80 – \$26.93	2031	583,346	9	25.35	88,898	25.37
\$17.37 – \$24.61	2032	1,242,544	10	24.25	-	-
		5,304,745		\$ 26.39	2,405,704	\$ 25.12

Range of Exercise Prices	Expiry Dates	2021 Outstanding Options			2021 Exercisable Options	
		Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$12.64	2022	126,316	1	\$ 12.64	126,316	\$ 12.64
\$9.23 – \$9.61	2023	378,126	2	9.29	378,126	9.29
\$12.83 – \$26.40	2027	452,629	6	14.81	442,629	14.55
\$22.53 – \$27.75	2028	852,512	7	26.53	772,460	26.53
\$33.11 – \$43.22	2029	837,189	8	33.28	325,391	33.24
\$15.35 – \$32.42	2030	1,183,930	9	30.80	339,665	31.31
\$23.80 – \$26.93	2031	589,349	10	25.34	-	-
		4,420,051		\$ 25.72	2,384,587	\$ 22.43

Performance and Restricted Share Units

The Long-term Incentive Plan also includes performance share units ("PSUs") and restricted share units ("RSUs"). The vesting of PSUs is based on the Corporation achieving its cumulative annual earnings target over a three-year period, while RSUs will vest after three years from their date of grant. The PSUs and RSUs granted are generally redeemed for Air Canada shares purchased on the secondary market and/or equivalent cash at the discretion of the Board of Directors.

The compensation expense related to PSUs and RSUs in 2022 was \$16 million (2021 – \$12 million).

A summary of the Long-term Incentive Plan share unit activity is as follows:

	2022	2021
Beginning of year	2,197,983	2,374,006
Granted	1,316,113	1,106,028
Settled	(595,284)	(646,964)
Forfeited	(26,887)	(635,087)
Outstanding share units, end of year	2,891,925	2,197,983

Refer to Note 17 for a description of derivative instruments used by the Corporation to mitigate the cash flow exposure to the PSUs and RSUs granted.

Employee Share Purchase Plan

Eligible employees can participate in the employee share purchase plan under which employees can invest between 2% and 10% of their base salary for the purchase of shares on the secondary market. The Corporation's matching of employee contributions was suspended effective May 1, 2020 and reinstated June 1, 2022. For 2022 contributions made between June 1 December 31, Air Canada will match 33.33% of the contributions made by employees. During 2022, the Corporation recorded compensation expense of \$9 million (2021 – nil) related to the Employee Share Purchase Plan.

15 | LOSS PER SHARE

The following table outlines the calculation of basic and diluted loss per share:

(in millions, except per share amounts)	2022	2021
NUMERATOR:		
Net loss	\$ (1,700)	\$ (3,602)
Effect of assumed conversion of convertible notes	(46)	143
Effect of assumed conversion of warrants	-	(27)
Remove anti-dilutive impact	46	(116)
Adjusted numerator for diluted loss per share	\$ (1,700)	\$ (3,602)
DENOMINATOR:		
Weighted-average shares	358	351
Effect of potential dilutive securities:		
Stock options	-	1
Warrants	-	-
Convertible notes	44	49
Remove anti-dilutive impact	(44)	(50)
Adjusted denominator for diluted loss per share	358	351
Basic and diluted loss per share	\$ (4.75)	\$ (10.25)

The calculation of loss per share is based on whole dollars 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 2022 calculation of diluted loss per share were 4,341,000 (2021 – 2,930,000) outstanding options where the options' exercise prices were greater than the average market price of the shares for the year.

The potential dilutive securities related to the warrants described in Note 13 were considered only for the portion of the year during which they were outstanding; however they were excluded from the calculation of diluted loss per share since their exercise price was greater than the average market price of the shares for the period they were outstanding.

16 | COMMITMENTS

Capital Commitments and Leases

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 December 31, 2022. U.S. dollar amounts are converted using the December 31, 2022 closing rate of CDN\$1.3554. Minimum future commitments under these contractual arrangements are shown below.

They include the acquisition of 30 Airbus A321XLR aircraft, which Air Canada announced in 2022. Deliveries are scheduled to begin in 2025 with the final aircraft to arrive in 2028. The acquisitions include 20 aircraft leased with lessors and 10 to be purchased under an agreement with Airbus S.A.S. The amounts related to the periodic lease payments on the 20 leases is included for the periods noted.

In 2022, Air Canada elected to proceed with the purchase of an additional 10 Airbus A220 aircraft, in addition to the two Airbus A220 aircraft that were added in 2021. Planned deliveries for the 12 aircraft are: six in 2024, and six in 2025.

Also finalized in 2022 and included below, is the purchase of two new Boeing 777 freighter aircraft with deliveries expected in 2024 and the exercise of options to purchase 15 additional Airbus A220 aircraft which are expected to be delivered in 2026.

(Canadian dollars in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Committed expenditures	\$ 1,334	\$ 1,048	\$ 660	\$ 1,193	\$ 743	\$ 2,811	\$ 7,789

In 2022, the Corporation announced it had entered into a purchase agreement for 30 ES-30 electric-hybrid aircraft under development by Heart Aerospace. Due to the developing design and specifications of the aircraft, the final cost is not yet determinable and not included in the table above, however the agreement provides for a price cap. The regional aircraft are expected to enter service in 2028. In addition to the purchase agreement, Air Canada entered into an agreement providing for a \$7 million (US\$5 million) investment by Air Canada in Heart Aerospace.

The Corporation leases and subleases certain aircraft and spare engines to its regional carrier which are charged back to Air Canada through its capacity purchase agreement with Jazz. These are reported net on the consolidated statement of operations. The leases and subleases relate to 15 Mitsubishi CRJ-200 aircraft, 20 Mitsubishi CRJ-705/900 aircraft, 25 Embraer 175 aircraft, and 13 spare engines. The lease and sublease revenue and expense related to these aircraft and engines amount to \$150 million in 2022 (2021 – \$152 million).

Other Contractual Commitments

The future minimum non-cancellable commitment for the next 12 months under the capacity purchase agreement is approximately \$1,236 million which includes pass-through costs to sustain the minimum flying commitment.

17 | FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Financial Instruments

(Canadian dollars in millions)	Carrying Amounts					December 31, 2021 Restated - Note 2P	
	December 31, 2022						
	Financial instruments classification						
	Fair value through profit and loss	Fair value through OCI	Assets at amortized cost	Liabilities at amortized cost	Total		
FINANCIAL ASSETS							
Cash and cash equivalents	\$ 2,693	\$ -	\$ -	\$ -	\$ 2,693	\$ 4,415	
Short-term investments	5,295	-	-	-	5,295	4,554	
Accounts receivable	-	-	1,037	-	1,037	691	
Investments, deposits and other assets							
Long-term investments	823	-	-	-	823	601	
Equity investment in Chorus	-	51	-	-	51	52	
Restricted cash	79	-	-	-	79	75	
Aircraft related and other deposits	-	-	54	-	54	71	
Other investments	6	7	-	-	13	-	
Derivative instruments							
Share forward contracts	6	-	-	-	6	13	
Foreign exchange derivatives	52	-	-	-	52	5	
	\$ 8,954	\$ 58	\$ 1,091	\$ -	\$ 10,103	\$ 10,477	
FINANCIAL LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ 2,314	\$ 2,314	\$ 2,051	
Foreign exchange derivatives	192	-	-	-	192	273	
Embedded derivative on convertible notes	120	-	-	-	120	579	
Warrants	-	-	-	-	-	82	
Current portion of long-term debt and lease liabilities	-	-	-	1,263	1,263	1,012	
Long-term debt and lease liabilities	-	-	-	15,043	15,043	15,511	
	\$ 312	\$ -	\$ -	\$ 18,620	\$ 18,932	\$ 19,508	

Summary of Gain (Loss) on Financial Instruments Recorded at Fair Value

(Canadian dollars in millions)		2022	2021
Embedded derivative on convertible notes	Note 9	\$ 219	\$ (45)
Short-term investments		(86)	(36)
Warrants	Note 9	-	27
Share forward contracts		-	(1)
Gain (loss) on financial instruments recorded at fair value		\$ 133	\$ (55)

Risk Management

Under its risk management policy, the Corporation manages its market risk through the use of various financial derivative instruments. The Corporation uses these instruments solely for risk management purposes, not for generating trading profit. As such, any change in cash flows associated with derivative instruments is designed to be an economic hedge and offset by changes in cash flows of the relevant risk being hedged.

The fair values of derivative instruments represent the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The fair values of these derivatives are determined using prices in active markets, where available. When no such market is available, valuation techniques such as discounted cash flow analysis are applied. The valuation technique incorporates all factors that would be considered in setting a price, including the Corporation's own credit risk as well as the credit risk of the counterparty.

Liquidity risk

The Corporation manages its liquidity needs through a variety of strategies including by seeking to sustain and improve cash from operations, sourcing committed financing for new and existing aircraft, and through other financing activities.

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations. The Corporation monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least twelve months after each reporting period, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. At December 31, 2022, total liquidity was \$9,824 million comprised of cash and cash equivalents, short-term and long-term investments of \$8,811 million, and \$1,013 million available under undrawn credit facilities.

Cash and cash equivalents include \$464 million pertaining to investments with original maturities of three months or less at December 31, 2022 (\$407 million as at December 31, 2021).

A maturity analysis of the Corporation's principal and interest repayment requirements on long-term debt and lease liabilities is set out in Note 9, and fixed operating commitments and capital commitments are set out in Note 16.

Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk can be further divided into the following sub-classifications related to the Corporation: fuel price risk, foreign exchange risk, interest rate risk, and share-based compensation risk.

Fuel Price Risk

Fuel price risk is the risk that future cash flows will fluctuate because of changes in jet fuel prices. To manage its exposure to jet fuel prices and to help mitigate volatility in operating cash flows, the Corporation can elect to enter into derivative contracts with financial intermediaries. The Corporation may use derivative contracts based on jet fuel, heating oil and crude-oil based contracts. The Corporation's policy permits hedging of up to 75% of the projected jet fuel purchases for the current calendar year, 50% of the projected jet fuel purchases for the next calendar year, and 25% of projected jet fuel purchases for any calendar year thereafter. These are maximum (but not mandated) limits. There is no minimum monthly hedging requirement. There are regular reviews to adjust the strategy in light of market conditions.

There was no fuel hedging activity during 2022 or 2021.

Foreign Exchange Risk

The Corporation's financial results are reported in Canadian dollars, while a large portion of its expenses, debt obligations and capital commitments are in foreign currencies, primarily in U.S. dollars. Foreign exchange risk is the risk that fluctuations in foreign exchange rates may have on operating results and cash flows. The Corporation's risk management objective is to reduce cash flow risk related to foreign denominated cash flows.

Air Canada generates certain sales in U.S. dollars and in other foreign currencies which are converted to U.S. dollars under the Corporation's risk management program. In 2022, these net operating cash inflows totalled approximately US\$3.8 billion and U.S. denominated operating costs

amounted to approximately US\$7.4 billion. Non-operating cash outflows in U.S. dollars, primarily related to interest payments on U.S. dollar denominated debt and net financing outflows, amounted to approximately US\$2.4 billion. For 2022, this resulted in a U.S. dollar net cash flow exposure of approximately US\$6.0 billion.

The Corporation has a target coverage of 60% on a rolling 18 month basis to manage the net U.S. dollar cash flow exposure described above utilizing the following risk management strategies:

- Holding U.S. dollar cash reserves as an economic hedge against changes in the value of the U.S. dollar. U.S. dollar cash, short and long-term investment balances as at December 31, 2022 amounted to \$693 million (US\$511 million) (\$1,403 million (US\$1,110 million) as at December 31, 2021). A portion of the cash and investment reserves are an economic hedge against long-term U.S. dollar debt while the remainder of the cash is operational cash and investment reserves which are applied against the rolling 18 month net U.S. dollar cash flow exposure. In 2022, a gain of \$72 million (gain of \$10 million in 2021) was recorded in Foreign exchange gain (loss) reflecting the change in Canadian equivalent market value of the U.S. dollar cash, short and long-term investment balances held.
- Locking in the foreign exchange rate through the use of a variety of foreign exchange derivatives which have maturity dates corresponding to the forecasted dates of U.S. dollar net outflows.

The level of foreign exchange derivatives entered into and their related maturity dates are dependent upon a number of factors, which include the amount of foreign revenue conversion available, U.S. dollar net cash outflows, as well as the amount attributed to aircraft and debt payments. Based on the notional amount of currency derivatives outstanding at December 31, 2022, as further described below, approximately 69% of net U.S. cash outflows are hedged for 2023 and 43% for 2024, resulting in derivative coverage of 60% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 60% coverage.

As at December 31, 2022, the Corporation had outstanding foreign currency options and swap agreements, settling in 2023 and 2024, to purchase at maturity \$5,798 million (US\$4,310 million) of U.S. dollars at a weighted average rate of \$1.2986 per US\$1.00 (2021 – \$2,423 million (US\$1,925 million) with settlements in 2022 and 2023 at

a weighted average rate of \$1.2742 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 €198 million, GBP £244 million, JPY ¥17,405 million, CNH ¥355 million and AUD \$126 million) which settle in 2023 and 2024 at weighted average rates of €1.0828, £1.2467, ¥0.0082, ¥0.1419, and AUD \$0.7072 per \$1.00 U.S. dollar, respectively (as at December 31, 2021 – EUR €260 million, GBP £56 million, JPY ¥4,577 million, CNH ¥31 million and AUD \$36 million with settlement in 2022 and 2023 at weighted average rates of €1.1704, £1.4125, ¥0.0092, ¥0.1471, and AUD \$0.7300 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 December 31, 2022 was \$140 million in favour of the counterparties (2021 – \$268 million in favour of the counterparties). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During 2022, a gain of \$174 million was recorded in Foreign exchange gain (loss) related to these derivatives (2021 – \$114 million loss). In 2022, foreign exchange derivative contracts cash settled with a net fair value of \$46 million in favour of the Corporation (2021 – \$437 million in favour of the counterparties).

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Corporation enters into both fixed and floating rate debt and also leases certain assets where the rental amount fluctuates based on changes in short-term interest rates. The Corporation manages interest rate risk on a portfolio basis and seeks financing terms in individual arrangements that are most advantageous taking into account all relevant factors, including credit margin, term and basis. The risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Corporation. The cash and short-term investment portfolio which earns a floating rate of return is an economic hedge for a portion of the floating rate debt.

The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in the Corporation's capital structure and is based upon a long-term objective of 60% fixed and 40% floating but allows flexibility to adjust to prevailing market conditions. The ratio at December 31, 2022 is 71% fixed and 29% floating (73% and 27%, respectively as at December 31, 2021).

Share-based Compensation Risk

The Corporation issues RSUs and PSUs to certain of its employees, as described in Note 14, which entitles the employees to receive a payment in the form of one share, cash in the amount equal to market value of one share, or a combination thereof, at the discretion of the Board of Directors.

To hedge the share price exposure, the Corporation entered into share forward contracts to hedge PSUs and RSUs that may vest in 2023, subject to the terms of vesting including realization of performance vesting criteria. The forward dates for the share forward contracts coincide with the vesting terms and planned settlement dates of 325,000 PSUs and RSUs in 2023. These contracts were not designated as hedging instruments for accounting purposes. Accordingly, changes in the fair value of these contracts are recorded in Gain (loss) on financial instruments recorded at fair value in the period in which they arise. During 2022, a loss of less than \$1 million was recorded (2021 – loss of \$1 million). Share forward contracts cash settled with a fair value of \$7 million in favour of the Corporation in 2022 (2021 – \$6 million). As at December 31, 2022, the fair value of the share forward contracts is \$6 million in favour of the Corporation (2021 – \$13 million in favour of the Corporation), with those contracts maturing in 2023 valued at \$6 million recorded in Prepaid expenses and other current assets.

Credit Risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. As at December 31, 2022, the Corporation's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, long-term investments and derivative instruments. Cash and cash equivalents and short and long-term investments are in place with major financial institutions, various levels of government

in Canada, and major corporations. Accounts receivable are generally the result of sales of passenger tickets to individuals, largely through the use of major credit cards, through geographically dispersed travel agents, corporate outlets, or other airlines. Similarly, accounts receivable related to cargo revenues relate to accounts from a large number of geographically dispersed customers. Accounts receivable related to the sale of Aeroplan Points are mainly with major financial institutions and any exposure associated with these customers is mitigated by the relative size and nature of business carried on by such partners. Credit rating guidelines are used in determining derivative counterparties. In order to manage its exposure to credit risk and assess credit quality, the Corporation reviews counterparty credit ratings on a regular basis and sets credit limits when deemed necessary.

Sensitivity Analysis

The following table is a sensitivity analysis for each type of market risk relevant to the significant financial instruments recorded by the Corporation as at December 31, 2022. The sensitivity analysis is based on certain movements in the relevant risk factor. These assumptions may not be representative of actual movements in these risks and may not be relied upon. Given potential volatility in the financial and commodity markets, the actual movements and related percentage changes may differ significantly from those outlined below. Changes in income generally cannot be extrapolated because the relationship of the change in assumption to the change in income may not be linear. For purposes of presentation, each risk is contemplated independent of other risks; however, in reality, changes in any one factor may result in changes in one or more several other factors, which may magnify or counteract the sensitivities.

The sensitivity analysis related to derivative contracts is based on the estimated fair value change applicable to the derivative as at December 31, 2022 considering a number of variables including the remaining term to maturity and does not consider the fair value change that would be applicable to the derivative assuming the market risk change was applicable to the maturity date of the derivative contract.

(Canadian dollars in millions)	Interest rate risk		Foreign exchange rate risk ⁽¹⁾		Other price risk ^{(2), (3)}	
	Income		Income		Income	
	1% increase	1% decrease	5% increase	5% decrease	10% increase	10% decrease
Cash and cash equivalents	\$ 27	\$ (27)	\$ (10)	\$ 10	\$ -	\$ -
Short-term investments	\$ 53	\$ (53)	\$ (24)	\$ 24	\$ -	\$ -
Long-term investments	\$ 8	\$ (8)	\$ (1)	\$ 1	\$ -	\$ -
Aircraft related deposits	\$ -	\$ -	\$ (2)	\$ 2	\$ -	\$ -
Long-term debt and lease liabilities	\$ (47)	\$ 47	\$ 582	\$ (582)	\$ -	\$ -
Share forward contracts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Foreign exchange derivatives	\$ -	\$ -	\$ (7)	\$ 7	\$ -	\$ -
Embedded derivative on convertible notes	\$ -	\$ -	\$ -	\$ -	\$ (12)	\$ 12

(1) Increase (decrease) in foreign exchange relates to a strengthening (weakening) of the Canadian dollar versus the U.S. dollar. The impact on long-term debt and lease liabilities includes \$6 million related to the Canadian dollar versus the Japanese yen. The impact of changes in other currencies is not significant to the Corporation's financial instruments.

(2) The sensitivity analysis for share forward contracts is based upon a 10% increase or decrease in the Air Canada share price.

(3) The sensitivity analysis for the embedded derivative on the convertible notes is based on a total 10% change in value.

For Air Canada's equity investment in Chorus, a 10% increase (decrease) to the Chorus share price would increase (decrease) Other comprehensive income by \$5 million.

Covenants in Credit Card Agreements

The Corporation's principal credit card processing agreements for credit card processing services contain triggering events upon which the Corporation is required to provide the applicable credit card processor with cash deposits. The obligations to provide cash deposits and the required amount of deposits are each based upon a matrix measuring, on a quarterly basis, both a fixed charge coverage ratio for the Corporation and the unrestricted cash and short-term investments of the Corporation. In 2022, the Corporation made no cash deposits under these agreements (nil in 2021).

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. Cash equivalents and short and long-term investments are classified as held for trading and therefore are recorded at fair value.

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

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 debt is \$12,485 million compared to its carrying value of \$13,445 million.

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.

RECURRING MEASUREMENTS (Canadian dollars in millions)	December 31, 2022	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	\$ 464	\$ -	\$ 464	\$ -
Short-term investments	5,295	-	5,295	-
Long-term investments	823	-	823	-
Equity investment in Chorus	51	51	-	-
Derivative instruments				
Share forward contracts	6	-	6	-
Foreign exchange derivatives	52	-	52	-
Total	\$ 6,691	\$ 51	\$ 6,640	\$ -
FINANCIAL LIABILITIES				
Derivative instruments				
Foreign exchange derivatives	\$ 192	-	192	\$ -
Embedded derivative on convertible notes	120	-	120	-
Total	\$ 312	\$ -	\$ 312	\$ -

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

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers within the fair value hierarchy during 2022.

Offsetting of Financial Instruments in the Consolidated Statement of Financial Position

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Corporation has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the Corporation enters into various master netting arrangements or other similar arrangements that do not meet the criteria for offsetting in the consolidated statement of financial position but still allow for the related amounts to be set-off in certain circumstances, such as the termination of the contracts or in the event of bankruptcy or default of either party to the agreement.

Air Canada participates in industry clearing house arrangements whereby certain accounts receivable balances related to passenger, cargo and other billings are settled on a net basis with the counterparty through the clearing house. These billings are mainly the result of interline agreements with other airlines, which are commercial agreements that enable the sale and settlement of travel and related services between the carriers. Billed and work in process interline receivables are presented on a gross basis and amount to \$112 million as at December 31, 2022 (\$46 million as at December 31, 2021). These balances will be settled at a net value at a later date; however, such net settlement amount is unknown until the settlement date.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar arrangements but not offset, as at December 31, 2022 and 2021, and shows in the Net column what the net impact would be on the consolidated statement of financial position if all set-off rights were exercised.

FINANCIAL ASSETS (Canadian dollars in millions)	Amounts offset			Amounts not offset	Net
	Gross assets	Gross liabilities offset	Net amounts presented		
December 31, 2022					
Derivative assets	\$ 115	\$ (63)	\$ 52	\$ 6	\$ 58
	\$ 115	\$ (63)	\$ 52	\$ 6	\$ 58
December 31, 2021					
Derivative assets	\$ 22	\$ (17)	\$ 5	\$ 13	\$ 18
	\$ 22	\$ (17)	\$ 5	\$ 13	\$ 18
FINANCIAL LIABILITIES (Canadian dollars in millions)	Amounts offset			Amounts not offset	Net
	Gross liabilities	Gross assets offset	Net amounts presented		
December 31, 2022					
Derivative liabilities	\$ 245	\$ (53)	\$ 192	\$ -	\$ 192
	\$ 245	\$ (53)	\$ 192	\$ -	\$ 192
December 31, 2021					
Derivative liabilities	\$ 317	\$ (44)	\$ 273	\$ -	\$ 273
	\$ 317	\$ (44)	\$ 273	\$ -	\$ 273

18 | CONTINGENCIES, GUARANTEES AND INDEMNITIES

Contingencies and Litigation Provisions

Various lawsuits and claims, including claims filed by various labour groups of Air Canada are pending by and against the Corporation and provisions have been recorded where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of the Corporation.

Guarantees

The Corporation participates in fuel facility arrangements operated through nine Fuel Facility Corporations, and three aircraft de-icing service facilities, along with other airlines that contract for fuel and de-icing services at various major airports in Canada. These entities operate on a cost recovery basis. The aggregate debt of these entities that has not been consolidated by the Corporation under IFRS 10 Consolidated Financial Statements is approximately \$1,181 million as at December 31, 2022 (December 31, 2021 – \$1,038 million), which is the Corporation's maximum exposure to loss before taking into consideration the value of the assets that secure the obligations and any cost sharing that would occur amongst the other contracting airlines. The Corporation views this loss potential as remote. Each contracting airline participating in these entities shares pro rata, based on system usage, in the guarantee of this debt. The maturities of these debt arrangements vary but generally extend beyond five years.

Indemnification Agreements

In the ordinary course of the Corporation's business, the Corporation enters into a variety of agreements, such as real estate leases or operating agreements, aircraft financing or leasing agreements, technical service agreements, and director/officer contracts, and other commercial agreements, some of which may provide for indemnifications to counterparties that may require the Corporation to pay for costs and/or losses incurred by such counterparties. The Corporation cannot reasonably estimate the potential amount, if any, it could be required to pay under such indemnifications. Such amount would also depend on the outcome of future events and conditions, which cannot be predicted. While certain agreements specify a maximum potential exposure, certain others do not specify a maximum amount or a limited period. Historically, the Corporation has not made any significant payments under these indemnifications.

The Corporation expects that it would be covered by insurance for most tort liabilities and certain related contractual indemnities.

19 | CAPITAL DISCLOSURES

The Corporation views capital as the sum of Long-term debt and lease liabilities, the embedded derivative on convertible notes, and the book value of Shareholders' equity (deficiency). The Corporation also monitors its net debt which is calculated as the sum of Long-term debt and lease liabilities less cash and cash equivalents, and short-term and long-term investments.

The Corporation's main objectives when managing capital are:

- 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 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 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 as at December 31 are calculated as follows:

(Canadian dollars in millions)	December 31, 2022	December 31, 2021 Restated - Note 2P
Long-term debt and lease liabilities	\$ 15,043	\$ 15,511
Current portion of long-term debt and lease liabilities	1,263	1,012
Total long-term debt and lease liabilities	16,306	16,523
Embedded derivative on convertible notes	120	579
Shareholders' equity (deficiency)	(1,555)	9
Total Capital	\$ 14,871	\$ 17,111
Total long-term debt and lease liabilities	\$ 16,306	\$ 16,523
Less Cash and cash equivalents, and short-term and long-term investments	(8,811)	(9,570)
Net debt	\$ 7,495	\$ 6,953

20 | REVENUE

Disaggregation of revenue

The Corporation disaggregates revenue from contracts with customers according to the nature of the air transportation services. The nature of services is presented as passenger, cargo and other revenue on its consolidated statement of operations. The Corporation further disaggregates passenger and cargo air transportation service revenue according to geographic market segments.

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

(Canadian dollars in millions)

	2022	2021
Canada	\$ 4,424	\$ 2,050
U.S. transborder	3,017	770
Atlantic	4,381	1,100
Pacific	1,118	245
Other	1,298	333
	\$ 14,238	\$ 4,498

Cargo Revenues

(Canadian dollars in millions)

	2022	2021
Canada	\$ 114	\$ 124
U.S. transborder	51	62
Atlantic	556	538
Pacific	409	667
Other	136	104
	\$ 1,266	\$ 1,495

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.

Other operating revenues are principally derived from customers located in Canada and consist primarily of revenues from the sale of the ground portion of vacation packages, redemption of Aeroplan Points for non-air goods and services, buy on board and related passenger ancillary services and charges, and other airline-related services.

Contract balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers.

(Canadian dollars in millions)	December 31, 2022	December 31, 2021
Receivables, which are included in Accounts receivable	\$ 770	\$ 513
Contract costs which are included in Prepaid expenses and other current assets	133	80
Contract liabilities – Advance ticket sales	4,104	2,326
Contract liabilities – Aeroplan deferred revenue (current and long-term)	3,409	3,452
Contract liabilities – Other deferred revenue (current and long-term)	1,046	1,187

Receivables include passenger, cargo and other receivables from contracts with customers. The Corporation sells passenger ticket and related ancillary services via cash, credit card or other card-based forms of payment with payment generally collected in advance of the performance of related transportation services. Passenger ticket and ancillary receivables are amounts due from other airlines for interline travel, travel agency payment processing intermediaries or credit card processors associated with sales for future travel and are included in Accounts receivable on the consolidated statement of financial position. Aeroplan Points are sold to program partners based on member accumulations and which billings are generally settled monthly. Cargo and other accounts receivable relate to amounts owing from customers, including from freight forwarders and interline partners for cargo and other services provided.

Contract costs include payment card fees, commissions and global distribution system charges on passenger tickets. These costs are capitalized at time of sale and expensed at the time of passenger revenue recognition.

Airline passenger and cargo sales transactions rely on multiple information technology systems and controls to process, record, and recognize a high volume of low value transactions, through a combination of internal information technology systems and outsourced service providers, including industry clearing houses, global distribution systems, and other partner airlines. Passenger sales and the ground portion of vacation packages are deferred and included in Current liabilities. A portion of the passenger sale related to the equivalent ticket value of any Aeroplan Points issued is separated and deferred in Aeroplan deferred revenue. The Advance ticket sales liability is recognized in revenue when the related flight occurs or over the period of the vacation. Depending on the fare class, passengers may exchange their tickets up to the time of the flight or obtain a refund, generally in exchange for the payment of a fee. The Corporation performs regular evaluations on the advance ticket sales liability.

The practical expedient in IFRS 15 allows entities not to disclose the amount of the remaining transaction prices and its expected timing of recognition for performance obligations if the contract has an original expected duration of one year or less. The Corporation elects to use this practical expedient for the passenger travel performance obligation as passenger tickets expire within a year if unused.

Air Canada offers and has issued and outstanding non-expiring travel credits. Customers have the ability to use the travel credits within the next 12 months and the Corporation does not have an unconditional right to defer settlement beyond the next 12 months. As such, the entire liability amount as at December 31, 2022 of \$401 million (2021 - \$250 million) related to these credits has been recorded in current liabilities even though some could be used after the next 12 months.

The following table presents financial information related to the changes in Aeroplan deferred revenue:

(Canadian dollars in millions)	2022	2021
Aeroplan deferred revenue, beginning of year	\$ 3,452	\$ 3,256
Proceeds from Aeroplan Points issued to program partners	1,253	822
Equivalent ticket value of Aeroplan Points issued	207	65
Aeroplan Points redeemed	(1,503)	(691)
Aeroplan deferred revenue, end of year	\$ 3,409	\$ 3,452

Proceeds from Points issued to Aeroplan program partners and the equivalent ticket value of Points issued through travel are deferred until the Points are redeemed and the reward is provided to the member. The Corporation expects the majority of the Points outstanding will be redeemed within three years.

21 | RELATED PARTY TRANSACTIONS

Compensation of Key Management

Key management includes Air Canada's Board of Directors, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Commercial Officer, Executive Vice President and Chief Operations Officer, Executive Vice President - Chief Human Resources Officer and Public Affairs, and Executive Vice President and Chief Legal Officer. Amounts reported are based upon the expense as reported in the consolidated financial statements, which in the case of Pension and post-employment benefits, includes actuarial gains or losses, as applicable. Compensation to key management is summarized as follows:

(Canadian dollars in millions)	2022	2021
Salaries and other benefits	\$ 8	\$ 4
Pension and post-employment benefits	(3)	(2)
Share-based compensation	15	11
	\$ 20	\$ 13



COMMANDER 15i





About Air Canada

Air Canada is Canada's largest airline, the country's flag carrier and a founding member of Star Alliance®, the world's most comprehensive air transportation network. Air Canada provides scheduled passenger service directly to 51 airports in Canada, 51 in the United States and 86 internationally. It holds a Four-Star ranking from Skytrax. Air Canada's Aeroplan program is Canada's premier travel loyalty program, where members can earn or redeem points on the world's largest airline partner network of 45 airlines, plus through an extensive range of merchandise, hotel and car rental rewards. Its freight division, Air Canada Cargo, provides air freight lift and connectivity to hundreds of destinations across six continents using Air Canada's passenger flights and cargo-only flights with its fleet of Boeing 767-300 freighters. Air Canada has committed to a net-zero emissions goal from all global operations by 2050.