AIR CANADA

2023 Annual Report

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 conditions as well as geopolitical conditions such as the military conflicts in the Middle East and 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, Air Canada's dependence on technology, cybersecurity risks, 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), employee and labour relations and costs, 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, Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, epidemic diseases, changes in laws, regulatory developments or proceedings, 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.sedarplus.com and, in particular, those identified in section 18 "Risk Factors" of Air Canada's 2023 MD&A included in this Annual Report.

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 greenhouse gas emissions. The achievement of our commitments and targets depends on many factors, including the combined actions of governments, industry, suppliers and other stakeholders and actors, as well as the development and implementation of new technologies. In particular, our 2030 and 2050 greenhouse gas emission-related targets are ambitious, and heavily dependent on new technologies, renewable energies and the availability of sufficient a supply of sustainable aviation fuels (SAF) which continues to present serious challenges. In addition, Air Canada has incurred, and expects to continue to incur, costs to achieve its goal of net-zero greenhouse gas 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, on which local and international stakeholders are increasingly focusing, 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, and 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 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 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.

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.

Incorporation of other information

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

Non-GAAP measures

Air Canada uses non-GAAP measures and supplementary financial measures including adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), adjusted EBITDA margin, leverage ratio, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share, and adjusted CASM. Such measures, including those referred to in this Annual Report, 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 Air Canada's 2023 MD&A included in this Annual Report for an explanation of the composition of these non-GAAP measures, an explanation of how they provide useful information to investors and the additional purposes for which management uses them, as well as a quantitative reconciliation to the most directly comparable GAAP measure.

What's inside

Introduction

2023 Management's Discussion and Analysis of Results of Operations and Financial Condition

2023 Consolidated Financial Statements and Notes

Message from the President and Chief Executive Officer

We are in the business of journeys and making meaningful connections. As we reflect on Air Canada's 2023 performance, I am pleased to share the accomplishments and progress in a year full of challenges and opportunities. We are proud of our achievements and remain committed to creating long-term value for all our stakeholders.

Rising higher

Air Canada delivered very strong results in 2023, meeting key financial objectives and advancing or exceeding most of our strategic and operational goals for the year, underscoring the effective progress we are making. Bolstered by our ambition to rise higher, we continue to expand and improve our offerings and enhance our customer experience through strategic investments and other deliberate actions, while making a meaningful, positive impact on society and the communities we serve.

Reaching new frontiers

We fly the flag and connect Canada to the rest of the world through our vast and growing network. In 2023, we expanded our reach by introducing new routes and new destinations. We are the largest provider of scheduled passenger services in the Canadian market and in the Canada-U.S. transborder and the international markets to and from Canada. Our seven cargo freighters in service also complemented our extensive domestic and international passenger networks. Daily flights averaged 1,025 to 188 direct destinations on six continents, carrying more than 46 million passengers in 2023 compared to more than 37 million passengers in 2022. Bringing customers safely to their destinations is our utmost priority and our core value. We are committed to maintaining our high safety standards and to protecting the well-being of our customers and our colleagues.

Fleet innovation

Our fleet optimization continued in 2023. We invested in and took delivery of more modern and fuel-efficient aircraft, and we entered into agreements to acquire 18 Boeing 787-10 Dreamliners with options for another 12. Other aircraft we are adding to the fleet include Airbus A220-300s and Airbus A321XLRs. The new aircraft will help us mitigate emissions while offering an enhanced travel experience for our customers, as we continue to position ourselves toward more sustainable growth and profitability.

More for customers

Our operational performance saw notable improvements. This is no small feat when we consider the growth in traffic and ongoing supply chain challenges. We uplifted the customer experience notably through our Elevating the Customer Experience (ECX) program, delivering 41 initiatives focused on our processes, planning and execution, communications and collaboration. We invested in novel technologies and product enhancements to provide our customers high-quality comfort and enhanced service. This includes being the first Canadian airline to pilot a new facial recognition technology and expanding our premium airport lounge network to 29 lounges worldwide.

Consistent with our goal of reaching new frontiers, we gave our customers more travel options through our arrangements with United Airlines and Emirates, offering our customers more destinations to the United States and the Middle East. We also introduced new air-to-rail connections in Europe, facilitating travel choice making for our customers.

> **Customers trust us to carry them to the destination of their choice, and we will continue to do so safely with care and class.**

Aeroplan, our award-winning loyalty program, has more than eight million active members, a figure that has doubled since 2019. Aeroplan produced new, innovative partnerships and services in 2023, such as with Bell and Parkland. It also introduced AC Wallet, which enables members to use stored flight credits to book flights on our website or on our app.

Empowering one another

I am immensely proud of our employees, notably for their tenacity, ambition and commitment to our customers. We take pride in providing services in English and French and in 23 route languages, and we grew to about 39,000 employees in 2023. We continued to foster partnerships with community organizations and participated in events that encourage inclusivity. Further, we continued to drive our diversity, equity and inclusion (DEI) initiatives, and we launched our first accessibility plan in 2023, gaining input from our customers and our employees with disabilities. We will continue to make decisions that support equity and representation throughout our business, including continuing our commitment to consult with persons with disabilities and accessibility organizations to create positive travel experiences for persons with disabilities and to provide a fulfilling employment experience in the workplace.

Community support

We are dedicated to aligning our business practices with our values and aim to make a meaningful contribution to society. In 2023, with the Air Canada Foundation, we supported 360 Canadian charitable organizations dedicated to the health and well-being of children. The Foundation raised more than $1.7 million, which includes a record $1.3 million (net) from its annual golf tournament, and the Dreams Take Flight program returned, allowing more than 1,000 children to create treasured experiences. We provided emergency humanitarian relief for Canadian and international appeals to support those impacted by wildfires and earthquakes, such as in Morocco, Türkiye and Syria, and we brought Canadians safely home from Israel and Maui with special flights.

Climate action

We continued our efforts to modernize our fleet by introducing more fuel-efficient aircraft to enhance operational efficiency and reduce our carbon footprint. Our investment in electrifying our ground support equipment vehicles, which operate with minimal emissions and contribute to cleaner air quality, exemplifies our commitment.

We actively sourced additional SAF, promoting more sustainable air travel, and we enhanced our Aeroplan Flight Rewards Program with carbon offset compensations for associated flights. Our Leave Less Travel Program encourages corporate customers to adopt more sustainable travel practices, further aligning with our climate goals.

Our climate action goals are ambitious. We cannot achieve them on our own as we are heavily dependent on new technologies and the availability of sufficient sustainable aviation fuels and other renewable energies. We need governments, airports and other stakeholders to act decisively, to take concrete measures in support of infrastructure, energy transition and other initiatives that will allow the airline industry and Air Canada to decarbonize and achieve its climate action ambition.

Sometimes there are headwinds, but we adapt strategically and move forward stronger. Customers trust us to carry them to the destination of their choice, and we will continue to do so safely with care and class. I look forward to delivering strong results and reporting on our achievements to you again in the future.

Thank you for your loyalty, support and trust.

Michael Rousseau

Learn more

Corporate Sustainability | Air Canada Foundation

2023 Business Highlights

EMPLOYEES

About
39,000
END OF 2023
Compared to about 36,000 in 2022

NETWORK GROWTH

1,025
AVERAGE DAILY FLIGHTS
About 945 in 2022

WELCOMED PASSENGERS

Over
46M
About 37M in 2022

24% INCREASE

ADJUSTED EBITDA[1]

$3.982B
$1.457B in 2022

OPERATING REVENUES

$21.833B
$16.556B in 2022

OPERATING INCOME (LOSS)

$2.279B
($187M) in 2022

FLEET RENEWAL

Sourced
18 Boeing 787-10 Dreamliners
and
5 737 MAX 8
aircraft

DIRECT DESTINATIONS

188
ON 6 CONTINENTS

NEW ROUTES LAUNCHED

14

Deep Canadian network and established international presence

ASMs

About
99.0B
About 82.6B in 2022

TOTAL LIQUIDITY

$10.3B
AT DEC. 31, 2023
$9.8B at Dec. 31, 2022

LEVERAGE RATIO[1]

1.1x
AT DEC. 31, 2023
Materially improved from 5.1x at Dec. 31, 2022

1 Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) and leverage ratio are non-GAAP measures. Please see the discussion at the section entitled "Non-GAAP measures" on page 2 of this Annual Report.

Introduced free Bell Wi-Fi messaging for Aeroplan Members

BUSINESS DIVERSIFICATION

AEROPLAN

- Record membership surpassing 8 million members

CARGO

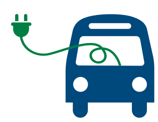
- 7 all-cargo freighters in service, deployed to 12+ destinations in 2023

AIR CANADA VACATIONS

- Materially increased revenues as compared to 2022

CLIMATE ACTION PLAN

- Fleet renewal: Sourced 18 Boeing 787-10 Dreamliner aircraft, continuing transition to more modern, efficient aircraft to lower emissions per seat
- Sold environmental attributes associated with 2.4 M U.S. gallons of SAF
- Introduced air-to-rail connections in Europe
- Added another 20 electric ground support equipment (e-GSE) in 2023



- Partnered with IAGOS (In-service Aircraft for a Global Observing System) to contribute to climate and air quality research by equipping an Airbus A330 to monitor high-altitude data

OTHER SUSTAINABILITY AREAS

41 ECX initiatives delivered such as biometrics at select airports, baggage tracking and e-gates

Implemented four structural DEI pillars: DEI Executive Council, DEI Steering Committee, DEI Champions Program, formalization of employee resource groups (ERGs)

Historic partnership with new Professional Women's Hockey League

Implementing Linguistic Action Plan; *Office québécois de la langue française* (OQLF) voluntary registration

Enhanced UBY (Unlock the Best in You) program for employees

Resumed operations for 8 Dreams Take Flight for 1,000+ children

Air Canada Foundation supported 360 charities across Canada

Launched Accessibility Plan; announced measures to reduce barriers

For more information
See 2022 Citizens of the World and Air Canada 2022 TCFD supplement

Key Industry Awards

Skytrax World Airline Awards:
- Best Airline in Canada
- Best Airline Staff in Canada
- Best Low-Cost Airline in Canada (Air Canada Rouge)

2024 APEX Five Star Global Airline Award

Passenger Choice Award for Best Entertainment in North America from the Airline Passenger Experience Association

Favourite Airline in North America from the Trazee Awards (fifth consecutive year)

Best Airline for Onboard Entertainment from *Global Traveler* (fifth consecutive year)

Airline Program of the Year, Best Promotion and Best Redemption Ability for Air Canada's Aeroplan loyalty program

Sustainability Awards America:
2023 Award for Achievement in Sustainability – Airline

Seattle-Tacoma International Airport Fly Quiet Program:
2023 Fly Quiet Award

Project Green YVR Annual Summit:
- YVR Green Excellence Award for Environmental Stewardship
- Waste Wars Passenger Lounges: 1st Place - Air Canada Maple Leaf Lounge (C Pier)

AWARD-WINNING EMPLOYER

Air Canada named one of Canada's Best Employers by Forbes (eighth consecutive year)

Air Canada named one of Montréal's Top Employers (10th consecutive year)

Outstanding Commitment to Employment Equity Award and the Sector Distinction Award as part of the Employment Equity Achievement Awards

Air Canada employees named Best Airline Staff in Canada at 2023 Skytrax World Airline Awards at Paris Air Show

Top 10 Diversity and Culture Impact Leaders Award

Rise Higher

Air Canada's corporate strategy framework, Rise Higher, aims to elevate everything about our business as we continue 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 activities and goals that align with our four priorities: Fund Our Future, Reach New Frontiers, Elevate Our Customers and Lift Each Other Up.

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

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

Elevate our customers by supporting the creation of meaningful customer experiences and human connections, such as by leveraging innovations in technology, loyalty program and products.

Foster a collaborative workplace that respects all diverse cultures and contributions to society.

Fund Our Future

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

This year we built on our restored stability, carrying more than 46 million passengers safely to their destination with care and class. We pivoted toward the future, amid geopolitical issues and other challenges, while strengthening our business, our operational depth and our financial position. These are important milestones for our shareholders, while also serving as a foundation for our customer-centric priorities and our growth plans to meet anticipated customer demand.

In 2023, Air Canada added 12 aircraft to its operating fleet: six wide-bodies including two freighters and six narrow-bodies. Air Canada announced that it is acquiring 18 Boeing 787-10 aircraft with options for an additional 12, with deliveries expected to begin in the fourth quarter of 2025 and end in 2027.

We prepaid about $1.3 billion of outstanding debt, including for the financing of 33 Airbus A220 and five Boeing 787-8 aircraft. As a result of prepayments, these aircraft have been added to Air Canada's unencumbered asset pool, bringing the total estimated value to approximately $6.6 billion at December 31, 2023, excluding the value of Aeroplan.

At December 31, 2023, our leverage ratio was 1.1, a significant improvement from a leverage ratio of 5.1 at December 31, 2022, and total liquidity of $10.3 billion at year-end was about $500 million more than when the year began.

MET 2023 COMMITMENTS FOR

Operated capacity
20% year-over-year increase

Adjusted CASM[1]
13.49 cents in 2023, an increase of 2.2% from 2022

Adjusted EBITDA[1]
$3.982 billion compared to $1.457 billion in 2022

RECORD
FULL YEAR OPERATING REVENUES
$21.8B
IN 2023
(compared to $16.6B in 2022)

OPERATING INCOME
$2.3B
IN 2023
(compared to operating loss of $187M in 2022)

[1] Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) and adjusted CASM (cost per available seat mile) are non-GAAP measures. Please see the discussion at the section entitled "Non-GAAP measures" on page 2 of this Annual Report.

TECHNOLOGY

- We launched new digital identification technology, becoming the first Canadian airline to offer customers safety and convenience to use facial recognition technology to confirm their identification. The pilot project is available for customers in certain locations, including from Vancouver International Airport and at the Maple Leaf Lounge and Café at YYZ. We plan to continue to scale up this project.
- We made additional advances to the Air Canada mobile application including:
  - Dynamic "push" boarding pass updates, ensuring customers always have the most up-to-date version of their travel document.
  - Integrated airport maps and wayfinding into the Flight Status feature to help customers navigate through 12 major airports in Canada (Montréal, Toronto, Calgary, Vancouver) and internationally (Chicago, Newark, N.J., London, Frankfurt, Munich, Zurich, Dubai, Tokyo).
- Intelsat, operator of one of the world's largest integrated satellite and terrestrial networks and leading provider of in-flight connectivity, agreed to provide connectivity systems for nearly 100 additional aircraft across our fleet, including the new multi-orbit electronically steered array antenna for aircraft in our regional jet fleet.

Reach New Frontiers

We rise higher by embracing our competitive strengths to grow our business, restoring and expanding our international reach and continually exploring new opportunities.

Expanded network

In 2023, our total fleet, including Air Canada Rouge and Air Canada Express fleets, grew to 361 aircraft.

Air Canada operated 1,025 average daily flights, versus 945 in 2022, to 188 direct destinations on six continents. We carried more than 46 million passengers compared to just above 37 million in 2022.

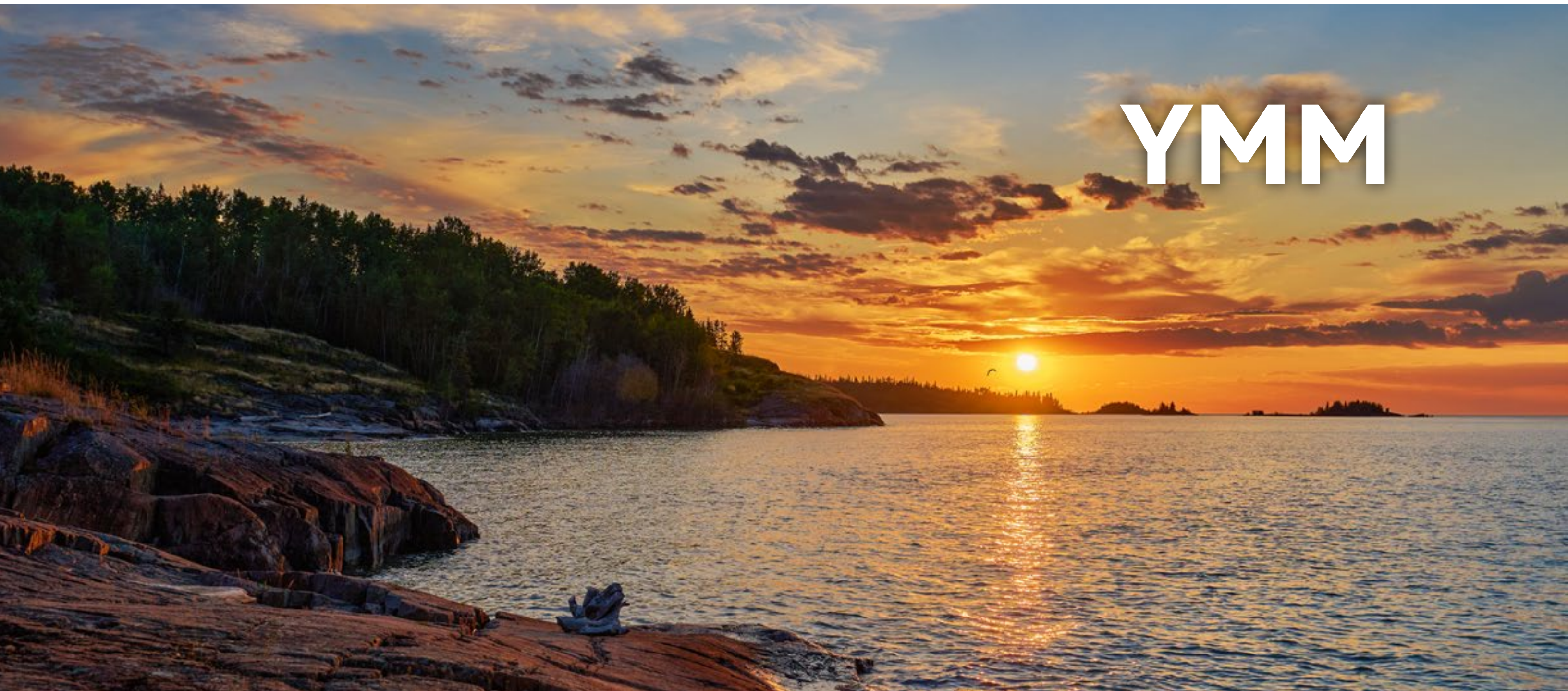
We enabled customers to discover new destinations by introducing new seasonal routes like to Monterrey and Martinique from Toronto. Seasonal service was also established to Amsterdam, Copenhagen and Los Cabos from Montréal, and four times weekly flights to Dubai from Vancouver. In 2023, year-round service to Brussels from Toronto and Toulouse from Montréal was initiated.

For our transborder service, we introduced routes to JFK (New York) and Sacramento from Toronto, New Orleans and JFK from Montréal, and Dulles, Va., from Vancouver.

In 2023, we began year-round service to Yellowknife from Toronto and service between Fort McMurray and Montréal.

AIR CANADA CARGO

- $924 million in Cargo revenues compared to $1.266 billion in 2022
- 7 freighters in service
- Launched a new website with features to improve the customer experience, such as an interactive map tool, and an updated design to better reflect the brand
- Agreed with Emirates SkyCargo to offer more benefits to mutual air freight customers, including access to more capacity on a larger combined global network and the opportunity for mutual customers to book shipments on each other's flights
- Joined the Pharma Aero platform with the aim of contributing to and benefitting from Pharma Aero's knowledge and expertise to further develop its handling of pharmaceutical shipments
- Certified Opticooler Containers from DoKaSch Temperature Solutions to support its extensive cool chain network and delivery of temperature-sensitive products such as vaccines and other pharmaceuticals



Elevate Our Customers

We rise higher by supporting the creation of meaningful customer experiences and human connections, such as by leveraging innovations in technology, loyalty program and products.

Aeroplan

As Canada's premier travel loyalty program, Aeroplan enables members to accumulate points through travel on Air Canada and select partners, as well as through the purchase of products and services from participating partners and suppliers. As the program continues to grow and gain new features, members realize more from their day-to-day activities, including more ways to earn, more rewards and more benefits along the way.

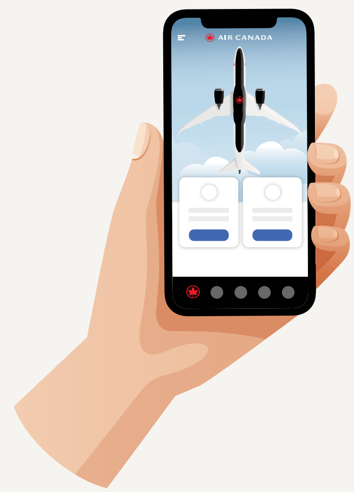
- We had eight million members enrolled by end-2023, double the 2019 level.
- We launched a new partnership with Parkland, offering members more than 1,100 gas and convenience store locations across Canada to earn and redeem Aeroplan points on everyday purchases.
- We expanded our partnership with Uber with members earning one Aeroplan point per $1 spent on orders in grocery and retail sections of Uber Eats app.
- We introduced AC Wallet, a credit option for Aeroplan Members who cancel an unused ticket or are refunded for ancillary charges.
- We announced a multi-year partnership with Bell for free in-flight messaging for Aeroplan Members. Free mobile SIM cards were also introduced on select inbound international flights.

Elevating the customer experience

We took important steps during the year to continue enhancing our level of customer service and to improving upon our operational reliability. With technology enhancements, enhanced employee training programs, as well as engaging regularly with our customers through surveys, focus groups and other means, we are targeting service excellence and product offerings to elevate the customer experience.

In 2023, Air Canada:

- Implemented baggage and mobility aid tracking and reporting for journeys within Canada (via the Air Canada mobile app).



- Expanded in-flight food and beverage offerings to suit a variety of needs and tastes.
- Launched pre-ordering of in-flight meals for Air Canada Signature Class and Premium Economy customers on all international flights departing from Canada. Pre-ordering will also reduce excess meals by 20 per cent in 2024, reducing the number of meals that go to waste.
- Introduced a 25 per cent back statement credit for all Bistro purchases when customers use TD Visa Aeroplan credit card to make onboard purchases.

- Expanded Live TV into transborder markets and increased onboard content by 209 per cent (more than 2,300 additional hours of content).

- Fostered major collaborations with industry leaders such as Apple, Audible (an Amazon company) and Disney and offered "first window" or "first airline to offer" opportunities including:
  - Disney+ Originals, Apple Fitness+ customized meditation videos, Hayu reality TV shows and HBO podcasts.
- Concluded direct licensing deal with Mattel to offer extensive library of children's content including popular shows like Hot Wheels in the City and Thomas and Friends: Learning with Thomas as well as episodes of Barbie's vlog.
- Upgraded Airbus A321 aircraft with all-new interior and innovative cabin technology:
  - Cabin improvements include larger overhead bins, new seating and a state-of-the-art in-flight entertainment (IFE) system.
  - Exterior cameras on narrow-body aircraft provide customers real-time, high-definition flight views on IFE seatback screens.
  - New technologies, such as Bluetooth audio and free high-speed internet available for all customers, trialled in flight.

Operational performance

We saw real progress on our operational performance in 2023 by delivering 41 initiatives that improved Air Canada's on-time performance, customer insights, customer communications, disruption handling and recovery, employee engagement and service excellence. These include:

- Continually increasing experience levels through additional training programs.
- Improved schedule design of our flight operations, allowing for additional flexibility in ground time and connection times for customers.
- Deeper collaboration in planning and execution with all key partners in the travel ecosystem, including airport authorities, airport security agencies, customs and border processing and air traffic control and third-party ground handlers, caterers and fuelers, to enhance operational efficiencies.
- New carry-on baggage processes, such as pre-solicitation to collect bags through self-service and customer messaging to facilitate the boarding process of select flights.
- Process improvements to ensure efficient turnaround of aircraft and on-time departures (e.g., equipment staging processes and cabin grooming procedures).

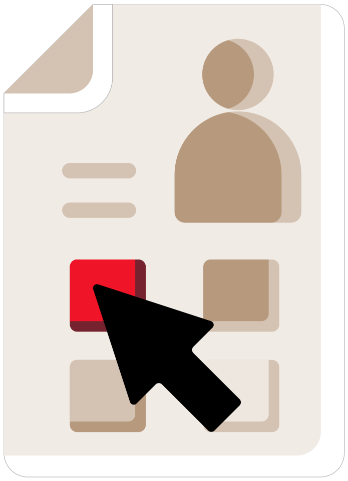
Safeguarding your information

Privacy and information security require ongoing care and attention for a business of our scale and complexity. We are subject to an expanding range of obligations as new privacy and data protection laws are enacted in Canada and around the world. Our customers, employees, investors and other stakeholders increasingly expect us to demonstrate that we collect data appropriately, use it for appropriate purposes and keep it secure.

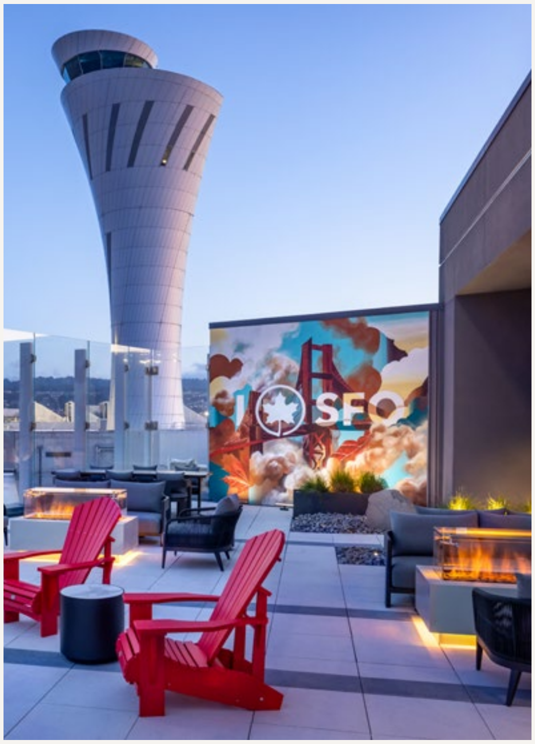
> **We are committed to protecting our customers' and employees' personal information and their right to privacy.**

We maintain privacy policies relating to the collection, use and sharing of personal information. The policies also describe the rights of individuals over that information. Air Canada's Privacy Office oversees the use of this information and monitors compliance with data protection laws.

We invest in cybersecurity initiatives that target areas of advancement to help ensure we stay ahead of evolving threats, both from the growing number of sophisticated actors (including hackers, organized criminals, state-sponsored actors) and information security attacks that have continued to grow in complexity. We integrate cybersecurity requirements into all technology projects to help ensure a stable and secure baseline of systems, processes and training. These requirements are based on best practices and mature standards and they encompass all dimensions of cybersecurity resilience including the ability to identify, protect, detect, respond and recover as described in the NIST cybersecurity framework. We also seek to ensure that suppliers have effective cybersecurity and privacy controls that are aligned with Air Canada's policies and standards.



- Expanded worldwide lounge network to 29 with addition of three new premium airport lounges:
  - Aspire | Air Canada Café at Billy Bishop Toronto City Airport with premium amenities, food and beverages that offer higher levels of service, comfort and convenience for travellers.
  - Maple Leaf Lounge at San Francisco International Airport.
  - Newark Liberty International Airport Terminal A, co-located within new United Club.



- Began offering customers convenient new air-to-rail booking options to connect at four European airports on four major passenger rail systems in France, Germany, Switzerland and Austria.

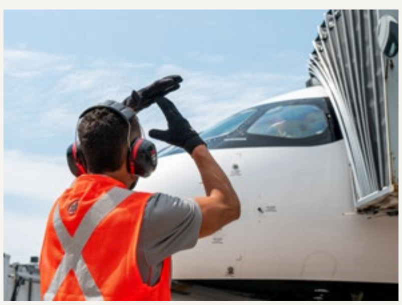
Lift Each Other Up

We rise higher by fostering a collaborative workplace that respects all diverse cultures and contributions to society.

Safety First, Always

At the heart of our culture is our number one central value: Safety First, Always. The core consideration in all we do, the safety of our customers, employees and those in communities where we fly and serve is always our top priority. Safety management is a critical responsibility and affects virtually every operational decision Air Canada makes.

We support and promote effective employee training; the continued development and integration of safety data analytics and artificial intelligence into our Safety Management System (SMS); continually assess and manage safety risks associated with the introduction of new equipment, new routes and new initiatives or projects; and reinforce and promote safety reporting, protecting safety critical information in order to inform its decisions going forward.



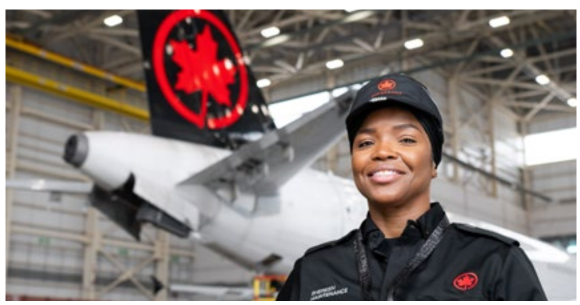
Our Occupational Health and Safety (OHS) Program is designed to protect employees from occupational hazards, minimizing risks to their health and well-being. The program establishes procedures for dealing with workplace hazards and upholds high standards, including to meet our obligations under applicable laws and regulations.

We also continue to engage with other aviation organizations and authorities around the world to promote safety and to share best safety practices.

Diversity, Equity and Inclusion

Diverse talent continues to grow our employee base. We continue to step up our efforts to nurture a diverse, equitable and inclusive work environment, making our employees feel welcome, providing a safe space for them to express who they choose to be and demonstrating our appreciation for their contributions. We also foster partnerships with organizations and take part in local, regional and national activities that encourage diversity, equity and inclusion. Air Canada has developed a holistic framework for its DEI initiatives called CARE, which targets four focus areas:

1. **C**ommunity outreach: We are creating strong partnerships with underrepresented communities to support education and diverse talent. We unveiled a land acknowledgment plaque at our Montréal downtown office to recognize our commitment to supporting Indigenous inclusion and raising awareness about Indigenous culture. We continued our relationship with Pinball Clemons Foundation to support marginalized youth in the Toronto area, further leveraging contributions and raising funds for six scholarships of $10,000, and we supported Black Aviation Professional Network's youth programming event called Shooting for the Stars.
2. **A**ccountability: We are ensuring accountability through data-driven metrics that we share with internal and external stakeholders. To ensure our data-driven initiatives and policies resonate with our employees, we formalized employee resource groups (ERGs). At the end of 2023, there were six ERGs at Air Canada: Asians in Aviation, Black Employee Resource Group, Indigenous Employee Resource Group, Women in Aviation, Diverse Abilities and LGBTQ2+.
3. **R**epresentation: We are consistently striving toward representation of underrepresented groups through all levels of our organization. We are a signatory to the IATA 25by25, which aims to advance gender balance by 2025, and a signatory to the BlackNorth Initiative CEO Pledge that 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 have at least 3.5 per cent of board and executive roles held by Black leaders by 2025. Currently, 38% of Board members identify as women and 15% identify as members of visible minorities. Air Canada and CAE named eight recipients of the fifth Captain Judy Cameron Scholarship for Aspiring Women in Aviation.
4. **E**ngagement and belonging: We are ensuring company-wide and targeted sensitization campaigns within our business as well as showcasing and celebrating Canadian diversity with our customers. In 2023, we implemented "Fostering Inclusion and Belonging" through Air Canada's recognition program, Shine. Through Shine, employees can show appreciation for each other's promotion of cultural awareness and sensitivity, and the respect of differences in perspectives and lived experiences. We supported Pride parades in Montréal, Toronto, Calgary and Vancouver, with over 300 employees, families and friends participating. We also adapted our mentoring program with a DEI lens, with 180 employees mentored in 2023.



Accessibility

Air Canada is committed to being a leader in accessible travel and employment, investing significant resources in accessibility and will continue to do so. In 2023, we released our first multi-year Accessibility Plan, reaffirming our commitment to enhance accessibility for employees and customers with disabilities.

Our plan includes 145 initiatives identified after research, expert consultations and feedback from travellers with disabilities, who took over 220 flights. The plan outlines our roadmap over the next three years to become a more accessible organization and contribute to Canada's objective to be barrier-free by 2040. We were also a key participant in drafting the Canadian Transport Agency's Mobility Aids and Air Travel Final Report and were one of the first airlines to waive liability limits in international treaties to pay the full cost for damaged mobility equipment.

In 2023, across our network, we had nearly 1.3 million special assistance requests related to accessibility from more than 500,000 customers. This continues into 2024: we are proud to be the first airline in North America to adopt the Sunflower program that will help us to better assist and serve our customers with non-visible disabilities. We've established an Accessibility Advisory Committee that will provide input from the perspective of our customers with disabilities to help guide Air Canada's path and vision on accessibility. We believe in designing our product and service offerings and employment experience with accessibility in mind. As a partner to persons with disabilities, we have the following commitments:

- Engage with persons with disabilities and accessibility organizations to create a seamless and enjoyable travel experience for persons with disabilities, whether in services or in infrastructure, and to provide a fulfilling employment experience in the workplace.
- Develop and enhance accessibility features, policies and processes that broaden travel and employment opportunities for persons with disabilities.
- Train our employees and provide them with tools to encourage co-operation, lift barriers and implement accommodation for our customers and our employees.
- Promote a culture of respect and dignity in all our employees' interactions with one another and with our customers and increase representation of persons with disabilities within our workforce.
- Collaborate with Canadian and international organizations and airport authorities and other partners in the aviation ecosystem to ensure the needs of persons with disabilities are considered in the workplace and throughout their travel experience.

We are committed to improve all aspects of employee interactions with customers with disabilities, including understanding their experiences in air travel. Around 10,000 Air Canada airport employees will receive this training as part of a new annual, recurrent training program. Our newly appointed Director, Customer Accessibility is leading a team and managing the implementation of our accessibility plan together, serves as a common reference point and provides guidance for responsive management of disability issues.

Official Languages

Air Canada is proud to offer services in the country's two official languages: English and French. We are the only airline in Canada with official languages obligations under the *Official Languages Act* (OLA). We have honoured those obligations with steadfast commitment for more than 50 years, in a highly complex industry on a vast geographic breadth. Over time, we have developed unique expertise and have been leaders in implementing sustained initiatives to deliver services in both official languages in multiple locations and route combinations, and in promoting the use English and French in the workplace. In 2023, we announced our voluntary registration with the *Office québécois de la langue française* under the *Charter of the French Language*, reflecting our aim to contribute to the protection, promotion and reach of the French language, while complying with the OLA that applies to us.

We are committed to advancing our Linguistic Action Plan and official languages maturity. We have dedicated resources to support this, through our Official Languages department. An Official Languages committee, composed of senior management from key functions, also supports these efforts by facilitating the implementation of official languages initiatives throughout our organization. A network of Official Languages supporters helps implement initiatives at each airport and in-flight service base.

IN 2023, AIR CANADA:

Sponsored the 25th edition of *Rendez-vous de la Francophonie* (RVF), one of Canada's largest cultural events, in celebration of International Francophonie Day on March 20.

Supported the *SuperFrancoFête* festival in Quebec, celebrating the richness of the French language through music and culture.

Launched the first phase of the Language Buddy Program, which matches an employee who wishes to improve their language skills in English or French by practising with an employee.

Partnered with *Coup de coeur francophone* (CCF) to celebrate francophone music and culture in Canada.

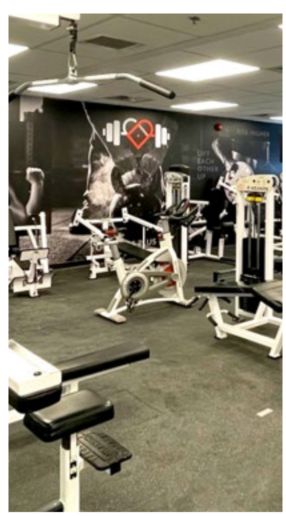
Unlock the Best in You (UBY)

UBY is Air Canada's unique, award-winning well-being program that offers personalized programs to employees and equips them with various resources, tools and expert advice on work health; mental health awareness; financial well-being; and health and wellness. Employees have easy access to the program's newly designed wellness platform and mobile app.

We care for our employees and continue to nurture and invest in this program.

7 UBY WELLNESS DAYS
IN CANADA AND THE U.S. WITH
3,100 employees
ACTIVELY PARTICIPATING

3 FREE-ACCESS
UBY WELLNESS CENTRES
with
3,700 employees
REGISTERED



Grew UBY ambassador program:

- 168 UBY ambassadors
- 77% of target population reached on UBY portal with almost 30K unique visitors
- Mental health first aid training sessions introduced for employees and managers, with almost 447 certified
- Telemedicine service introduced

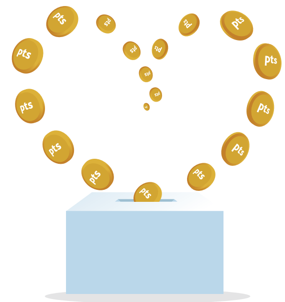
More for employees

As part of our approach to fostering a positive culture and an engaged and productive workforce, we have developed extensive programs for our employees including training and development. We focus on building a sustainable workforce and, as such, contribute to the socio-economic development of Canada and the global travel and tourism sector. We invest in development programs as well as informal coaching and mentoring, and we continually look for new ways to engage our workforce that can support community and cause.

> **AWARD OF EXCELLENCE**
>
> **The 33rd edition boasted 64 recipients of the Excellence Award — Air Canada's highest form of honour that recognizes employees who stand out as role models in our organization. This also included our inaugural winner of the Dialogue Award, which recognizes and highlights our employees' commitment and efforts in offering service in Canada's official languages. Nominated by their peers, Excellence Award recipients consistently live by our values and rise higher by lifting up their colleagues and helping ensure we are our customer's favourite choice.**

Community

Air Canada's Community Partnerships program supported more than 265 organizations in 2023, reflecting our corporate priorities:



- More than 75 million points were donated to 122 charities through Aeroplan's donation program.
- Employees and friends raised over $123,000 for the Princess Margaret Cancer Centre as part of the annual Ride to Conquer Cancer in Toronto and more than $13,000 to benefit the Jewish General Hospital's world-renowned Segal Cancer Centre during *Le Week-end pour combattre le cancer* in Montréal.
- Named 10 recipients of the seventh edition of the Air Canada Sustainability Scholarship program, each of whom was awarded a $2,000 scholarship toward post-secondary studies.

- Operated special flights to bring Canadians home safely from Maui following the devastating wildfires on the Hawaiian island and two special flights from Athens to bring Canadians and permanent residents home from Israel.
- Held fundraising appeals and matching campaigns for Morocco, Türkiye and Syria for earthquake emergency relief.
- Opened a drop-in centre at Montréal HQ to provide temporary relief to over 200 employees and their families after a severe ice storm in April.

Air Canada Foundation

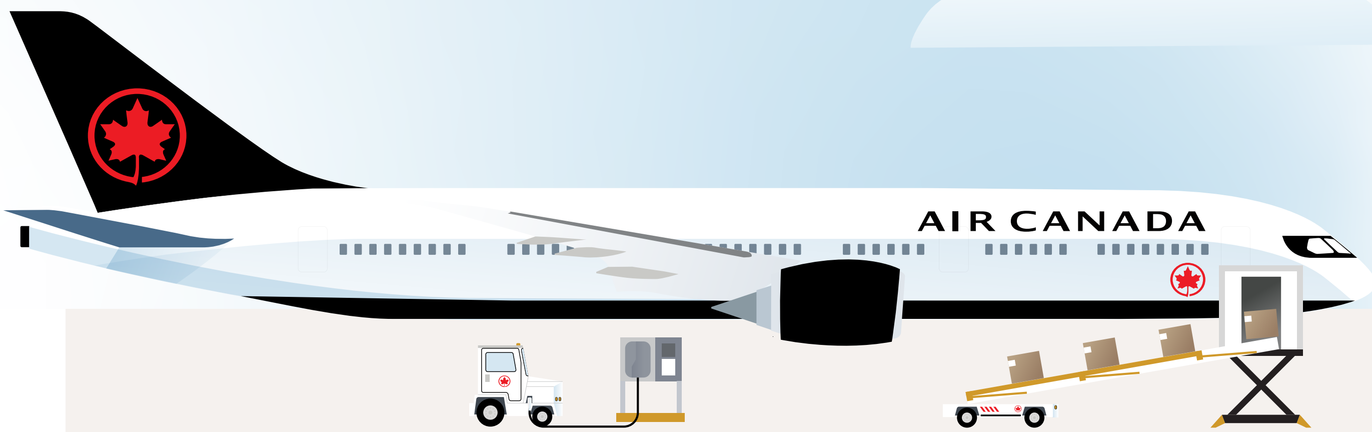
Established in 2012, the Foundation provides financial or fundraising support to Canadian-registered charities focused on the health and well-being of children and youth in need. Over the past 11 years, the Air Canada Foundation has raised more than $10 million in support of its mission. In 2023, the Foundation:

- Supported 360 charities in Canada.
- Awarded grants to 27 organizations committed to the health and well-being of children and youth across Canada (from the amounts raised in 2022).
- Raised more than $1.7 million, including a record-breaking amount of nearly $1.3 million (net) at its 11th annual golf tournament, the Foundation's largest fundraising event.
- Clinched a record-breaking Hospital Transportation Program matching week (67 million Aeroplan points raised), which helps support families with access to medical care away from home.
- Provided over 300 flights to more than 200 children to access the medical care they need away from home.
- Resumed eight operations of Dreams Take Flights, giving a magical day to more than 1,000 children.
- Facilitated community volunteer opportunities for more than 1,000 Air Canada employees.

Building a responsible future

OUR CLIMATE ACTION GOALS ARE AMBITIOUS.

We cannot achieve them on our own as we are heavily dependent on new technologies and the availability of sufficient sustainable aviation fuels and other renewable energies. We need governments, airports and other stakeholders to act decisively, to take concrete measures in support of infrastructure, energy transition and other initiatives that will allow the airline industry and Air Canada to decarbonize and achieve its climate action goals.



20%

GHG
net reductions

from **air operations** compared to 2019 baseline by 2030

30%

GHG
net reductions

from **ground operations** compared to 2019 baseline by 2030

$50M

investment fund

for **new technologies** such as as sustainable aviation fuels (SAF) as well as new aircraft or carbon reduction and removal technologies

Air Canada's climate action plan builds on its existing value streams and activities and is based on four key carbon reduction pillars that are central to the advancement of our climate objectives:

Fleet and operations

With our fleet renewal program, we will continue deploying more energy-efficient aircraft. We will continue to integrate climate factors in route and fleet planning. On the ground, we expect to phase out carbon-intensive ground equipment and plan on further advancing electric vehicles use and seeking other electrification opportunities.

Innovation

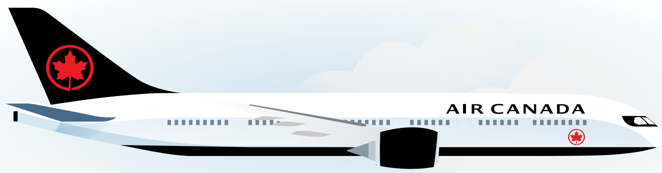
We will, over time, evaluate the viability, safety and performance of new electric, hydrogen or hybrid propulsion technologies and will look for other innovative opportunities elsewhere in our operations.

SAF and renewable energy

To further our work on sustainable aviation fuels, we are investing in SAF and other low carbon aviation fuel (LCAF) technology development and are actively evaluating the practical applications of renewable energy sources, such as biogas and renewable electricity and energy transition measures. Air Canada firmly believes that a concrete action plan is required in Canada to establish a competitive investment climate and to capture the economic added value of SAF when it is made in Canada.

Carbon reductions and removals

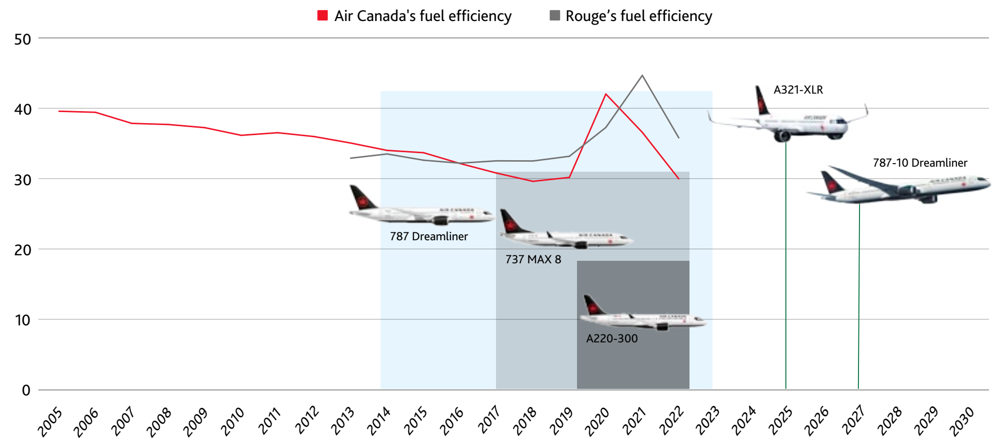
We are exploring carbon negative emission technologies and other direct emission reduction and removal strategies in addition to further developing our regulatory carbon offset compliance actions and customer offerings.



TARGET OF 20% **GHG net reductions** from **air operations** by 2030 (compared to 2019 baseline)

FLEET AND OPERATIONS

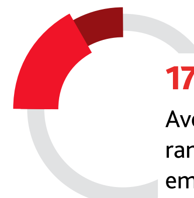
By optimizing our operations and adopting next generation aircraft, we continously work toward improving our fuel efficiency of the people and freight we connect around the world.



The decline in fuel efficiency observed in 2021 and 2020 was attributed to the COVID-19 pandemic and its consequences on operations (borders closing, flight restrictions, telework, low demand, etc.). The load factors and irregularity in operations made it challenging to maintain certain efficiency levels. In 2022, Air Canada's operations were ramping up and we observed a strong demand for travel, translating into pre-COVID fuel efficiency levels toward the end of the year (even better than 2019 levels).

53%

New-generation aircraft in the fleet by 2030



17%–25%

Average range of CO_2e emissions savings on new-generation aircraft

INNOVATION

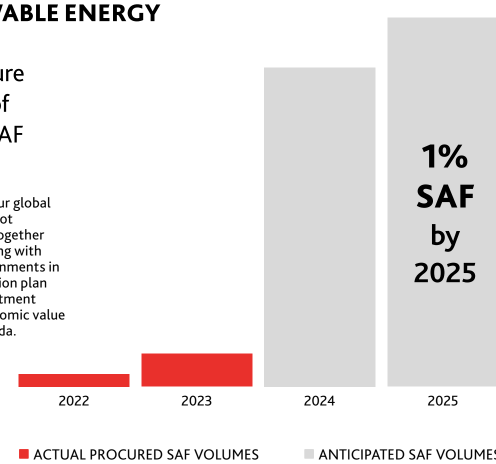
We have committed to purchasing **30 ES-30 hybrid-electric regional aircraft** and we have invested US$10M into Heart Aerospace.

The hybrid aircraft, expected to enter service in 2028, is under development by Heart Aerospace of Sweden.

SAF AND RENEWABLE ENERGY

Our goal is to procure a minimum of 1% of our jet fuel use in SAF by 2025

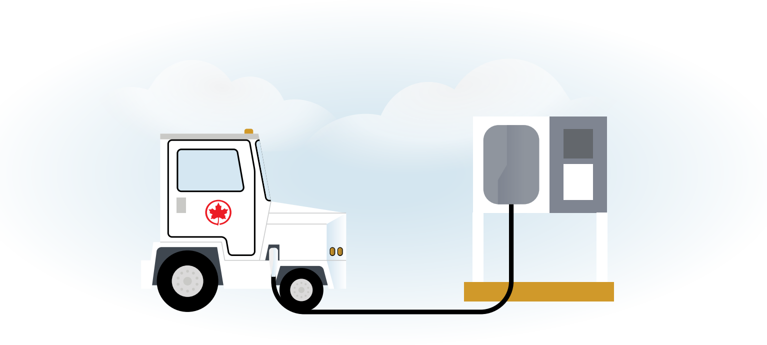
SAF is a critical component of our global industry's sustainability but is not currently available in Canada. Together with C-SAF, Air Canada is working with the federal and provincial governments in Canada to create a concrete action plan to establish a competitive investment climate and to capture the economic value add of SAF that is made in Canada.



CARBON REDUCTIONS AND REMOVALS

We are the first North American airline to join Airbus in purchasing carbon removal credits.

The credits are generated by direct air carbon capture (DACC) technology that pulls carbon dioxide directly out of the air at large, industrial scale.



TARGET OF 30% **GHG net reductions** from **ground operations** by 2030 (compared to 2019 baseline)

FLEET AND OPERATIONS

Our road to 2030 aims at electrifying 800 units across Canada.

1
Baggage tractors 100% electrification
GOAL 745 units

2
100% Canadian station electrification
GOAL 21 units

3
Electric cargo equipment
GOAL 16 units

4
Electric conversion of existing GSEs
GOAL 150 units

SAF AND RENEWABLE ENERGY

We are working toward increasing the share of RNG volumes in our facilities.

10% RNG in YUL

Renewable Natural Gas (RNG) in our Montréal facilities was increased to 10% of overall volumes and we started adding volumes in our facilities in Vancouver.

Since January 1, 2023, we have been purchasing Renewable Energy Certificates (REC) for all electricity consumption across Canada*

*except Que., B.C., and Manitoba since their electricity carbon intensity is already very low.

CARBON REDUCTIONS AND REMOVALS

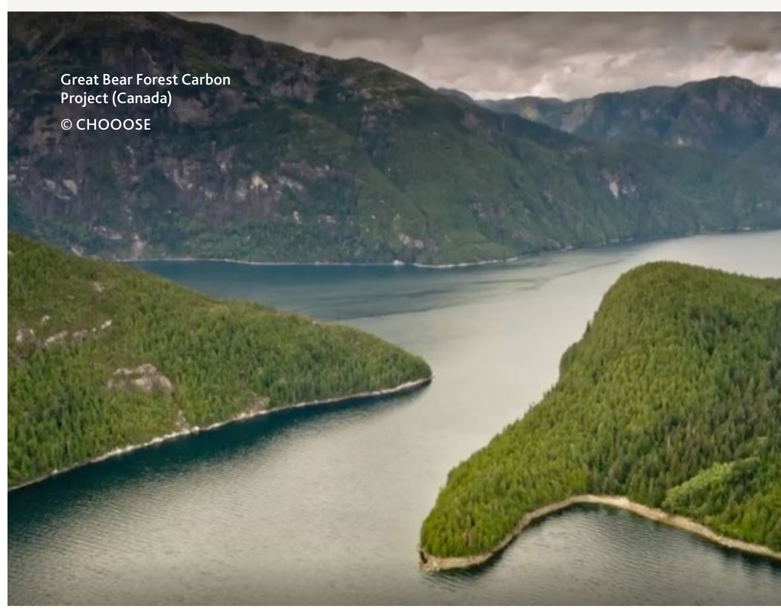
All projects are carefully selected based on their plurality in terms of SDG impact. The scope of our projects covers almost all of the SDG goals.

SUSTAINABLE DEVELOPMENT GOALS

We purchased more than 867,000 tCO_2e from six projects around the world.

Specific climate projects that Air Canada's carbon offset partner, CHOOOSE, is supporting deliver benefits in Canada and abroad and align with UN Sustainable Development Goals. These projects target forestry in Canada, forest management and mangrove ecosystem in Central and South America and clean cooking solutions for Indigenous Peoples in South Asia.

Please refer to the *2022 Citizens of the World* report for information on the projects that focus on biodiversity and conservation.


Great Bear Forest Carbon Project (Canada)
© CHOOOSE

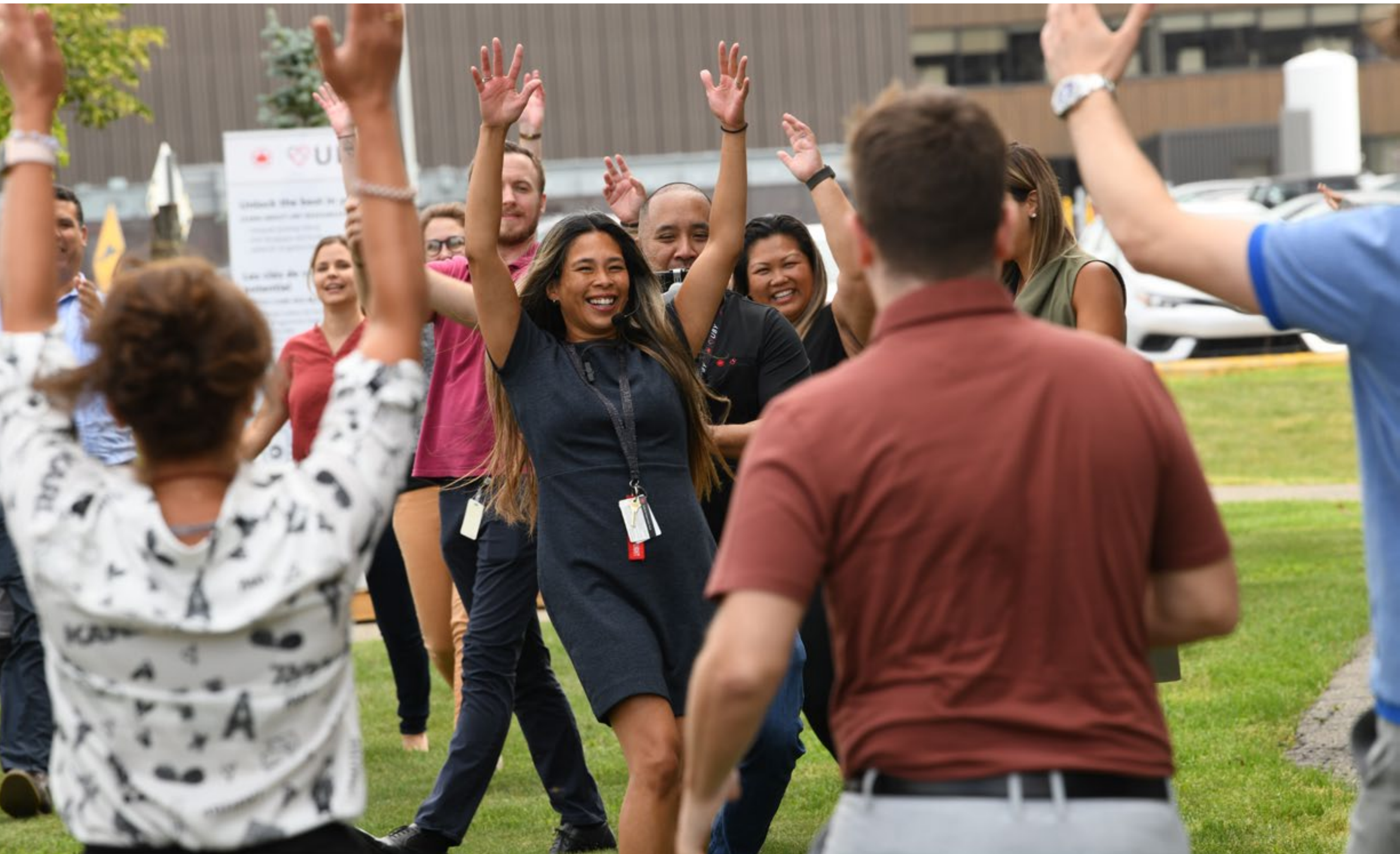
ESG highlights

Environmental

- Continued fleet transition to more modern, efficient aircraft to lower emissions per seat
- Announced acquisition of 18 Boeing 787-10 Dreamliner aircraft, contributing to our fuel-efficient fleet
- First airline in North America to sign up for the Airbus Carbon Capture Offer, a scalable way to provide carbon removal credits for the aviation industry to advance on the climate goal of net-zero emissions by 2050
- Sold environmental attributes associated with 2.4 M U.S. gallons of SAF
- Announced convenient new air-to-rail connections in Europe for customers
- Introduced electric shuttle for employees in Montréal, expanding electric shuttle program first launched in 2022
- Enhanced the Aeroplan Flight Rewards Program with carbon offset compensations for associated flights
- Partnered with IAGOS to outfit 1 Airbus A330 aircraft with special diagnostics sensors to collect valuable worldwide data on climate parameters for essential research on climate change and air quality on a global scale
- Started collaborating with AIR COMPANY to explore development of power-to-liquid SAF in various North American markets
- Introduced FSC (Forest Stewardship Council)-certified bamboo cutlery on board flights across our global network to minimize single-use plastic environmental impact
- Expanded beehive program to three locations — Vancouver, Calgary and Halifax. Air Canada's five hives exemplify the importance given to the regeneration of our ecosystems and serve as an educational tool for employees
- Participated in three shoreline clean-ups in Montréal, Toronto and Vancouver, where 175 employees collected 380 kilograms of trash
- Selected and funded 12 community-focused environmental projects through the Jane Goodall Roots and Shoots Program. These projects address biodiversity loss, environmental inequity and climate change across Canada
- Surpassed 60,000 water bottle refills by employees, helping reduce our employees' plastic footprint. Each refill contributed to a donation directed toward ocean reforestation projects
- Awarded 10 students with our 2023 Sustainability Scholarship for their commitment toward sustainability in various fields such as fine arts, life sciences, medicine, management, food science and engineering

Social

- Recognized for safety-first culture and innovative use of technology to promote workplace safety at OHS Honours (winner in OHS Culture and Best Use of Safety Technology categories)
- Reported decline in 2023 lost-time-injury frequency rate
- Held annual Safety and Health week in May, in collaboration with UBY wellness program, to raise awareness of injury and illness prevention
- Employee town halls organized in Vancouver, Calgary, Toronto and Montréal
- Opened drop-in centre at Montréal HQ to provide temporary relief to over 200 employees and their families after severe ice storm in April
- Extended telemedicine service to all Canadian-based employees with more than 12,200 employees registered and over 7,100 family members registered
- Introduced mental health first aid training sessions for employees and managers: 447 certified
- Held seven UBY Wellness Days with over 3,100 employees attending
- Launched three, free access UBY Wellness Centres for employees (3,700 registered)
- Built up engagement with UBY program:
  - 77% of employees visited UBY website and unique visitors totalled 29,500
  - Over 2,000 employees accessed UBY mobile app
  - Grew the UBY Ambassador program to 168 members
  - Grew the UBY Viva Engage community through internal intranet with 798,261 views and 5,100 active users
- 38% of Board members identify as women and 15% identify as members of visible minorities
- Exceeded prior percentage levels of women in top levels of organization and increased overall number of visible minorities
- Adapted mentoring program with a DEI lens, mentoring 180 individuals throughout company



- Unveiled land acknowledgment plaque at Montréal downtown office to recognize commitment to supporting Indigenous inclusion and raising awareness about Indigenous culture
- Air Canada and CAE celebrated fifth anniversary of Captain Judy Cameron Scholarship
- Held Black History Month celebratory flight for second consecutive year
- Continued relationship with Pinball Clemons Foundation to support marginalized youth in the Toronto area, further leveraging contribution and raising funds for six scholarships of $10,000, and supported Black Aviation Professional Network's youth programming event called Shooting for the Stars
- Supported Pride parades in Montréal, Toronto, Calgary and Vancouver, with over 300 employees, families and friends participating
- Forged historic partnership with new Professional Women's Hockey League (PWHL) ahead of its inaugural season opener on January 1, 2024
- The Air Canada Foundation supported 360 charities in Canada (from coast to coast to coast)
- Resumed operations of eight Dreams Take Flights, giving a magical day to more than 1,000 kids
- Supported Government of Canada in bringing Canadians home from Israel with special flights
- Supported Morocco, Türkiye and Syria appeals for earthquake emergency relief, with employee donations matched by Air Canada Foundation for total contribution of $20,000
- Every Bit Counts relaunched with Breakfast Club of Canada the 2023 recipient of funds

Governance

- Amended Board and Committee charters to reflect climate and sustainability priorities.
- AI governance framework anchored in a new generative AI policy
- Further matured Corporate Sustainability Working Group that tracks and co-ordinates corporate sustainability initiatives, under the oversight of Corporate Sustainability Steering Committee
- Advanced initiatives through the Cross Functional Working Group, which reports to and receives guidance from the Climate Steering Committee
- Implemented four structural DEI pillars: DEI Executive Council, DEI Steering Committee, DEI Champions Program, formalization of ERGs
- Launched multi-year Accessibility Plan
- Appointed Director of Customer Accessibility to lead team and implementation of Accessibility Plan
- Created multi-year (2024–27) official languages strategic plan
- Implementing Linguistic Action Plan; OQLF voluntary registration
- Established Official Languages department, with centralized training, testing and technical resources
- Further matured Official Languages Committee and established *Comité de francisation*

Board of Directors and Committees

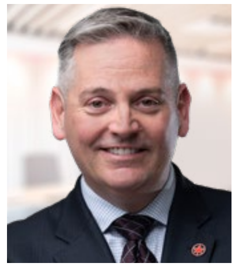
Air Canada is governed by a 13-member Board of Directors. The Air Canada Board of Directors has four standing committees, all of which are entirely composed of independent directors. The roles and responsibilities of each committee are set out in formal written charters. These charters are reviewed annually 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
Vagn Sørensen Chair of the Board, Air Canada London, U.K.				
Amee Chande Corporate Director and Strategy Consultant British Columbia, Canada	Member			Member
Christie J.B. Clark Corporate Director Ontario, Canada	Chair	Member		
Gary A. Doer Corporate Director Manitoba, Canada			Member	Member
Rob Fyfe Corporate Director Auckland, New Zealand			Member	Chair
Michael M. Green Chief Executive Officer and Managing Director, Tenex Capital Management Florida, U.S.			Member	Member
Jean Marc Huot Partner, Stikeman Elliott LLP Quebec, Canada		Member		Member
Claudette McGowan Chief Executive Officer, Protexxa Inc. Ontario, Canada	Member			
Madeleine Paquin Corporate Director Quebec, Canada		Member		Member
Michael Rousseau President and Chief Executive Officer, Air Canada Quebec, Canada				
Kathleen Taylor Corporate Director Ontario, Canada	Member	Member	Chair	
Annette Verschuren Chair and Chief Executive Officer, NRStor Inc. Ontario, Canada	Member	Chair		
Michael M. Wilson Corporate Director Alberta, Canada	Member		Member	

Executive Officers

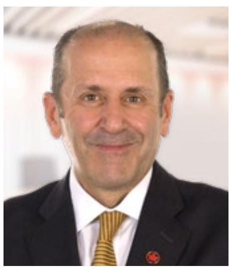
Michael Rousseau

President and Chief Executive Officer



Craig Landry

Executive Vice President and
Chief Operations Officer



Marc Barbeau

Executive Vice President

Chief Legal Officer and
Corporate Secretary

Mark Nasr

Executive Vice President,
Marketing and Digital, and
President of Aeroplan

John Di Bert

Executive Vice President and
Chief Financial Officer

Arielle Meloul-Wechsler

Executive Vice President,
Chief Human Resources Officer
and Public Affairs

Mark Galardo

Executive Vice President,
Revenue and Network Planning

Kevin O'Connor

Senior Vice President,
Global Airports and
Operations Control

Murray Strom

Senior Vice President,
Flight Operations and Maintenance

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	$17.63	$23.54	150,056,337
Second quarter	$18.25	25.00	153,649,261
Third quarter	$18.72	$26.04	122,767,463
Fourth quarter	$16.04	$19.51	137,357,011
Full year	**$16.04**	**$26.04**	**563,830,072**

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 additional information, see section 10 of Air Canada's 2023 Annual Information Form dated March 4, 2024.

For further information

SHAREHOLDER RELATIONS

Telephone: 514-422-6644

Facsimile: 514-422-0296

shareholders.actionnaires@aircanada.ca

INVESTOR RELATIONS

Telephone: 514-422-7849

Facsimile: 514-422-7877

investors.investisseurs@aircanada.ca

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Internet: aircanada.com

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TSX TRUST

1701 – 1190 Avenue des Canadiens-de-Montréal
Montréal, Que., H3B 0G7

Telephone: 1-800-387-0825 (Canada and United States)
416-682-3860 (other countries)

Email: shareholderinquiries@tmx.com

Web: tsxtrust.com

2023

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

February 16, 2024

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)	Fourth Quarter			Full Year		
Financial Performance Metrics	**2023**	**2022**	**$ Change**	**2023**	**2022**	**$ Change**
Operating revenues	5,175	4,680	495	21,833	16,556	5,277
Operating income (loss)	79	(28)	107	2,279	(187)	2,466
Operating margin (1) (%)	1.5	(0.6)	2.1 pp (8)	10.4	(1.1)	11.5 pp
Adjusted EBITDA (2)	521	389	132	3,982	1,457	2,525
Adjusted EBITDA margin (2) (%)	10.1	8.3	1.8 pp	18.2	8.8	9.4 pp
Income (loss) before income taxes	122	146	(24)	2,212	(1,524)	3,736
Net income (loss)	184	168	16	2,276	(1,700)	3,976
Adjusted pre-tax income (loss) (2)	(47)	(211)	164	1,693	(952)	2,645
Adjusted net income (loss) (2)	(44)	(217)	173	1,713	(988)	2,701
Total liquidity (3)	10,290	9,824	466	10,290	9,824	466
Net cash flows from operating activities	985	647	338	4,320	2,368	1,952
Free cash flow (2)	669	320	349	2,756	796	1,960
Net debt (2)	4,567	7,495	(2,928)	4,567	7,495	(2,928)
Diluted earnings (loss) per share	0.41	0.41	-	5.96	(4.75)	10.71
Adjusted earnings (loss) per share (2)	(0.12)	(0.61)	0.49	4.56	(2.76)	7.32
Operating Statistics (4)	**2023**	**2022**	**Change %**	**2023**	**2022**	**Change %**
Revenue passenger miles (RPMs) (millions)	20,405	18,525	10.1	85,802	66,495	29.0
Available seat miles (ASMs) (millions)	24,439	22,368	9.3	99,012	82,558	19.9
Passenger load factor %	83.5%	82.8%	0.7 pp	86.7%	80.5%	6.1 pp
Passenger revenue per RPM (Yield) (cents)	22.3	21.9	1.8	22.6	21.4	6.0
Passenger revenue per ASM (PRASM) (cents)	18.6	18.2	2.6	19.6	17.2	13.6
Operating revenue per ASM (cents)	21.2	20.9	1.2	22.1	20.1	10.0
Operating expense per ASM (CASM) (cents)	20.9	21.1	(0.9)	19.8	20.3	(2.6)
Adjusted CASM (cents) (2)	14.2	13.7	4.1	13.5	13.2	2.2
Average number of full-time-equivalent (FTE) employees (thousands) (5)	36.4	33.2	9.7	35.7	30.5	17.1
Aircraft in operating fleet at period-end	361	345	5	361	345	5
Seats dispatched (thousands)	13,636	12,690	7.4	54,026	47,038	14.9
Aircraft frequencies (thousands)	93.4	89.9	3.9	373.1	340.5	9.6
Average stage length (miles) (6)	1,792	1,763	1.7	1,833	1,755	4.4
Fuel cost per litre (cents)	117.6	134.3	(12.4)	111.6	130.1	(14.2)
Fuel litres (thousands)	1,178,926	1,084,569	8.7	4,751,692	4,056,788	17.1
Revenue passengers carried (thousands) (7)	10,899	10,098	7.9	44,790	36,144	23.9

(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, 2023, of $10,290 million consisted of $9,295 million in cash, cash equivalents, short and long-term investments and $995 million available under undrawn credit facilities. As at December 31, 2022, total liquidity of $9,824 million consisted of $8,811 million in cash and cash equivalents, short and long-term investments, and $1,013 million available under undrawn credit facilities. These amounts also include funds ($393 million as at December 31, 2023 and $386 million as at December 31, 2022) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.
(4) Except for the reference to average number of FTE employees, operating statistics in this table include third party carriers operating under capacity purchase agreements with Air Canada.
(5) Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada.
(6) Average stage length is calculated by dividing the total number of available seat miles by the total number of seats dispatched.
(7) Revenue passengers are counted on a flight number basis (rather than by journey/itinerary or by leg) which is consistent with the IATA definition of revenue passengers carried.
(8) "pp" denotes percentage points and refers to a measure of the arithmetic difference between two percentages.

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 2023. This MD&A should be read in conjunction with Air Canada's 2023 annual audited consolidated financial statements and notes dated February 16, 2024. 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 (IFRS Accounting Standards), 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 15, 2024.

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 16, 2024 reporting on its results for the fourth quarter and full year 2023. This news release is available on Air Canada's website at aircanada.com and on SEDAR+ website at www.sedarplus.com. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR+ at www.sedarplus.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 conditions as well as geopolitical conditions such as the military conflicts in the Middle East and 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, Air Canada's dependence on technology, cybersecurity risks, 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), employee and labour relations and costs, 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, Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, epidemic diseases, changes in laws, regulatory developments or proceedings, 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.sedarplus.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 of governments, industry, suppliers and other stakeholders and actors, as well as the development and implementation of new technologies. In particular, our 2030 and 2050 carbon emission related targets are ambitious, and heavily dependent on new technologies, renewable energies and the availability of sufficient a supply of sustainable aviation fuels (SAF) which continues to present serious challenges. In addition, 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, on which local and international stakeholders are increasingly focusing, 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, and 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 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 this 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 2024. Air Canada also assumes that the Canadian dollar will trade, on average, at C$1.33 per U.S. dollar for the full year 2024 and that the price of jet fuel will average C$1.00 per litre for the full year 2024.

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 ™ 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.

3 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 commercial agreements with regional carriers, including a capacity purchase agreement (CPA) with Jazz Aviation LP (Jazz), a wholly owned subsidiary of Chorus Aviation Inc., operating flights on behalf of Air Canada under the Air Canada Express brand. 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.

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, a seamless travel experience and improved customer service, including 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 enrol 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 dedicated Boeing 767 freighter aircraft.

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.

4 Overview

The year 2023 was pivotal for Air Canada. Having stabilized and recovered from the COVID-19 pandemic, Air Canada achieved sound financial results while significantly progressing on its strategic priorities. Air Canada's full year financial results and operational performance improved from 2022, despite the challenges and uncertainties posed by geopolitical events, inflationary pressures and supply chain issues affecting the aerospace industry. While COVID-19-related travel restrictions and health measures were still present in 2022, in Canada, most of the remaining restrictions were eased leading into the summer of 2022 and, effective October 1, 2022, all remaining Government of Canada restrictions were lifted.

During 2023, Air Canada continued to invest in new products and services, strengthen its various partnerships and advance its innovation agenda. The main drivers for the year over year improvements in its financial and operating results included:

20% year-over-year increase in operated capacity.	**188 direct destinations** compared to 185 destinations in 2022.	**1,025 average daily flights,** compared to 945 average daily flights in 2022.	**Year-over-year increase in yields** driven by a strong pricing environment.	**Strong demand for premium products** in all markets.	Strengthened **partnerships** and **collaborations.**

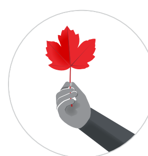
Corporate Strategy

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 groundbreaking opportunities and continuing to execute on Air Canada's unwavering commitment to safety, service excellence and the customer journey.

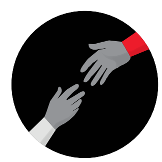
Air Canada is evolving its business for the future. "Rise Higher," Air Canada's business imperatives framework supporting its corporate strategy, is intended to elevate everything about its business. In pursuing its Rise Higher principles, Air Canada is working to:

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 its business, expanding its international reach and exploring new opportunities.



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



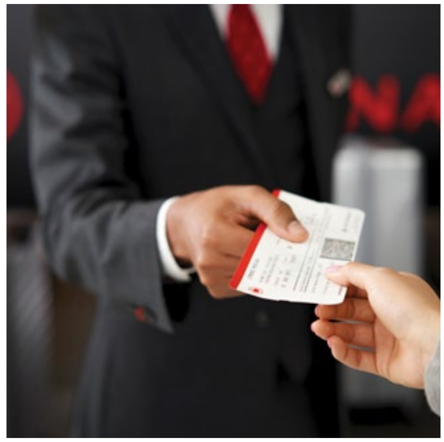
Foster a collaborative workplace that respects all diverse cultures and contributions to society.

2023 Highlights

Funding the future

Air Canada prepaid about $1.3 billion of outstanding debt, including financing on 33 Airbus A220 and five Boeing 787-8 aircraft. As a result of prepayments, these aircraft have been added to Air Canada's unencumbered asset pool, bringing the total estimated value to approximately $6.6 billion at December 31, 2023, excluding the value of Aeroplan. At December 31, 2023, Air Canada's leverage ratio was 1.1, a significant improvement from a leverage ratio of 5.1 at December 31, 2022.

Air Canada added 12 aircraft to its operating fleet, which consisted of six wide-body aircraft, including two Boeing 767 freighters, and six narrow-body aircraft. In 2023, Air Canada also entered into agreements to acquire 18 Boeing 787-10 aircraft with options for an additional 12 aircraft. Deliveries are expected to begin in the fourth quarter of 2025 with the last delivery scheduled for the first quarter of 2027.



Reaching New Frontiers

Air Canada continued to restore its North American and international network, resulting in a 20% increase in operated capacity from 2022.

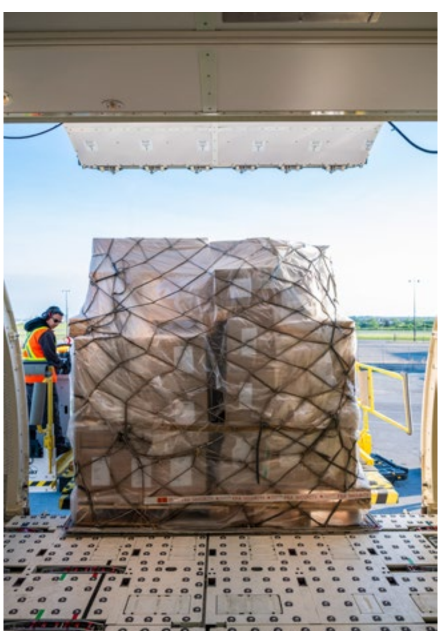
In the domestic market, Air Canada resumed several seasonal routes, increased frequencies on certain domestic routes and launched non-stop services between Montréal and Fort McMurray, and between Toronto and Yellowknife. In the transborder market, Air Canada launched routes between Toronto and Montréal to New York JFK airport and between Toronto and Sacramento, restored 13 transborder routes and increased frequency on over a dozen U.S. routes. For international markets, Air Canada added new transatlantic services to Brussels, Amsterdam, Toulouse, Copenhagen and Dubai. It also resumed key Asia services to Tokyo-Haneda and Osaka, increased frequencies and extended seasonal routes to various destinations in the Atlantic, Pacific and South America regions.

In July, Air Canada began operating to Terminal 3 at Dubai International Airport, marking a significant customer service milestone in its strategic partnership with Emirates. More specifically, Air Canada customers transiting in Dubai between the Americas and the Middle East, Indian subcontinent, Southeast Asia and Africa on Emirates enjoy a seamless and expedited experience with the convenience of remaining in the same terminal.

Cargo

Air Canada Cargo began operating freighter services in 2022 and continued deployments in 2023 to over a dozen destinations, including Toronto, Halifax, St. John's, Miami, Atlanta, Dallas, Quito, Lima, San Juan, Mexico City, Guadalajara, Bogotá, Madrid, Frankfurt, Basel and Liege. Air Canada also enhanced its interline co-operation with Emirates SkyCargo, which allows customers to book interline cargo shipments through the Emirates SkyCargo flights, including between the Americas and Southeast Asia and India, through key European hubs.

At the end of 2023, Air Canada Cargo operated a fleet of seven Boeing 767 freighters compared to three 767 freighters in operation at the end of 2022.



Elevating the Customer

In September, Air Canada was recognized with the 2024 APEX Five Star Global Airline Award. This was the fifth time in six years that Air Canada was awarded an APEX Five Star rating, which is based on customer feedback. Other awards Air Canada received in 2023 for its products and services include:

- Best Airline in Canada from Skytrax World Airline Awards
- Best Airline Staff in Canada from Skytrax World Airline Awards
- Best Low-Cost Airline in Canada (Air Canada Rouge) from Skytrax World Airline Awards
- Favourite Airline in North America from the Trazee Awards (fifth consecutive year)
- Best Airline for Onboard Entertainment from *Global Traveler* (fifth consecutive year)
- Passenger Choice Award for Best Entertainment in North America from the Airline Passenger Experience Association (APEX)

Aeroplan

Aeroplan rolled out new ways to earn rewards and worked with partners to launch benefits that make it a must-have travel companion for frequent and occasional travellers. The milestones and recognitions included:

- Reaching eight million active members.
- Launching a loyalty partnership with Parkland Corporation.
- Expanding a partnership with Uber Canada, allowing members to also earn points on grocery and retail deliveries with Uber Eats.
- Being recognized with several prestigious Freddie Awards, including Airline Program of the Year, Best Promotion and Best Redemption Ability.
- Earning top honours at Canada's Choice 2023 Travel Loyalty Awards, where Aeroplan was named Top Airline Loyalty Program.

Inclusive Workplace and Impact on Society

Air Canada was named One of Canada's Best Employers for the eighth consecutive year and One of Canada's Best Diversity Employers, both by Forbes. The carrier was also recognized as one of "Montréal's Top Employers" for 2023 in Mediacorp Canada's annual employer survey for the 10th straight year. Air Canada was selected for its employee wellness programs covering both physical and mental health, the philosophy of growing roles and offering diverse opportunities based on various skill sets, along with its internal and external diversity, equity and inclusion initiatives. Air Canada was also recognized as one of Achievers 50 Most Engaged Workplaces for 2023 for the sixth straight year, and received the Outstanding Commitment to Employment Equity Award, the Sector Distinction Award, both under the Employment Equity Achievement Awards, and the 2023 Innovative HR Teams Award by HRD Canada.

Air Canada continued its efforts to enhance its diversity, equity and inclusion practices, including by growing its employee base, providing trainings, fostering partnerships with organizations and participating in local, regional and national activities. These programs and initiatives fall under the DEI holistic framework called CARE, targeting four focus areas:

1) Community outreach;

2) Accountability;

3) Representation; and

4) Engagement and belonging.

Under Air Canada's Accessibility Plan 2023–26 released last June, Air Canada seeks to reduce barriers and make travel simpler, more comfortable and consistently reliable for customers with disabilities. In November 2023, Air Canada announced it was accelerating the Air Canada Accessibility Plan through a series of measures to remove barriers and improve the travel experience for its customers with disabilities. These measures included:

- Investments in new equipment at Canadian airports, such as lifts, to ensure that Air Canada can meet the expectations of its customers.
- Mobility aids will be stored in the aircraft cabin when possible. When mobility aids are stored in the cargo hold, new systems are being put in place to track them in transit, including a process to confirm mobility aids are properly loaded before departure.
- Enhanced training will be supplied to improve all aspects of employee interactions with customers with disabilities, including understanding customer experiences in air travel.
- New senior position of Director, Customer Accessibility who leads a team to manage implementation of the company's accessibility plan as well as provide a resource and common reference point for responsive management of disability issues.

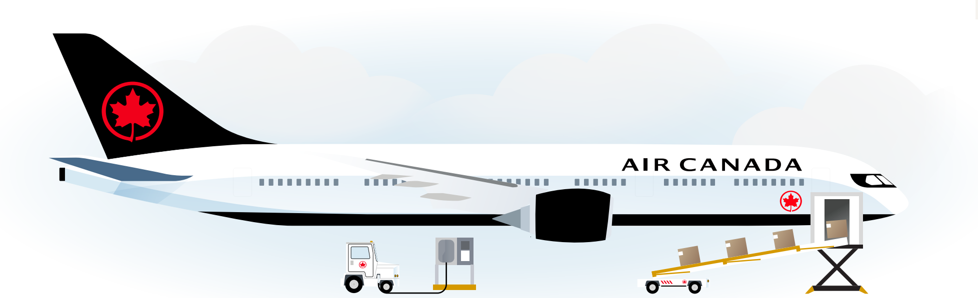
Air Canada also created a Customer Accessibility Advisory Committee consisting initially of four members with disabilities representing four well known Canadian disability organizations. Their role will be to provide guidance and advice on accessibility priorities and initiatives going forward.

The airline continued to promote bilingualism through its strengthened official languages programs, practices and course offerings, all key elements of its Canadian identity and culture.

Regarding annual fundraising events for children and families in need, Air Canada and the Air Canada Foundation reported record outcomes. For instance, in 2023, the Aeroplan points Matching Week raised a record 67 million Aeroplan Points for families needing access to hospital care. It was the most successful points matching campaign in the two-decade history of the initiative The 11th annual Air Canada Foundation Golf Tournament raised a record of nearly $1.3 million in support of charitable organizations that are dedicated to the health and well-being of children and youth across Canada.

Air Canada's Climate Action Plan builds on its existing value streams and activities and is based on four key carbon reduction pillars that are central to the advancement of Air Canada's climate objectives: Fleet and operations; Innovation: SAF and renewable energy; and Carbon reductions and removals. The Plan includes ambitious milestones for Air Canada to achieve its equally ambitious long-term goal of net-zero emissions by 2050. In defining this pathway, 2030 absolute mid-term GHG net reduction targets were set:

- 20% GHG net reductions from air operations by 2030 compared to 2019 baseline.
- 30% GHG net reductions from ground operations by 2030 compared to 2019 baseline.
- $50-million investment for low-carbon technologies to accelerate decarbonization, such as sustainable aviation fuel, and new aircraft technologies.



Additional details on Air Canada's social impact and advancements on its sustainability strategy will be communicated including through Air Canada's upcoming Air Canada Foundation 2023 Impact Report and the 2023 Corporate Sustainability Report.

In pursuit of its *Rise Higher* ambition, in 2024, 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 streamlined, modern, fuel-efficient and versatile fleet with market-leading aircraft configurations.
- 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.
- A widely recognized and powerful brand.
- A customer experience enhanced by competitive products and services, including the Aeroplan program.
- Air Canada Rouge, a lower-cost leisure carrier, and Air Canada Vacations, a leading Canadian tour operator.
- An expanded cargo offering that leverages network synergies between the passenger and the dedicated freighter fleet.
- New core technologies and other technological improvements.
- A commitment to sustainability.

Fourth Quarter 2023 Financial Summary

The following is an overview of Air Canada's results of operations and financial position for the fourth quarter 2023 compared to the fourth quarter 2022.

- Operating revenues of $5,175 million increased $495 million or 11% on an operated capacity growth of over 9% year over year, close to the guidance provided in Air Canada's news release dated October 30, 2023.
- Operating expenses of $5,096 million increased $388 million or 8%. The increase was due to higher costs in nearly all line items reflecting higher operated capacity and traffic year-over-year, including higher wages, salaries and benefits. The increase was partially offset by lower aircraft fuel expense on a jet fuel price decline.
- Operating income of $79 million, with an operating margin of 1.5%, improved $107 million.
- Adjusted EBITDA of $521 million, with an adjusted EBITDA margin of 10.1%, improved $132 million.
- Net income of $184 million and diluted earnings per share of $0.41 compared to a net income of $168 million and diluted earnings per share of $0.41.
- Adjusted net loss of $44 million and adjusted loss per diluted share of $0.12 compared to an adjusted net loss of $217 million and adjusted loss per diluted share of $0.61.
- Adjusted CASM of 14.25 cents compared to 13.68 cents, an increase of 4.1% driven by higher salaries, wages and benefits expenses, higher maintenance costs and general inflationary pressures on certain line items.
- Net cash flows from operating activities of $985 million increased $338 million.
- Free cash flow of $669 million increased $349 million.

Full Year 2023 Financial Summary

The following is an overview of Air Canada's results of operations and financial position for the full year 2023 compared to the full year 2022.

- Operating revenues of $21,833 million increased $5,277 million or 32% on an approximately 20% growth in operated capacity. The capacity increase was in-line with the guidance provided in Air Canada's news release dated October 30, 2023.
- Operating expenses of $19,554 million increased $2,811 million or 17%. The increase was primarily due to increases in all line items reflecting higher operated capacity and traffic year over year, including, higher salaries, wages and benefits. It also reflected the impact of a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022.
- Operating income of $2,279 million, with an operating margin of 10.4%, improved $2,466 million.
- Adjusted EBITDA of $3,982 million, with an adjusted EBITDA margin of 18.2%, improved $2,525 million, at the high end of the guidance provided in Air Canada's news release dated October 30, 2023.
- Net income of $2,276 million and diluted earnings per share of $5.96 compared to a net loss of $1,700 million and diluted loss per share of $4.75.
- Adjusted net income of $1,713 million and adjusted earnings per diluted share of $4.56 compared to an adjusted net loss of $988 million and an adjusted loss per diluted share of $2.76.
- Adjusted CASM of 13.49 cents compared to 13.21 cents in 2022, a 2.2% increase driven by higher traffic and selling costs correlated to higher revenues, higher labour costs, a favourable maintenance cost adjustment recorded in 2022, and inflationary pressure on certain line items. This was within the guidance range provided in Air Canada's news release dated October 30, 2023.
- Net cash flows from operating activities of $4,320 million increased $1,952 million.
- Free cash flow of $2,756 million increased $1,960 million.
- Net debt-to-adjusted EBITDA ratio was 1.1 as at December 31, 2023 compared to 5.1 as at December 31, 2022. The improvement was due to the increase in adjusted EBITDA and the $2.9 billion reduction in net debt.

5 Results of Operations – 2023 Versus 2022

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

(Canadian dollars in millions, except where indicated)	Full Year 2023	2022	$ Change	% Change
Operating revenues				
Passenger	$ 19,403	$ 14,238	$ 5,165	36
Cargo	924	1,266	(342)	(27)
Other	1,506	1,052	454	43
Total operating revenues	**21,833**	**16,556**	**5,277**	**32**
Operating expenses				
Aircraft fuel	5,318	5,276	42	1
Wages, salaries and benefits	3,955	3,260	695	21
Depreciation, amortization, and impairment	1,703	1,644	59	4
Airport and navigation fees	1,418	1,213	205	17
Sales and distribution costs	1,097	797	300	38
Capacity purchase fees	858	763	95	12
Aircraft maintenance	1,083	706	377	53
Ground package costs	720	474	246	52
Communications and information technology	555	468	87	19
Catering and onboard services	628	425	203	48
Other	2,219	1,717	502	29
Total operating expenses	**19,554**	**16,743**	**2,811**	**17**
Operating income (loss)	**2,279**	**(187)**	**2,466**	
Non-operating income (expense)				
Foreign exchange gain (loss)	389	(732)	1,121	
Interest income	416	168	248	
Interest expense	(944)	(909)	(35)	
Interest capitalized	14	13	1	
Gain on financial instruments recorded at fair value	115	133	(18)	
Loss on debt settlements and modifications	(10)	(14)	4	
Other	(47)	4	(51)	
Total non-operating expense	**(67)**	**(1,337)**	**1,270**	
Income (loss) before income taxes	**2,212**	**(1,524)**	**3,736**	
Income tax recovery (expense)	64	(176)	240	
Net income (loss)	**$ 2,276**	**$ (1,700)**	**$ 3,976**	
Basic earnings (loss) per share	**$ 6.35**	**$ (4.75)**	**$ 11.10**	
Diluted earnings (loss) per share	**$ 5.96**	**$ (4.75)**	**$ 10.71**	
Adjusted EBITDA (1)	**$ 3,982**	**$ 1,457**	**$ 2,525**	
Adjusted pre-tax income (loss) (1)	**$ 1,693**	**$ (952)**	**$ 2,645**	
Adjusted net income (loss) (1)	**$ 1,713**	**$ (988)**	**$ 2,701**	
Adjusted earnings (loss) per share – diluted (1)	**$ 4.56**	**$ (2.76)**	**$ 7.32**	

(1) 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 2023, passenger revenues of $19,403 million increased $5,165 million or over 36% from 2022 with about 14% higher PRASM. These results reflect strong demand for air transportation services in all markets and a better operating environment, in part due to the progressive easing of travel restrictions in Canada in 2022—the last of which were removed in October 2022.

Some of the main drivers for the year-over-year variance included the following:

- Favourable impact of progressive easing of COVID-19-related restrictions in 2022. About 70% of the year-over-year increase in passenger revenues was achieved in the first six months of 2023.
- Strong demand for international travel. Passenger revenues from international markets grew 50% on 26% more capacity—accounting for over 65% of the total year-over-year revenue increase.
- Traffic growth outperformed added capacity resulting in system passenger load factor increasing six percentage points year over year.
- Higher average fares versus 2022. System yields increased 6%.
- Solid demand for premium services. Premium revenues grew more than 37% year over year, representing almost 29% of the total increase in passenger revenues.

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

	Full Year			
(Canadian dollars in millions)	2023	2022	$ Change	% Change
Canada	$ 5,106	$ 4,424	$ 682	15.4
U.S. transborder	4,123	3,017	1,106	36.7
Atlantic	6,049	4,381	1,668	38.1
Pacific	2,380	1,118	1,262	112.8
Other	1,745	1,298	447	34.5
System	**$ 19,403**	**$ 14,238**	**$ 5,165**	**36.3**

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

	Full Year 2023 versus Full Year 2022					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	15.4	5.2	11.6	4.9	3.4	9.7
U.S. transborder	36.7	20.0	30.0	6.4	5.2	13.9
Atlantic	38.1	15.6	22.9	5.3	12.3	19.4
Pacific	112.8	81.8	101.8	9.0	5.4	17.0
Other	34.5	16.5	26.4	6.6	6.4	15.5
System	**36.3**	**19.9**	**29.0**	**6.1**	**6.0**	**13.6**

Domestic Passenger Revenues

Domestic passenger revenues increased more than 15% year over year with traffic and capacity increases in almost the entire Domestic network. Yield increased over 3% from 2022 as a result of strong demand in a highly competitive marketplace.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues increased about 37% driven by continued strength in U.S. transborder services and in sixth freedom traffic resulting in higher PRASM and yield on a 20% increase in operated capacity. Capacity increased as a result of new, restored and increased U.S. transborder services and improved connection opportunities with Air Canada's international network supporting the sixth freedom traffic strategy.

Atlantic Passenger Revenues

Atlantic passenger revenues increased 38% driven by strong demand for transatlantic travel—to and from Canada as well as sixth freedom traffic—largely driven by a better operating environment and the removal of remaining travel restrictions in Canada in the second half of 2022.

The strong demand, including for premium products, resulted in year-over-year double-digit PRASM and yield gains in nearly all major route groups, with notable strength on routes to continental Europe, despite increased capacity versus 2022.

Pacific Passenger Revenues

Pacific passenger revenues more than doubled year over year as a result of a better operating environment due to the restoration of services to Asia Pacific countries (except for China), especially Japan, following the easing of restrictions in Canada and in these countries. In addition, demand from sixth freedom traffic to the Pacific rebounded compared to 2022 as both our Pacific and transborder networks were restored.

Other Passenger Revenues

Other passenger revenues increased about 35% year over year on strong demand for services to the Caribbean and central and South America. This largely reflected the favourable impact of the progressive removal of travel restrictions in Canada in 2022.

Cargo Revenues

In 2023, Cargo revenues declined $342 million or 27% from 2022. The decline was due to softness in volume and yield in all markets and to the return of temporarily converted passenger aircraft to passenger operations through the end of the second quarter of 2022. Increased freighter operations to central and South America and to Europe partially offset the year-over-year decline. At the end of 2023, Air Canada operated seven Boeing 767 freighter aircraft compared to three 767 freighters operated in 2022.

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

	Full Year			
(Canadian dollars in millions)	2023	2022	$ Change	% Change
Canada	$ 94	$ 114	$ (20)	(17.7)
U.S. transborder	45	51	(6)	(10.6)
Atlantic	432	556	(124)	(22.2)
Pacific	222	409	(187)	(45.8)
Other	131	136	(5)	(4.0)
System	**$ 924**	**$ 1,266**	**$ (342)**	**(27.0)**

Other Revenues

In 2023, other revenues increased $454 million or 43% from 2022. The increase was largely due to higher ground package revenues at Air Canada Vacations on a combination of higher volume of passengers and higher prices for ground packages. Higher miscellaneous passenger services and onboard purchases on increased traffic and higher non-air revenues related to the Aeroplan program also contributed to the year-over-year growth.

Operating Expenses

In 2023, operating expenses of $19,554 million increased $2,811 million or about 17% from 2022, on about 20% growth in operated capacity. The increase was primarily due to increases in all line items reflecting higher operated capacity and traffic year over year and, to a lesser extent, an unfavourable foreign exchange variance. It also included a $695 million increase in salaries, wages and benefits due to increased headcount and accruals for profit sharing and other wage related items, a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022 and general inflationary pressures in various line items.

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

Aircraft Fuel

In 2023, aircraft fuel expense increased 1% from 2022. The increase was driven by 21% more jet fuel litres used on 20% more ASMs. The increase was partially offset by a 14% decline in jet fuel prices—net of an unfavourable foreign exchange variance—and a $51 million net gain from the settlement of jet fuel hedges (in 2022, Air Canada did not have fuel hedging positions in place.) To a lesser extent, the expense related to the Aeroplan carbon offset program for flight rewards also contributed to the increase. This carbon offset program, which was launched in late 2022, compensates the estimated GHG emissions of Aeroplan flight redemptions for itineraries operated by Air Canada, Air Canada Rouge and Air Canada Express.

Wages, Salaries and Benefits

In 2023, wages, salaries and benefits expense increased 21% from 2022. The increase reflects a 17% increase in FTEs required to support planned operations resulting from higher ASMs and accruals for profit sharing and other wage related items. To a lesser extent, higher average salaries contributed to the increase.

Sales and Distribution Costs

In 2023, sales and distribution costs increased 38% from 2022 driven by higher credit card, distribution and commissions, all of which were in line with the 36% growth in passenger revenues.

Capacity Purchase Fees

In 2023, capacity purchase fees increased 12% from 2022 mainly due to higher CPA rates resulting from higher costs incurred by Jazz to operate flights on behalf of Air Canada, including the impact of the new Air Line Pilot Association (ALPA) collective agreement with Jazz (which came into effect on September 1, 2023) increased maintenance costs and an unfavourable foreign exchange variance. This was partially offset by a lower volume of flying year over year as a result of pilot constraints at Jazz. The increase also reflects the agreement with PAL Airlines, which came into effect on July 1, 2023.

Aircraft Maintenance

In 2023, aircraft maintenance expense increased 53% largely due to increased maintenance activities associated with a higher volume of flying year over year and a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022 as a result of an amended agreement with a third-party maintenance provider. To a lesser extent, an increase in maintenance provisions for leased aircraft that joined the fleet in 2023 contributed to the year-over-year increase.

Ground Package Costs

In 2023, ground package costs increased 52% from 2022 mainly due to higher volume of ground package revenues at Air Canada Vacations. In January 2022, in response to the emergence of the Omicron variant and the associated short-term decline in demand, Air Canada suspended its flights to certain Caribbean destinations from January 24 to April 30, 2022.

Catering and Onboard Services

In 2023, catering and onboard services expenses increased 48% from 2022. The increase was driven by year-over-year growth in traffic, including the impact of changes in traffic mix, and operated capacity. To a lesser extent, general inflationary pressures also contributed to the increase.

Other operating expenses

In 2023, other operating expenses increased 29% driven by a higher volume of flying year over year and, to a lesser extent, inflationary pressures on certain line items.

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

	Full Year			
(Canadian dollars in millions)	2023	2022	$ Change	% Change
Terminal handling	$ 501	$ 367	$ 134	37
Crew cycle	266	207	59	29
Building rent and maintenance	294	229	65	28
Miscellaneous fees and services	218	213	5	2
Remaining other expenses	940	701	239	34
Total other expenses	**$ 2,219**	**$ 1,717**	**$ 502**	**29**

CASM and Adjusted CASM

In 2023, CASM of 19.75 cents declined 2.6% from 2022 driven by the year-over-year ASM increase and was favourably impacted by a 13% decline in jet fuel prices. The unit cost contraction was limited by higher passenger service costs due to higher traffic and higher selling costs correlated to higher revenues, higher salaries, wages and benefits expenses, a favourable maintenance cost adjustment of $159 million recorded in the first quarter of 2022 and general inflationary pressures on certain line items.

Adjusted CASM of 13.49 cents increased 2.2% year over year. The increase was driven by higher passenger service costs due to higher traffic and higher selling costs correlated to higher revenues, higher salaries, wages and benefits expenses, a favourable maintenance cost adjustment of $159 million recorded in the first quarter of 2022 and general inflationary pressures on certain line items.

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

	Full Year			
(cents per ASM)	2023	2022	$ Change	% Change
CASM	¢ 19.75	¢ 20.28	¢ (0.53)	(2.6)
Remove:				
Aircraft fuel expense, ground package costs, impairment of assets and freighter costs	(6.26)	(7.07)	0.81	(11.5)
Adjusted CASM	**¢ 13.49**	**¢ 13.21**	**¢ 0.28**	**2.2**

Non-Operating Expense

In 2023, non-operating expenses totalled $67 million, compared to $1,337 million in 2022.

Foreign exchange gains amounted to $389 million compared to losses of $732 million in 2022. The December 31, 2023, closing exchange rate was US$1=1.3243 compared to US$1=$1.3554 at December 31, 2022. With the strengthening of the Canadian dollar, the foreign exchange remeasurement on long-term debt and lease obligations resulted in a gain of $259 million and gains on foreign currency derivatives totalled $139 million in 2023.

Interest expense of $944 million increased $35 million from 2022 driven by the unfavourable impact of higher interest rates year over year on floating-rate debt, and to a lesser extent, an unfavourable foreign exchange variance. The increase was limited as a result of debt repayments made during 2023. For additional information on debt repayments, refer to section 8.2 "Net Debt" of this MD&A.

Interest income of $416 million increased $248 million from 2022 due to higher interest earned on deposits resulting from higher interest rates year over year.

Gain on financial instruments recorded at fair value was $115 million which primarily resulted from fluctuations in the fair value of the embedded derivative on Air Canada's Convertible Notes and of Air Canada's short-term investments portfolio.

Income Tax

In 2023, Air Canada recorded an income tax recovery of $64 million compared to an income tax expense of $176 million in 2022 as shown below. Deferred income tax recovery in the statement of operations partially offset the deferred income tax expense recorded in other comprehensive income related to remeasurements on employee benefit liabilities.

	Full Year	
(Canadian dollars in millions)	**2023**	**2022**
Current income tax recovery (expense)	$ 17	$ (47)
Deferred income tax recovery (expense)	47	(129)
Income tax recovery (expense)	**$ 64**	**$ (176)**

6 Results Of Operations – Q4 2023 Versus Q4 2022

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

	Fourth Quarter			
(Canadian dollars in millions, except where indicated)	2023	2022	$ Change	% Change
Operating revenues				
Passenger	$ 4,553	$ 4,062	$ 491	12
Cargo	244	288	(44)	(15)
Other	378	330	48	15
Total operating revenues	**5,175**	**4,680**	**495**	**11**
Operating expenses				
Aircraft fuel	1,391	1,459	(68)	(5)
Wages, salaries and benefits	1,075	892	183	21
Depreciation, amortization, and impairment	442	417	25	6
Airport and navigation fees	350	320	30	9
Sales and distribution costs	253	228	25	11
Capacity purchase fees	223	214	9	4
Aircraft maintenance	311	248	63	25
Ground package costs	177	163	14	9
Communications and information technology	140	127	13	10
Catering and onboard services	161	127	34	27
Other	573	513	60	12
Total operating expenses	**5,096**	**4,708**	**388**	**8**
Operating income (loss)	**79**	**(28)**	**107**	
Non-operating income (expense)				
Foreign exchange gain	72	316	(244)	
Interest income	109	71	38	
Interest expense	(222)	(245)	23	
Interest capitalized	5	5	-	
Gain on financial instruments recorded at fair value	91	44	47	
Loss on debt settlements and modifications	(1)	(31)	30	
Other	(11)	14	(25)	
Total non-operating income	**43**	**174**	**(131)**	
Income before income taxes	**122**	**146**	**(24)**	
Income tax recovery	62	22	40	
Net income	**$ 184**	**$ 168**	**$ 16**	
Basic earnings per share	**$ 0.51**	**$ 0.47**	**$ 0.04**	
Diluted earnings per share	**$ 0.41**	**$ 0.41**	**$ -**	
Adjusted EBITDA (1)	**$ 521**	**$ 389**	**$ 132**	
Adjusted pre-tax loss (1)	**$ (47)**	**$ (211)**	**$ 164**	
Adjusted net loss (1)	**$ (44)**	**$ (217)**	**$ 173**	
Adjusted loss per share – diluted (1)	**$ (0.12)**	**$ (0.61)**	**$ 0.49**	

(1) 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 the fourth quarter of 2023, passenger revenues of $4,553 million increased $491 million or 12% from the fourth quarter of 2022. The increase was driven by higher traffic, operated capacity and yield, most notably in the Pacific, Atlantic and U.S. transborder markets, on strong demand for international air transportation services.

Strong demand for premium products, in all markets, resulted in about 12% higher premium revenues. This increase represented about 28% of the year-over-year growth in passenger revenues.

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

	Fourth Quarter			
(Canadian dollars in millions)	2023	2022	$ Change	% Change
Canada	$ 1,245	$ 1,195	$ 50	4.2
U.S. transborder	993	916	77	8.5
Atlantic	1,259	1,096	163	14.8
Pacific	611	412	199	48.1
Other	445	443	2	0.5
System	**$ 4,553**	**$ 4,062**	**$ 491**	**12.1**

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

	Fourth Quarter 2023 versus Fourth Quarter 2022					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	4.2	(2.9)	(0.1)	2.4	4.3	7.3
U.S. transborder	8.5	7.6	7.1	(0.4)	1.3	0.8
Atlantic	14.8	10.6	9.8	(0.6)	4.6	3.8
Pacific	48.1	36.0	41.0	3.1	5.1	8.9
Other	0.5	4.5	2.9	(1.3)	(2.3)	(3.8)
System	**12.1**	**9.3**	**10.1**	**0.7**	**1.8**	**2.6**

Domestic Passenger Revenues

Domestic passenger revenues increased over 4% from the fourth quarter of 2022 driven by higher traffic and capacity in Eastern Canada major route groups. Domestic yield increased more than 4% despite increased competition in the Canadian market. Operated capacity decreased by about 3% mainly due to pilot attrition at our principal regional partner and global supply chain challenges impacting certain aircraft maintenance activities.

U.S. Transborder Passenger Revenues

U.S. transborder passenger revenues increased over 8% from the fourth quarter of 2022 on higher capacity and traffic, notably in the U.S. short- and long-haul markets. Capacity increased as a result of new, restored and increased U.S. transborder services and improved connection opportunities with our international network supporting the sixth freedom traffic strategy.

Atlantic Passenger Revenues

Atlantic passenger revenues increased about 15% from the fourth quarter of 2022 resulting from strong demand for transatlantic services, including for premium products, to and from Canada as well as sixth freedom traffic. This resulted in year-over-year yield and PRASM gains in all major route groups, despite the capacity growth. Capacity increased as a result of new and restored transatlantic routes as well as increased frequencies to certain European destinations, despite the impact of the Tel Aviv route suspension since October 8, 2023.

Pacific Passenger Revenues

Pacific passenger revenues increased about 48% from the fourth quarter of 2022 resulting from a better operating environment and the restoration of services to Asia Pacific countries (except for China), especially Japan, following the easing of restrictions in Canada and in these countries. Demand from sixth freedom traffic to the Pacific rebounded compared to 2022 as both our Pacific and transborder networks were restored.

Other Passenger Revenues

Other passenger revenues increased a half per cent from the fourth quarter of 2022 as the gains from higher traffic and capacity in the Caribbean and central America were partially offset by lower yields in almost all major route groups.

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

	Fourth Quarter				Full Year			
(millions)	2023		2022		2023		2022	
	RPMs	**ASMs**	**RPMs**	**ASMs**	**RPMs**	**ASMs**	**RPMs**	**ASMs**
Canada	4,229	5,034	4,233	5,184	18,224	21,426	16,336	20,373
U.S. transborder	3,744	4,689	3,495	4,356	15,313	18,342	11,781	15,290
Atlantic	6,709	7,989	6,111	7,226	30,823	34,894	25,072	30,188
Pacific	3,333	3,761	2,364	2,765	12,370	13,610	6,128	7,484
Other	2,390	2,966	2,322	2,837	9,072	10,740	7,178	9,223
System	**20,405**	**24,439**	**18,525**	**22,368**	**85,802**	**99,012**	**66,495**	**82,558**

Cargo Revenues

Cargo revenues in the fourth quarter of 2023 declined $44 million or 15% from the fourth quarter of 2022. The decline was primarily due to lower yields in all markets on softness in demand for air cargo services.

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

	Fourth Quarter			
(Canadian dollars in millions)	**2023**	**2022**	**$ Change**	**% Change**
Canada	$ 25	$ 30	$ (5)	(16.0)
U.S. transborder	12	13	(1)	(6.5)
Atlantic	104	145	(41)	(27.4)
Pacific	65	66	(1)	(2.7)
Other	38	34	4	9.9
System	**$ 244**	**$ 288**	**$ (44)**	**(15.2)**

Other Revenues

Other revenues in the fourth quarter of 2023 grew $48 million or 15% from the fourth quarter of 2022. The increase was due to higher ground package revenues at Air Canada Vacations, higher miscellaneous passenger services and onboard purchases on increased traffic and non-air revenues related to the Aeroplan program.

Operating Expenses

In the fourth quarter of 2023, total operating expenses increased 8% from the fourth quarter of 2022, on 9% more capacity, due to increases in nearly all line items reflecting higher operated capacity and traffic year-over-year, including higher wages, salaries and benefits expense. Lower aircraft fuel expense year over year, driven by lower jet fuel prices, partially offset the increase.

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

Aircraft Fuel

In the fourth quarter of 2023, aircraft fuel expense declined 5% from the fourth quarter of 2022. The decline was driven by a 12% decrease jet fuel prices, despite the impact of a $17 million net hedging loss on jet fuel hedges in the quarter and a $6 million unfavourable foreign exchange variance. The reduction was partially offset by growth in volume of jet fuel litres used on increased flying.

Wages, Salaries and Benefits

In the fourth quarter of 2023, wages, salaries and benefits increased 21% from the fourth quarter of 2022. The increase was due to accruals for profit sharing and other wage related items and a 10% increase in FTEs related to higher flying activity year over year.

Capacity purchase fees

In the fourth quarter of 2023, capacity purchase fees increased 4% from the fourth quarter of 2022 resulting from the agreement with PAL Airlines, which came into effect on July 1, 2023, and higher CPA rates due to higher costs incurred by Jazz to operate flights on behalf of Air Canada, including impact of the new collective agreement between Jazz and ALPA, increased maintenance costs and an unfavourable foreign exchange variance. This was partially offset by lower volume of regional flying as a result of pilot constraints at Jazz.

Aircraft Maintenance

In the fourth quarter of 2023, aircraft maintenance expense increased 25% from the fourth quarter of 2022. This was mainly due to increased maintenance activities, in part associated with a higher volume of flying year over year and to timing of certain maintenance activities. To a lesser extent, inflation-related increases in rates for maintenance activities and an increase in maintenance provisions related to leased aircraft that joined the operating fleet in 2023 also contributed to the increase.

Catering and Onboard Services

In the fourth quarter of 2023, catering and onboard services expenses increased 27% from the fourth quarter of 2022. The increase was driven by year-over-year growth in traffic, including the impact of changes in traffic mix, and operated capacity. To a lesser extent, general inflationary pressures also contributed to the increase.

Other operating expenses

In the fourth quarter of 2023, other operating expenses increased 12% from the same period in 2022 driven by a higher volume of flying, general inflationary pressures on certain line items and an unfavourable foreign exchange variance year over year.

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

	Fourth Quarter			
(Canadian dollars in millions)	2023	2022	$ Change	% Change
Terminal handling	$ 131	$ 106	$ 25	24
Crew cycle	68	59	9	15
Building rent and maintenance	80	67	13	19
Miscellaneous fees and services	54	67	(13)	(19)
Remaining other expenses	240	214	26	12
Total other expenses	**$ 573**	**$ 513**	**$ 60**	**12**

CASM and Adjusted CASM

In the fourth quarter of 2023, CASM declined 0.9% driven by lower aircraft fuel expenses paired with higher operated capacity year over year. The decline was partially offset by higher salaries, wages and benefits expenses, higher maintenance expenses, higher catering costs as well as general inflationary pressures on various line items.

Adjusted CASM of 14.25 cents increased 4.1% year over year. The increase was driven by higher salaries, wages and benefits expenses, higher maintenance costs and general inflationary pressures on certain line items, including in catering costs.

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

	Fourth Quarter			
(cents per ASM)	2023	2022	$ Change	% Change
CASM	¢ 20.85	¢ 21.05	¢ (0.20)	(0.9)
Remove:				
Aircraft fuel expense, ground package costs, impairment of assets and freighter costs	(6.60)	(7.37)	0.77	(10.4)
Adjusted CASM	**¢ 14.25**	**¢ 13.68**	**¢ 0.57**	**4.1**

Non-Operating Income (Expense)

In the fourth quarter of 2023, total non-operating income amounted to $43 million compared to $174 million in the fourth quarter of 2022.

Foreign exchange gains totalled $72 million compared to gains of $316 million in the fourth quarter of 2022. The December 31, 2023, closing exchange rate was US$1=1.3243 compared to US$1=$1.3577 at September 30, 2023. With the strengthening of the Canadian dollar, the foreign exchange remeasurement on long-term debt and lease obligations resulted in gains of $255 million and were partially offset by losses on foreign currency derivatives of $178 million.

Interest expense of $222 million declined $23 million from the fourth quarter of 2022. The decline was reflected the favourable impact of the debt repayments made in 2023 and was partially offset by higher interest expense on floating-rate debt due to higher interest rates year over year.

7 Fleet

The tables below provide information relating to the aircraft in the operating fleets of Air Canada and Air Canada Rouge as well as the aircraft operated on behalf of Air Canada by regional carriers under the Air Canada Express brand.

Mainline and Air Canada Rouge

The tables below provide information relating to the aircraft in Air Canada's and Air Canada Rouge's operating fleets as at December 31, 2023.

	At December 31, 2023				
	Number of Operating Aircraft	Total Seats	Average Age	Owned	Leased
Air Canada (Mainline)					
Wide-body aircraft					
Boeing 777-300ER	19	418	13.8	11	8
Boeing 777-200LR	6	300	16.4	4	2
Boeing 787-8	8	255	9.6	8	-
Boeing 787-9	30	298	7.0	24	6
Boeing 767-300 freighters	7	-	23.0	5	2
Airbus A330-300	18	295	17.9	8	10
Total wide-body aircraft	**88**	**321**	**12.8**	**60**	**28**
Narrow-body aircraft					
Boeing 737 MAX 8	40	169	4.3	31	9
Airbus A321	16	190	20.3	8	8
Airbus A320	19	128	26.8	10	9
Airbus A319	7	125	26.8	7	-
Airbus A220-300	33	137	2.8	33	-
Total narrow-body aircraft	**115**	**153**	**11.2**	**89**	**26**
Total Mainline	**203**	**223**	**11.9**	**149**	**54**
Air Canada Rouge					
Narrow-body aircraft					
Airbus A321	17	195	9.1	4	13
Airbus A320	5	168	16.7	-	5
Airbus A319	18	136	25.5	15	3
Total Air Canada Rouge	**40**	**165**	**17.4**	**19**	**21**
Total Mainline & Rouge	**243**	**213**	**12.8**	**168**	**75**

The tables below provide the number of aircraft in Air Canada's operating fleet as at December 31, 2022 and December 31, 2023 as well as Air Canada's planned operating fleet as at the future dates indicated.

	Actual			Planned			
	Dec. 31, 2022	**2023 Fleet Changes**	**Dec. 31, 2023**	**2024 Fleet Changes**	**Dec. 31, 2024**	**2025 Fleet Changes**	**Dec. 31, 2025**
Air Canada (Mainline)							
Wide-body aircraft							
Boeing 777-300ER	18	1	19	-	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	29	1	30	2	32	-	32
Boeing 787-10	-	-	-	-	-	1	1
Boeing 767-300 freighters	5	2	7	2	9	1	10
Airbus A330-300	16	2	18	1	19	-	19
Total wide-body aircraft	**82**	**6**	**88**	**5**	**93**	**2**	**95**
Narrow-body aircraft							
Boeing 737 MAX 8	40	-	40	-	40	5	45
Airbus A321XLR	-	-	-	-	-	4	4
Airbus A321	15	1	16	-	16	-	16
Airbus A320	18	1	19	2	21	-	21
Airbus A319	5	2	7	(2)	5	-	5
Airbus A220-300	32	1	33	2	35	7	42
Total narrow-body aircraft	**110**	**5**	**115**	**2**	**117**	**16**	**133**
Total Mainline	**192**	**11**	**203**	**7**	**210**	**18**	**228**
Air Canada Rouge							
Narrow-body aircraft							
Airbus A321	14	3	17	-	17	-	17
Airbus A320	5	-	5	-	5	-	5
Airbus A319	20	(2)	18	-	18	-	18
Total Air Canada Rouge	**39**	**1**	**40**	**-**	**40**	**-**	**40**
Total Mainline & Rouge	**231**	**12**	**243**	**7**	**250**	**18**	**268**

Air Canada Express

The table below provides the number of aircraft operated on behalf of Air Canada by regional carriers under the Air Canada Express brand, for the dates indicated. The table also provides the planned Air Canada Express fleet as at the future dates indicated.

	Actual			Planned			
	Dec. 31, 2022	**2023 Fleet Changes**	**Dec. 31, 2023**	**2024 Fleet Changes**	**Dec. 31, 2024**	**2025 Fleet Changes**	**Dec. 31, 2025**
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-200	15	-	15	(8)	7	-	7
Mitsubishi CRJ-900	35	-	35	-	35	-	35
De Havilland Dash 8-400	39	4	43	-	43	-	43
Total Air Canada Express	**114**	**4**	**118**	**(8)**	**110**	**-**	**110**

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 8.5 "Capital Expenditures and Related Financing Arrangements", 8.6 "Pension Funding Obligations", and 8.7 "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, 2023 total liquidity was $10,290 million comprised of cash and cash equivalents, short-term and long-term investments of $9,295 million, and $995 million available under undrawn credit facilities. Cash and cash equivalents include $393 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. 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, including those related to obligations associated with financial liabilities and capital commitments, may also be supported through new financing arrangements.

8.2 Net debt

The table below reflects Air Canada's net debt balances as at December 31, 2023, and as at December 31, 2022.

(Canadian dollars in millions)	December 31, 2023	December 31, 2022	$ Change
Total long-term debt and lease liabilities	$ 12,996	$ 15,043	$ (2,047)
Current portion of long-term debt and lease liabilities	866	1,263	(397)
Total long-term debt and lease liabilities (including current portion)	**13,862**	**16,306**	**(2,444)**
Less cash, cash equivalents and short and long-term investments	(9,295)	(8,811)	(484)
Net debt (1)	**$ 4,567**	**$ 7,495**	**$ (2,928)**
Adjusted EBITDA (trailing 12 months)	**$ 3,982**	**$ 1,457**	**$ 2,525**
Net debt to adjusted EBITDA ratio (1)	**1.1**	**5.1**	**(4.0)**

(1) 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.

Net debt to adjusted EBITDA ratio was 1.1 at December 31, 2023, an improvement from the ratio of 5.1 as at December 31, 2022, due to growth in adjusted EBITDA and the reduction in net debt. The decrease in total debt and lease liabilities included $1,276 million of early debt repayments made in 2023—comprised of the $1,112 million from the prepayment of Airbus A220 debt previously used to fund the acquisition of 33 Airbus A220 aircraft and the prepayment of $164 million previously used to fund the acquisition of five Boeing 787-8 aircraft. Greater cash and investments, accumulated through operating cashflows, also contributed to the improvement in net debt.

8.3 Working capital

The table below provides information on Air Canada's working capital balances as at December 31, 2023 and as at December 31, 2022.

(Canadian dollars in millions)	December 31, 2023	December 31, 2022	$ Change
Cash, cash equivalents and short-term investments	$ 8,551	$ 7,988	$ 563
Accounts receivable	1,121	1,037	84
Other current assets	588	640	(52)
Total current assets	**$ 10,260**	**$ 9,665**	**$ 595**
Accounts payable and accrued liabilities	3,328	2,691	637
Advance ticket sales	4,341	4,104	237
Aeroplan and other deferred revenues	1,473	1,295	178
Current portion of long-term debt and lease liabilities	866	1,263	(397)
Total current liabilities	**$ 10,008**	**$ 9,353**	**$ 655**
Net working capital	**$ 252**	**$ 312**	**$ (60)**

Net working capital of $252 million at December 31, 2023 decreased $60 million from December 31, 2022. This was driven by a significant cash outflow due to repayment of long-term debt and lease liabilities and investing activities offset by positive operating cash results.

8.4 Cash flow movements

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

	Fourth Quarter			Full Year		
(Canadian dollars in millions)	2023	2022	$ Change	2023	2022	$ Change
Net cash flows from operating activities	$ 985	$ 647	$ 338	$ 4,320	$ 2,368	$ 1,952
Net cash flows used in financing activities	(332)	(739)	407	(2,368)	(1,612)	(756)
Net cash flows from (used in) investing activities	(289)	137	(426)	(1,827)	(2,498)	671
Effect of exchange rate changes on cash and cash equivalents	(7)	2	(9)	(1)	20	(21)
Increase (decrease) in cash and cash equivalents	**$ 357**	**$ 47**	**$ 310**	**$ 124**	**$ (1,722)**	**$ 1,846**

Net Cash Flows from Operating Activities

Net cash flows from operating activities were better than the 2022 comparative periods driven by better results from operations and strong advance ticket sales.

Net Cash Flows used in Financing Activities

Net cash flows used in financing activities increased $756 million from 2022. The increase was mainly driven by the prepayment of loans which had been used to finance the acquisition of Boeing 787 and Airbus A220 aircraft.

Net Cash Flows from (used in) Investing Activities

Net cash flows used in investing activities decreased by $671 million in 2023 largely due to the net movements between cash and short- and long-term investments. Additions to property, equipment and intangible assets of $1,564 million in 2023, slightly lower than 2022 levels.

Refer to sections 8.2 "Net Debt", and 8.3 "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 2023	Fourth Quarter 2022	Fourth Quarter $ Change	Full Year 2023	Full Year 2022	Full Year $ Change
Net cash flows from operating activities	$ 985	$ 647	$ 338	$ 4,320	$ 2,368	$ 1,952
Additions to property, equipment, and intangible assets	(316)	(327)	11	(1,564)	(1,572)	8
Free cash flow (1)	$ 669	$ 320	$ 349	$ 2,756	$ 796	$ 1,960

(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 and 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 in the fourth quarter and full year 2023 were better than the 2022 comparative periods driven by better net cash flows from operating activities on better operating results and strong advance ticket sales.

8.5 Capital expenditures and related financing arrangements

Boeing 787-10 Aircraft

In September 2023, Air Canada announced that it is acquiring 18 Boeing 787-10 aircraft. Deliveries are scheduled to begin in the fourth quarter of 2025 with the last aircraft scheduled for delivery in the first quarter of 2027. The purchase agreement, which includes options for 12 additional Boeing 787-10 aircraft, substitutes for a previously announced agreement to purchase two Boeing 777 freighter aircraft and, as a result, Air Canada will no longer take delivery of the two freighters.

Airbus A321XLR Aircraft

Air Canada is acquiring 30 extra-long range (XLR) versions of the Airbus A321neo aircraft (Airbus A321XLR). Deliveries are scheduled to begin in the third quarter of 2025 with the final aircraft scheduled to arrive in 2029. Of the 30 total aircraft, 15 aircraft will be leased and 15 are being acquired under a purchase agreement with Airbus S.A.S. that includes purchase rights to acquire up to 10 additional aircraft between 2027 and 2031.

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 15 additional Airbus A220-300 aircraft.

Of the above-mentioned 60 firm orders, 33 have been delivered. Deliveries for the 27 remaining firm orders are planned between 2024 and 2027.

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) and purchase options for 10 additional Boeing 737 MAX aircraft.

In 2023, Air Canada has entered into lease agreements for five additional Boeing 737 MAX 8 aircraft that are scheduled to enter the operating fleet in 2025.

Boeing 787-9 Aircraft

In 2021, Air Canada exercised options for the purchase of three Boeing 787-9 aircraft. Two 787-9 aircraft were delivered, one in April 2023 and one in January 2024, and the remaining aircraft is scheduled to be delivered in 2024.

Boeing 767 Freighter Aircraft

Air Canada expects to add another three Boeing 767 freighters between 2024 and 2025.

Heart Aerospace ES-30 Electric Aircraft

In 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 is not included in the table below, however the agreement provides for a price cap. The regional aircraft are expected to enter service in 2028.

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, 2023 amounted to $12,461 million.

(Canadian dollars in millions)	2024	2025	2026	2027	2028	Thereafter	Total
Committed expenditures	$ 2,000	$ 2,204	$ 4,003	$ 1,397	$ 790	$ 2,067	$ 12,461
Projected planned but uncommitted expenditures	108	332	498	472	505	Not available	Not available
Projected planned but uncommitted capitalized maintenance [(1)]	517	705	621	455	455	Not available	Not available
Total projected expenditures [(2)]	**$ 2,625**	**$ 3,241**	**$ 5,122**	**$ 2,324**	**$ 1,750**	**Not available**	**Not available**

(1) Future capitalized maintenance amounts for 2027 and beyond are not yet determinable, however estimates of $455 million have been made for each of 2027 and 2028.
(2) *U.S. dollar amounts are converted using the December 31, 2023 closing exchange rate of US$1=C$1.3243. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation.*

8.6 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, 2024, the aggregate solvency surplus in Air Canada's domestic registered pension plans was estimated at $4.3 billion. The final valuations will be completed in the first half of 2024. As permitted by legislation and subject to applicable plan rules, amounts in excess of 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.

Total employer defined benefit pension funding contributions (including international and supplemental plans) amounted to $86 million in 2023 and are forecasted to be $101 million in 2024.

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 $60 million in 2023 and are forecasted to be $72 million in 2024.

At December 31, 2023, approximately 85% 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 (2022 – 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 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 $330 million at December 31, 2023 (2022 – $342 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.

8.7 Contractual obligations

The table below provides Air Canada's projected contractual obligations as at December 31, 2023, 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)	2024	2025	2026	2027	2028	Thereafter	Total
Principal							
Long-term debt [(1)]	$ 359	$ 1,092	$ 2,337	$ 1,032	$ 4,222	$ 2,631	$ 11,673
Lease liabilities	507	485	337	279	210	719	2,537
Total principal obligations	**$ 866**	**$ 1,577**	**$ 2,674**	**$ 1,311**	**$ 4,432**	**$ 3,350**	**$ 14,210**
Interest							
Long-term debt	630	604	546	451	323	119	2,673
Lease liabilities	130	102	80	64	50	282	708
Total interest obligations	**$ 760**	**$ 706**	**$ 626**	**$ 515**	**$ 373**	**$ 401**	**$ 3,381**
Total long-term debt and lease liabilities	**$ 1,626**	**$ 2,283**	**$ 3,300**	**$ 1,826**	**$ 4,805**	**$ 3,751**	**$ 17,591**
Committed capital expenditures	**$ 2,000**	**$ 2,204**	**$ 4,003**	**$ 1,397**	**$ 790**	**$ 2,067**	**$ 12,461**
Total contractual obligations [(2)]	**$ 3,626**	**$ 4,487**	**$ 7,303**	**$ 3,223**	**$ 5,595**	**$ 5,818**	**$ 30,052**

(1) Assumes the principal balance of the convertible notes, $363 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.

8.8 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, 2023	December 31, 2022
Issued and outstanding shares		
Class A variable voting shares	82,887,375	72,431,001
Class B voting shares	275,581,911	285,931,257
Total issued and outstanding shares	**358,469,286**	**358,362,258**
Class A variable voting and Class B voting shares potentially issuable		
Convertible notes	17,856,599	17,856,599
Stock options	6,642,516	5,304,745
Total shares potentially issuable	**24,499,115**	**23,161,344**
Total outstanding and potentially issuable shares	**382,968,401**	**381,523,602**

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. At December 31, 2023, a total of $363 million (US$274 million) aggregate principal amount of Convertible Notes remains outstanding. At December 31, 2022, the aggregate principal amount of Convertible Notes outstanding was US$274 million.

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)	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
Operating revenues	$ 2,573	$ 3,981	$ 5,322	$ 4,680	$ 4,887	$ 5,427	$ 6,344	$ 5,175
Operating expenses	3,123	4,234	4,678	4,708	4,904	4,625	4,929	5,096
Operating income (loss)	**(550)**	**(253)**	**644**	**(28)**	**(17)**	**802**	**1,415**	**79**
Non-operating income (expense)	**(264)**	**(99)**	**(1,148)**	**174**	**(6)**	**(6)**	**(98)**	**43**
Income (loss) before income taxes	**(814)**	**(352)**	**(504)**	**146**	**(23)**	**796**	**1,317**	**122**
Income tax recovery (expense)	(160)	(34)	(4)	22	27	42	(67)	62
Net income (loss)	**$ (974)**	**$ (386)**	**$ (508)**	**$ 168**	**$ 4**	**$ 838**	**$ 1,250**	**$ 184**
Basic earnings (loss) per share	**$ (2.72)**	**$ (1.08)**	**$ (1.42)**	**$ 0.47**	**$ 0.01**	**$ 2.34**	**$ 3.49**	**$ 0.51**
Diluted earnings (loss) per share	**$ (2.72)**	**$ (1.60)**	**$ (1.42)**	**$ 0.41**	**$ (0.03)**	**$ 2.34**	**$ 3.08**	**$ 0.41**
Adjusted EBITDA (1)	**$ (143)**	**$ 154**	**$ 1,057**	**$ 389**	**$ 411**	**$ 1,220**	**$ 1,830**	**$ 521**
Adjusted pre-tax income (loss) (1)	**$ (740)**	**$ (447)**	**$ 446**	**$ (211)**	**$ (194)**	**$ 656**	**$ 1,278**	**$ (47)**
Adjusted net income (loss) (1)	**$ (747)**	**$ (455)**	**$ 431**	**$ (217)**	**$ (188)**	**$ 664**	**$ 1,281**	**$ (44)**
Adjusted earnings (loss) per share – diluted (1)	**$ (2.09)**	**$ (1.12)**	**$ 1.07**	**$ (0.61)**	**$ (0.53)**	**$ 1.85**	**$ 3.41**	**$ (0.12)**

(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 2023	2022	2021
Operating revenues	$ 21,833	$ 16,556	$ 6,400
Operating expenses	19,554	16,743	9,449
Operating income (loss)	**2,279**	**(187)**	**(3,049)**
Income (loss) before income taxes	2,212	(1,524)	(3,981)
Income tax recovery (expense)	64	(176)	379
Net income (loss)	**$ 2,276**	**$ (1,700)**	**$ (3,602)**
Basic earnings (loss) per share	**$ 6.35**	**$ (4.75)**	**$ (10.25)**
Diluted earnings (loss) per share	**$ 5.96**	**$ (4.75)**	**$ (10.25)**
Adjusted EBITDA (1)	**$ 3,982**	**$ 1,457**	**$ (1,464)**
Adjusted pre-tax income (loss) (1)	**$ 1,693**	**$ (952)**	**$ (3,768)**
Adjusted net income (loss) (1)	**$ 1,713**	**$ (988)**	**$ (3,768)**
Adjusted earnings (loss) per share – diluted (1)	**$ 4.56**	**$ (2.76)**	**$ (10.74)**
Cash, cash equivalents and short-term investments	**$ 8,551**	**$ 7,988**	**$ 8,969**
Total assets	**$ 30,197**	**$ 29,507**	**$ 30,614**
Total long-term liabilities	**$ 19,393**	**$ 21,709**	**$ 23,681**
Total liabilities	**$ 29,401**	**$ 31,062**	**$ 30,605**

(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.

Gain 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.

	Fourth Quarter		Full Year	
(Canadian dollars in millions)	2023	2022	2023	2022
Embedded derivative on convertible notes	$ 32	$ 45	$ 64	$ 219
Short-term investments	53	(2)	45	(86)
Other	6	1	6	-
Gain on financial instruments recorded at fair value	**$ 91**	**$ 44**	**$ 115**	**$ 133**

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.

During 2023, the Corporation purchased jet fuel call options covering a portion of fuel exposure in the second half of 2023. The cash premium related to these contracts was $44 million. Premium costs and any hedging gains and losses are reclassified from other comprehensive income to Aircraft fuel expense on settlement of the derivatives. Fuel derivative contracts cash settled with a fair value of $95 million in favour of the Corporation, with a net hedging gain of $51 million recorded in Aircraft fuel expense. No hedge ineffectiveness was recorded. There were no outstanding fuel derivatives as at December 31, 2023 and there was no fuel hedging activity during 2022.

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 2023, these net operating cash inflows totalled approximately US$4.2 billion and U.S. denominated operating costs amounted to approximately US$7.8 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$2.2 billion. In 2023, this resulted in a U.S. dollar net cash flow exposure of approximately US$5.8 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, 2023 amounted to $1,123 million (US$845 million)—$693 million (US$511 million) as at December 31, 2022. 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 2023, a loss of $18 million (gain of $72 million in 2022) 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, 2023, as further described below, approximately 63% of net U.S. cash outflows are hedged for 2024 and 39% for 2025, resulting in derivative coverage of 56% over the next 18 months, as of December 31, 2023. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 60% coverage over the next 18 months as of December 31, 2023.

As at December 31, 2023, Air Canada had outstanding foreign currency options and swap agreements, settling in 2024 and 2025, to purchase at maturity $5,982 million (US$4,542 million) of U.S. dollars at a weighted average rate of $1.3089 per US$1.00 (2022 – $5,798 million (US$4,310 million) with settlements in 2023 and 2024 at a weighted average rate of $1.2986 per $1.00 U.S. dollar). Air Canada also has protection in place to sell a portion of its excess Euros, Sterling, YEN, and AUD (EUR €276 million, GBP £166 million, JPY ¥14,797 million, and AUD $124 million) which settle in 2024 and 2025 at weighted average rates of €1.1292, £1.2790, ¥0.0075, and AUD $0.6920 per $1.00 U.S. dollar, respectively (as at December 31, 2022 – EUR €198 million, GBP £244 million, JPY ¥17,405 million, CNH ¥355 million and AUD $126 million with settlement in 2023 and 2024 at weighted average rates of €1.0828, £1.2467, ¥0.0082, ¥0.1419, and AUD $0.7072 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, 2023 was $165 million in favour of the counterparties (2022 – $140 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 2023, a gain of $139 million was recorded in Foreign exchange gain (loss) related to these derivatives (2022 – $174 million gain). In 2023, foreign exchange derivative contracts cash settled with a net fair value of $163 million in favour of Air Canada (2022 – $46 million in favour of the Corporation).

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, 2023 was 75% fixed and 25% floating (71% and 29%, respectively as at December 31, 2022).

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 2023, including future changes in accounting policies for amendments to standards not yet effective.

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. The Corporation adopted this amendment effective the 2023 annual period with no substantial impact on the disclosure of its accounting policies.

IAS 12 Income Taxes

In May 2023, the IASB issued an amendment to IAS 12. The amendment addresses accounting for the global minimum tax as outlined in the two-pillar plan for international tax reform developed by the Organisation for Economic Co-operation and Development. The objective of the tax reform is to ensure that large multinational enterprises are subject to a minimum income tax rate of 15% in each jurisdiction they operate. The amendment to IAS 12 includes temporary mandatory relief from recognizing and disclosing deferred taxes related to the implementation of Pillar Two global minimum tax rules. As of December 31, 2023, the Pillar Two legislation has not yet been enacted or substantively enacted in any of the jurisdictions where the Corporation has a constituent entity for the purposes of Pillar Two. As such, the Corporation has yet to apply the temporary exemption. The Corporation will disclose known or reasonably estimable information related to the Corporation's exposure to Pillar Two income taxes when it is enacted or substantively enacted in a jurisdiction where the Corporation has a constituent entity and will disclose separately current tax related to Pillar Two income taxes when it is in effect.

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 had 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 2023 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, 2023, the Aeroplan points deferred revenue balance was $3,562 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 $36 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 $14 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.

Income Taxes

Since 2020, the net deferred income tax assets related to unused tax losses and other deductible temporary differences have not been recognized. As a result of the COVID-19 pandemic, there was considerable negative evidence relating to losses that were incurred at that time and assumptions as to the timing of reversal of temporary differences include expectations about the future results of operations and future cash flows. Management continues to assess the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. Deferred tax assets have only been recognized to the extent of taxable temporary differences expected to reverse and generate taxable income against which the deferred tax assets can be utilized. The future income tax deductions underlying the unrecognized deferred income tax assets remain available for use in the future to reduce taxable income.

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, 2023 and 2022.

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

	Pension Benefits		Other Employee Future Benefits	
	2023	2022	2023	2022
Discount rate used to determine:				
Net interest on the net defined benefit obligation for the year ended December 31	5.28%	3.20%	5.28%	3.20%
Service cost for the year ended December 31	5.28%	3.37%	5.28%	3.37%
Accrued benefit obligation as at December 31	4.64%	5.28%	4.64%	5.28%
Rate of future increases in compensation used to determine:				
Accrued benefit cost and service cost for the year ended December 31	2.75%	2.50%	Not applicable	Not applicable
Accrued benefit obligation as at December 31	2.75%	2.75%	Not applicable	Not applicable

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 2023 pension expense, net interest relating to pension benefit liabilities and pension obligation, 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.

	0.25 Percentage Point	
(Canadian dollars in millions)	Decrease	Increase
Discount rate on obligation assumption		
Pension expense	$ 12	$ (11)
Net interest relating to pension benefit liabilities	(1)	-
Total	**$ 11**	**$ (11)**
Increase (decrease) in pension obligation	$ 591	$ (573)

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, 2023, approximately 85% 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 $431 million.

Assumed health care cost trend rates impact the amounts reported for the health care plans. A 4.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2023 and thereafter (2022 – 4.75% and 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 $5 million and the obligation by $62 million. A one-percentage-point decrease in assumed health care trend rates would have decreased the total of current service and interest costs by $4 million and the obligation by $64 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 $36 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 $34 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 $1,215 million as at December 31, 2023 (December 31, 2022 – $1,181 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 extra-contractual liabilities and certain contractual indemnities.

15 Related Party Transactions

At December 31, 2023, 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 2023 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	2024 Measure	Sensitivity Factor	Favourable/ (Unfavourable) Estimated Operating Income Impact/Pre-tax Income (Canadian dollars in millions)
Fuel			
Fuel – Jet fuel price (US$/barrel) (1)	$129.0	US$1/barrel increase	$ (45)
Fuel – Jet fuel price (C$/litre) (1)	$1.13	1% increase	$ (58)
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	78
		Remeasurement of outstanding currency derivatives	(45)
		Pre-tax income impact	**$ 74**

(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.

17 Enterprise Risk Management and Governance

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, Compensation and Pension 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.

Policies and processes are in place to manage specific risks such as safety, security, fraud, cybersecurity, 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.

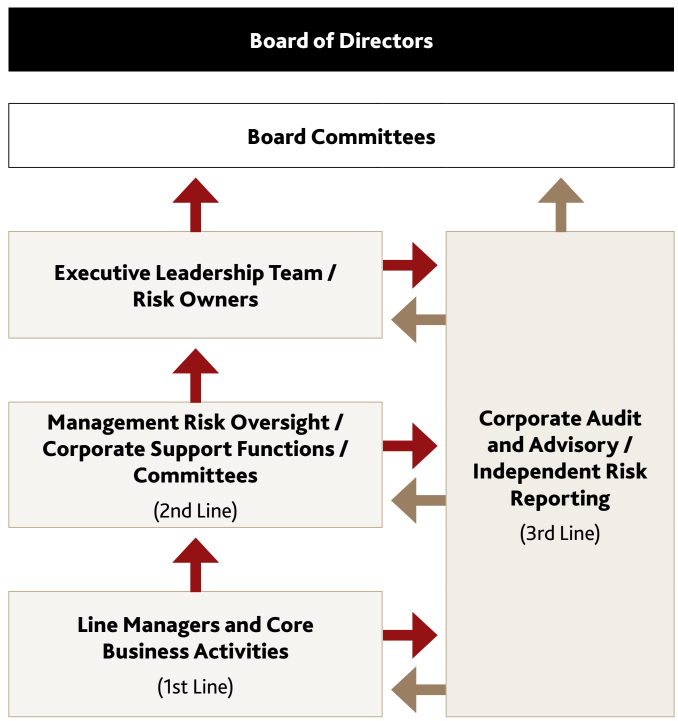
Air Canada's risk management structure is aligned with the "Three Lines Model" approach to risk management:

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 Cybersecurity).

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 as well as 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. These risks may not be the only ones faced by Air Canada. Other risks of which Air Canada is not aware or which Air Canada 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 are sensitive to and may be significantly impacted by economic and geopolitical conditions, which may also impact overall demand for air transportation or to or from certain destinations, the ability to operate to destinations or the viability or routes, operating costs and revenues, fuel cost and availability, foreign exchange costs, tax costs and the costs and availability of capital and supplies. Any prolonged or significant impact arising from economic and geopolitical conditions, including in relation to conflicts involving Israel and Hamas, or Russia and Ukraine, or other geopolitical conflicts, and civil unrest, as well as related responses of various governments and authorities (or lack thereof), infectious diseases, 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 conflicts or 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, 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. Many factors such as depressed economic conditions, geopolitical instability, infectious diseases, 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.

Carriers against which Air Canada competes, including U.S. and Canadian carriers, may 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. Consolidation within the airline industry and carriers increasingly entering into integrated commercial cooperation arrangements (including with multi-modal operators) 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 and 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 distribution, 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.

Dependence on technology – Air Canada relies heavily on technology to operate its business and any inadequacy, failure or security 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, distribution, and other business activities. 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. Air Canada's business also requires the secure collection, processing, storage and effective governance 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 and processed is critical to Air Canada's business.

The technology systems Air Canada relies on also depend on the performance of its many suppliers and Air Canada has less direct oversight over their security ecosystem and practices. These suppliers' performance is in turn dependent upon their respective technology ecosystems. Technology systems may be vulnerable to a variety of sources of failures, interruption or misuse, including by reason of human error, third-party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunications failures, power failures, misuse, 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. There is a growing number of sophisticated actors, including hackers, organized criminals, state-sponsored actors and other parties, and information security attacks have continued to grow in complexity. The emergence of new technologies, such as artificial intelligence continues to grow these threats. The magnitude and frequency of information security breaches and their potential for damage has also continued to grow.

In light of the evolving nature and sophistication of information security threats, our information security systems and controls must continuously adapt and require regular monitoring to ensure effectiveness. Despite our efforts, given the complexity and scale of our business, network infrastructure, technology and IT supporting systems, there can be no assurance that our information security systems and controls will be effective. We have been the target of cybersecurity attacks in the past and expect that we will continue to be in the future.

Any technology system failure, degradation, interruption, misuse or fraudulent use, security breach, 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.

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 may arise from a variety of factors, including the performance 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, technology failures, breaches 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, immigration and customs personnel and others supporting airport-related operations, infectious diseases, public health restrictions or other factors beyond the control of Air Canada. Any of these 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 (which are also being driven by climate change which may also increase the frequency, duration and intensity of severe weather events), volcanic eruptions floods or other natural phenomena, as well as those arising from anthropogenic sources. Such events, including on the ground and at altitude (including turbulence events), or impacting 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. Like other airlines, we are dependent on the high quality and stable engineering design, manufacturing and maintenance of aircraft and related parts and other products we purchase, and issues that arise may cause these to be unavailable.

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. Global supply chains continue to be impacted since the end of the COVID-19 pandemic, including by reason of labour shortages, access to raw materials, and transportation logistics, and these have and may continue to impact Air Canada and its suppliers.

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.

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. Air Canada is engaged in collective bargaining with the Air Line Pilots Association, the union representing its pilots. As agreements with other unions will expire over the next few years, bargaining is expected to commence with them as well. 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.

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 to source of aircraft, participate in the leisure or lower-cost market, enter into or expand joint venture arrangements, address climate change, enhance revenues, reduce costs, improve business processes, implement new technologies (including artificial intelligence), expand network and capacity, and initiatives seeking to improve and ensure a consistently high-quality customer service experience. Strategic initiatives, including 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 products and services), their integration into Air Canada's other activities and processes as well as the adoption and acceptance of these initiatives including 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 strategic or important initiative 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, 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 indebtedness. 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 indebtedness from fixed obligations, including substantial obligations under aircraft leases, aircraft purchases and other financings. While Air Canada actively seeks to manage its indebtedness, it may incur greater levels of indebtedness than currently exist or are planned.

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 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 level of indebtedness, as well as market conditions and the availability of assets as collateral for loans or other indebtedness, may make it difficult for Air Canada to raise additional capital if needed to meet its liquidity needs on acceptable terms, or at all.

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, and differences between the estimated and available value of Air Canada's unencumbered assets, 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.

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 support its business strategy and manage any challenges.

Regional carrier service – The failure by a 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 agreements with certain airlines such as Jazz which operate 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, 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, including for specialized technical roles, 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 government actions, or 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. 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 or that the recovery will continue as expected, including as a result of further waves, supply chain disruptions and inflationary pressures.

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, charges, airport fees and operations, route rights, airport slots, aircraft operations and maintenance, security, air passenger and consumer protection 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, repatriation of funds 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. For example, a significant majority of countries in the Organisation for Economic Co-operation and Development's (OECD) Inclusive Framework approved a framework that imposes a global minimum tax rate of 15%. Canada introduced draft legislation to implement it and other jurisdictions that Air Canada operates to have also indicated their intent to introduce similar legislation. The OECD also continues to work on proposed changes to profit reallocation to market jurisdictions. Air Canada cannot predict whether, or the manner in which, proposed domestic and international laws (including in respect of the work of the OECD Inclusive Framework), regulations and administrative requirements or similar initiatives will ultimately be implemented or their impact on Air Canada.

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. 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, business strategy or 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.

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 disproportionally 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.

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

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 and other airlines, including Lufthansa AG, United Airlines, Air China and Emirates, 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 should a Star Alliance or other airlines 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, suppliers or other third 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 future 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, including the foreclosure of Air Canada assets that secure obligations under secured financing agreements. Defaults could also 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.

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 8.6 "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, 2023, 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, 2023, 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 2023 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.

Adjusted CASM

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

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

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

Adjusted CASM is reconciled to GAAP operating expense as follows:

	Fourth Quarter			Full Year		
(Canadian dollars in millions, except where indicated)	2023	2022	Change	2023	2022	Change
Operating expense – GAAP	**$ 5,096**	**$ 4,708**	**$ 388**	**$ 19,554**	**$ 16,743**	**$ 2,811**
Adjusted for:						
Aircraft fuel	(1,391)	(1,459)	68	(5,318)	(5,276)	(42)
Ground package costs	(177)	(163)	(14)	(720)	(474)	(246)
Impairment of assets	-	-	-	-	(4)	4
Freighter costs (excluding fuel)	(46)	(27)	(19)	(157)	(86)	(71)
Operating expense, adjusted for the above-noted items	**$ 3,482**	**$ 3,059**	**$ 423**	**13,359**	**10,903**	**2,456**
ASMs (millions)	**24,439**	**22,368**	**9.3%**	**99,012**	**82,558**	**19.9%**
Adjusted CASM (cents)	**¢ 14.25**	**¢ 13.68**	**¢ 0.57**	**¢ 13.49**	**¢ 13.21**	**¢ 0.28**

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 effect of impairment of assets as it 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 impairment of assets are also removed in computing adjusted EBITDA margin as it 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:

	Fourth Quarter			Full Year		
(Canadian dollars in millions, except where indicated)	2023	2022	Change	2023	2022	Change
Operating income (loss) – GAAP	$ 79	$ (28)	$ 107	$ 2,279	$ (187)	$ 2,466
Add back:						
Depreciation and amortization	442	417	25	1,703	1,640	63
EBITDA	$ 521	$ 389	$ 132	$ 3,982	$ 1,453	$ 2,529
Remove:						
Impairment of assets	-	-	-	-	4	(4)
Adjusted EBITDA	$ 521	$ 389	$ 132	$ 3,982	$ 1,457	$ 2,525
Operating revenues	$ 5,175	$ 4,680	$ 495	$ 21,833	$ 16,556	$ 5,277
Operating margin (%)	1.5	(0.6)	2.1 pp	10.4	(1.1)	11.5 pp
Adjusted EBITDA margin (%)	10.1	8.3	1.8 pp	18.2	8.8	9.4 pp

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 impairment of assets, 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:

	Fourth Quarter			Full Year		
(Canadian dollars in millions)	2023	2022	$ Change	2023	2022	$ Change
Income (loss) before income taxes – GAAP	$ 122	$ 146	$ (24)	$ 2,212	$ (1,524)	$ 3,736
Adjusted for:						
Impairment of assets	-	-	-	-	4	(4)
Foreign exchange (gain) loss	(72)	(316)	244	(389)	732	(1,121)
Net interest relating to employee benefits	(7)	(7)	-	(25)	(24)	(1)
Gain on financial instruments recorded at fair value	(91)	(44)	(47)	(115)	(133)	18
Loss on debt settlements and modifications	1	31	(30)	10	14	(4)
Gain on disposal of assets	-	(21)	21	-	(21)	21
Adjusted pre-tax income (loss)	$ (47)	$ (211)	$ 164	$ 1,693	$ (952)	$ 2,645

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

Air Canada uses adjusted net income (loss) and adjusted earnings (loss) per share – diluted as a means to assess the overall financial performance of its business without the after-tax effects of impairment of assets, foreign exchange gains or losses, net financing expense relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on 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 share are reconciled to GAAP net income as follows:

	Fourth Quarter			Full Year		
(Canadian dollars in millions)	2023	2022	$ Change	2023	2022	$ Change
Net income (loss) – GAAP	$ 184	$ 168	$ 16	$ 2,276	$ (1,700)	$ 3,976
Adjusted for:						
Impairment of assets	-	-	-	-	4	(4)
Foreign exchange (gain) loss	(72)	(316)	244	(389)	732	(1,121)
Net interest relating to employee benefits	(7)	(7)	-	(25)	(24)	(1)
Gain on financial instruments recorded at fair value	(91)	(44)	(47)	(115)	(133)	18
Loss on debt settlements and modifications	1	31	(30)	10	14	(4)
Gain on disposal of assets	-	(21)	21	-	(21)	21
Income tax, including for the above reconciling items (1)	(59)	(28)	(31)	(44)	140	(184)
Adjusted net income (loss)	**$ (44)**	**$ (217)**	**$ 173**	**$ 1,713**	**$ (988)**	**$ 2,701**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	358	358	-	376	358	18
Adjusted earnings (loss) per share – diluted	$ (0.12)	$ (0.61)	$ 0.49	$ 4.56	$ (2.76)	$ 7.32

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

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

	Fourth Quarter		Full Year	
(In millions)	2023	2022	2023	2022
Weighted average number of shares outstanding – basic	**358**	**358**	**358**	**358**
Effect of dilution	-	-	18	-
Weighted average number of shares outstanding – diluted	**358**	**358**	**376**	**358**

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 8.4 "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 8.2 "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 that is adjusted to remove the effects of aircraft fuel expense, ground packages costs at Air Canada Vacations, impairment of assets 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 impairment of assets. 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 impairment of assets, 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 the sale and leaseback of assets, gains or losses on debt settlements and modifications, and 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 impairment of assets, 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 the sale and leaseback of assets, gains or losses on debt settlements and modifications, and 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 – When used in reference to airline operations, refers to operations and 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 – When used in reference to airline operations, refers to operations and 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 8.4 "Cash Flow Movements" and 20 "Non-GAAP Financial Measures" of this MD&A for additional information.

Jazz – Refers to Jazz Aviation LP.

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 8.2 "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 investments. Refer to section 8.2 "Net Debt" of this MD&A for a reconciliation of this capital management measure to the nearest measure under GAAP.

Other – When used in reference to airline operations, refers to operations and revenues from flights with origins and destinations principally in central and South America, the Caribbean and Mexico.

Pacific – When used in reference to airline operations, refers to operations and 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 ASMs.

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

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 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.

U.S. Transborder – When used in reference to airline operations, refers to operations and revenues from flights between Canada and the United States.

Yield – Refers to average passenger revenue per RPM.

2023

Consolidated Financial Statements and Notes

February 16, 2024

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 ("IFRS Accounting Standards"). 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 auditor, 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

John Di Bert
Executive Vice President and
Chief Financial Officer

February 15, 2024

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, 2023 and 2022, 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 Accounting Standards).

What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income (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, comprising material accounting policy information 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, 2023. 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	How our audit addressed the key audit matter
Passenger and cargo revenue recognition *Refer to note 2 – Basis of presentation and summary of material accounting policies and note 19 – 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, 2023 amounted to $19,403 million and $924 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.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of internal controls and performed substantive testing on certain aspects related to passenger and cargo revenue recognition, which included the following: — Tested the controls and performed certain substantive procedures 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	How our audit addressed the key audit matter
Measurement of the total benefit obligations *Refer to note 2 – Basis of presentation and summary of material accounting policies, note 3 – Critical accounting estimates and judgments, and note 9 – Pensions and other benefit liabilities to the consolidated financial statements.* The Corporation has net benefit assets of $648 million, which include total benefit obligations associated with pension benefit obligations of $18,309 million and other employee future benefit obligations of $1,098 million as at December 31, 2023. The total benefit obligations associated with pension benefit obligations and other employee future benefit obligations are actuarially determined annually as at December 31 and are prepared by the Corporation's consulting actuaries (management's experts). The total benefit obligations are 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 obligations. We considered this a key audit matter due to the significance of the total benefit obligations 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.	Our approach to addressing the matter included the following procedures, among others: • Tested how management developed the estimates for the total benefit obligations which included the following: — The work of management's experts was used in performing the procedures to evaluate the reasonableness of the total benefit obligations 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, 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 Accounting Standards, 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 Mario Longpré.

PricewaterhouseCoopers LLP [1]

Montréal, Quebec

February 15, 2024

1) CPA auditor, public accountancy permit No. A123498

Consolidated Statements of Financial Position

(Canadian dollars in millions)		December 31, 2023	December 31, 2022
ASSETS			
Current			
Cash and cash equivalents		$ 2,817	$ 2,693
Short-term investments		5,734	5,295
Total cash, cash equivalents and short-term investments		8,551	7,988
Accounts receivable	Note 19	1,121	1,037
Aircraft fuel inventory		169	200
Spare parts and supplies inventory	Note 2P	168	118
Prepaid expenses and other current assets	Note 19	251	322
Total current assets		10,260	9,665
Investments, deposits and other assets	Note 4	1,009	1,073
Property and equipment	Note 5	11,933	11,950
Pension assets	Note 9	2,588	2,444
Deferred income tax	Note 11	50	48
Intangible assets	Note 6	1,084	1,054
Goodwill	Note 7	3,273	3,273
Total assets		**$ 30,197**	**$ 29,507**
LIABILITIES			
Current			
Accounts payable and accrued liabilities		$ 3,328	$ 2,691
Advance ticket sales	Note 19	4,341	4,104
Aeroplan and other deferred revenue	Note 19	1,473	1,295
Current portion of long-term debt and lease liabilities	Note 8	866	1,263
Total current liabilities		10,008	9,353
Long-term debt and lease liabilities	Note 8	12,996	15,043
Aeroplan and other deferred revenue	Note 19	2,989	3,160
Pension and other benefit liabilities	Note 9	1,875	1,770
Maintenance provisions	Note 10	1,227	1,352
Other long-term liabilities		233	311
Deferred income tax	Note 11	73	73
Total liabilities		**$ 29,401**	**$ 31,062**
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	Note 12	2,744	2,743
Contributed surplus		133	118
Accumulated other comprehensive loss		(57)	(46)
Deficit		(2,024)	(4,370)
Total shareholders' equity (deficiency)		796	(1,555)
Total liabilities and shareholders' equity (deficiency)		**$ 30,197**	**$ 29,507**

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

On behalf of the Board of Directors:

Vagn Sørensen
Chair of the Board of Directors

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)		2023	2022
Operating revenues			
Passenger	Note 19	$ 19,403	$ 14,238
Cargo	Note 19	924	1,266
Other		1,506	1,052
Total revenues		**21,833**	**16,556**
Operating expenses			
Aircraft fuel		5,318	5,276
Wages, salaries and benefits	Note 9	3,955	3,260
Depreciation, amortization, and impairment	Note 5	1,703	1,644
Airport and navigation fees		1,418	1,213
Sales and distribution costs		1,097	797
Capacity purchase fees	Note 2D	858	763
Aircraft maintenance	Note 2J	1,083	706
Ground package costs		720	474
Communications and information technology		555	468
Catering and onboard services		628	425
Other		2,219	1,717
Total operating expenses		**19,554**	**16,743**
Operating income (loss)		**2,279**	**(187)**
Non-operating income (expense)			
Foreign exchange gain (loss)		389	(732)
Interest income		416	168
Interest expense	Note 8	(944)	(909)
Interest capitalized		14	13
Financial instruments recorded at fair value	Note 16	115	133
Loss on debt settlements	Note 8	(10)	(14)
Other		(47)	4
Total non-operating expense		**(67)**	**(1,337)**
Income (loss) before income taxes		**2,212**	**(1,524)**
Income tax recovery (expense)	Note 11	64	(176)
Net income (loss)		**$ 2,276**	**$ (1,700)**
Net income (loss) per share	Note 14		
Basic earnings (loss) per share		$ 6.35	$ (4.75)
Diluted earnings (loss) per share		$ 5.96	$ (4.75)

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

Consolidated Statements of Comprehensive Income (loss)

For the year ended December 31 (Canadian dollars in millions)		2023	2022
Comprehensive income (loss)			
Net income (loss)		$ 2,276	$ (1,700)
Other comprehensive income (loss), net of tax:	Note 11		
Items that will not be reclassified to net income			
Remeasurements on net employee benefits	Note 9	70	115
Remeasurements on equity investments	Note 4	(11)	(1)
Total comprehensive income (loss)		**$ 2,335**	**$ (1,586)**

Consolidated Statements of Changes in Equity (deficiency)

(Canadian dollars in millions)	Share capital	Contributed surplus	Accumulated OCI	Deficit	Total shareholders' equity (deficiency)
January 1, 2022	$ 2,735	$ 104	$ (45)	$ (2,785)	$ 9
Net income (loss)	–	–	–	(1,700)	(1,700)
Remeasurements on net employee benefits	–	–	–	115	115
Remeasurements on equity investments	–	–	(1)	–	(1)
Total comprehensive income (loss)	–	–	(1)	(1,585)	(1,586)
Share-based compensation	–	16	–	–	16
Shares issued (Note 12)	8	(2)	–	–	6
December 31, 2022	$ 2,743	$ 118	$ (46)	$ (4,370)	$ (1,555)
Net income (loss)	–	–	–	2,276	2,276
Remeasurements on net employee benefits	–	–	–	70	70
Remeasurements on equity investments	–	–	(11)	–	(11)
Total comprehensive income (loss)	–	–	(11)	2,346	2,335
Share-based compensation	–	15	–	–	15
Shares issued (Note 12)	1	–	–	–	1
December 31, 2023	**$ 2,744**	**$ 133**	**$ (57)**	**$ (2,024)**	**$ 796**

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)		2023	2022
Cash flows from (used for)			
Operating			
Net income (loss)		$ 2,276	$ (1,700)
Adjustments to reconcile to net cash from operations			
Deferred income tax	Note 11	(47)	129
Depreciation, amortization, and impairment	Note 5	1,703	1,644
Foreign exchange (gain) loss		(239)	735
Employee benefit funding less than expense	Note 9	59	128
Financial instruments recorded at fair value	Note 16	(115)	(133)
Loss on debt settlements	Note 8	10	14
Change in maintenance provisions		56	111
Changes in non-cash working capital balances		711	1,498
Other		(94)	(58)
Net cash flows from (used in) operating activities		**4,320**	**2,368**
Financing			
Proceeds from borrowings	Note 8	84	202
Repayment of long-term debt and lease liabilities	Note 8	(2,452)	(1,814)
Issue of shares	Note 12	1	6
Financing fees	Note 8	(1)	(6)
Net cash flows from (used in) financing activities		**(2,368)**	**(1,612)**
Investing			
Investments, short-term and long-term	Note 16	(245)	(959)
Additions to property, equipment and intangible assets		(1,564)	(1,572)
Proceeds from sale of assets		9	36
Other		(27)	(3)
Net cash flows from (used in) investing activities		**(1,827)**	**(2,498)**
Effect of exchange rate changes on cash and cash equivalents		**(1)**	**20**
Increase (decrease) in cash and cash equivalents		**124**	**(1,722)**
Cash and cash equivalents, beginning of year		2,693	4,415
Cash and cash equivalents, end of year		**$ 2,817**	**$ 2,693**

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 third parties including Jazz Aviation LP ("Jazz"), a wholly-owned subsidiary of Chorus Aviation Inc. ("Chorus"), through capacity purchase and other commercial agreements. Through Air Canada's global route network, virtually every major market throughout the world is served either directly or through Star Alliance and other carriers. 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 travel on Air Canada and select partners, as well as 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 Material 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 as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

These financial statements were approved for issue by the Board of Directors of the Corporation on February 15, 2024.

These financial statements are based on the accounting policies described below. These policies have been consistently applied to all the periods presented.

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. The Corporation adopted this amendment effective the 2023 annual period with no substantial impact on the disclosure of its accounting policies.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

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 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 enhances its domestic and transborder network through commercial agreements with regional carriers, including Jazz. Under these agreements, 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.

Capacity purchase fees are presented as a separate line item in the consolidated statement of operations and exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16. Pass-through costs, which are direct costs incurred by the regional carriers and charged to the Corporation and other costs incurred by the Corporation which are directly related to regional carrier operations are included in the line items to which they relate in the consolidated statement of operations.

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 Earned through 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. The interest arising on the net benefit obligations are presented in Other in Non-operating income (expense). 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 13. 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.

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.

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 2Q.

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.

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. 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 and convertible notes. The number of shares included with respect to time vesting options 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, including interest recognized in the period, foreign exchange recognized on the debt principal, and the mark to market revaluation of the embedded derivative unless the result of the adjustments is anti-dilutive.

P) 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 $62 million related to spare parts and supplies consumed during the year (2022 – $51 million).

Q) 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.

R) 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.

Aircraft Leases

As at December 31, 2023 the Corporation had 75 aircraft under right-of-use leases (71 aircraft as at December 31, 2022), and 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 certain aircraft used by its regional carrier, Jazz, 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, 2023, there were 81 aircraft (99 aircraft as at December 31, 2022) 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.

S) 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, 2023
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 12 years
Contract-based (Aeroplan commercial agreements)	11.5 years	7 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 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. 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.

T) 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 2W).

U) 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. The 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.

V) 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.

W) 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.

X) Accounting Standard Issued but not yet Adopted

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. The Corporation is evaluating the impact of the amendments.

IAS 12 Income Taxes

In May 2023, the IASB issued an amendment to IAS 12. The amendment addresses accounting for the global minimum tax as outlined in the two-pillar plan for international tax reform developed by the Organisation for Economic Co-operation and Development. The objective of the tax reform is to ensure that large multinational enterprises are subject to a minimum income tax rate of 15% in each jurisdiction they operate. The amendment to IAS 12 includes temporary mandatory relief from recognizing and disclosing deferred taxes related to the implementation of Pillar Two global minimum tax rules. As of December 31, 2023, the Pillar Two legislation has not yet been enacted or substantively enacted in any of the jurisdictions where the Corporation has a constituent entity for the purposes of Pillar Two. As such, the Corporation has yet to apply the temporary exemption. The Corporation will disclose known or reasonably estimable information related to the Corporation's exposure to Pillar Two income taxes when it is enacted or substantively enacted in a jurisdiction where the Corporation has a constituent entity and will disclose separately current tax related to Pillar Two income taxes when it is in effect.

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 6.

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 9 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 the COVID-19 pandemic had 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 2023 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, 2023, the Aeroplan Points deferred revenue balance was $3,562 million. For the purposes of sensitivity analysis, a 1% change in the number of outstanding Points estimated to be redeemed would result in an approximate impact of $36 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 $14 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 10(a) for additional information.

Income Taxes

Since 2020, the net deferred income tax assets related to unused tax losses and other deductible temporary differences have not been recognized. As a result of the COVID-19 pandemic, there was considerable negative evidence relating to losses that were incurred at that time and assumptions as to the timing of reversal of temporary differences include expectations about the future results of operations and future cash flows. Management continues to assess the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. Deferred tax assets have only been recognized to the extent of taxable temporary differences expected to reverse and generate taxable income against which the deferred tax assets can be utilized. The future income tax deductions underlying the unrecognized deferred income tax assets remain available for use in the future to reduce taxable income. Refer to Note 11 Income taxes for additional information.

4 Investments, Deposits And Other Assets

(Canadian dollars in millions)	2023	2022
Long-term investments	$ 744	$ 823
Investment in Chorus (a)	40	51
Restricted cash (b)	89	79
Aircraft related deposit	47	47
Prepayments under maintenance agreements	47	53
Other investments	36	13
Other deposits	6	7
	$ 1,009	**$ 1,073**

(a) The investment represents Air Canada's holding of 15,561,600 class B voting shares in the capital of Chorus.

(b) Restricted cash represents funds held in trust with various financial institutions as collateral for letters of credit and other items.

5 Property and Equipment

(Canadian dollars in millions)	December 31, 2023 Cost	December 31, 2023 Accumulated depreciation	December 31, 2023 Net book value	December 31, 2022 Cost	December 31, 2022 Accumulated depreciation	December 31, 2022 Net book value
Owned tangible assets						
Aircraft and flight equipment	$ 15,589	$ 6,986	$ 8,603	$ 14,777	$ 6,152	$ 8,625
Buildings and leasehold improvements	1,122	676	446	1,091	646	445
Ground and other equipment	697	488	209	664	491	173
Purchase deposits and assets under development	685	-	685	470	-	470
Owned tangible assets	**$ 18,093**	**$ 8,150**	**$ 9,943**	**$ 17,002**	**$ 7,289**	**$ 9,713**
Right-of-use assets						
Air Canada aircraft	$ 4,143	$ 2,966	$ 1,177	$ 4,042	$ 2,750	$ 1,292
Regional aircraft	1,591	1,130	461	1,982	1,394	588
Land and buildings	601	249	352	578	221	357
Right-of-use assets	**$ 6,335**	**$ 4,345**	**$ 1,990**	**$ 6,602**	**$ 4,365**	**$ 2,237**
Property and equipment	**$ 24,428**	**$ 12,495**	**$ 11,933**	**$ 23,604**	**$ 11,654**	**$ 11,950**

Additions to owned aircraft in 2023 include one new Airbus A220 and one new Boeing 787-9. Additions through the purchase of leased aircraft include three Airbus A321, one Boeing 777-300ER, eight Mitsubishi CRJ-200 and 10 Mitsubishi CRJ-900. Additions to owned aircraft in 2022 included five new Airbus A220, nine new Boeing 737 MAX-8 and two new Boeing 767 freighter aircraft.

Included in aircraft and flight equipment are 28 aircraft and 13 spare engines (2022 – 15 aircraft and 13 spare engines) which are leased to Jazz with a cost of $485 million (2022 – $425 million) less accumulated depreciation of $252 million (2022 – $215 million) for a net book value of $233 million (2022 – $210 million). Depreciation expense for 2023 for these aircraft and flight equipment amounted to $60 million (2022 – $29 million).

Certain property and equipment are pledged as collateral as further described under the applicable debt instruments in Note 8.

(Canadian dollars in millions)	January 1, 2023	Additions	Reclass	Disposals	Depreciation	December 31, 2023
Owned tangible assets						
Aircraft and flight equipment	$ 8,625	$ 764	$ 171	$ (5)	$ (952)	$ 8,603
Buildings and leasehold improvements	445	1	48	-	(48)	446
Ground and other equipment	173	67	3	-	(34)	209
Purchase deposits and assets under development	470	437	(222)	-	-	685
Owned tangible assets	**$ 9,713**	**$ 1,269**	**$ -**	**$ (5)**	**$ (1,034)**	**$ 9,943**
Right-of-use assets						
Air Canada aircraft	$ 1,292	$ 257	$ -	$ -	$ (372)	$ 1,177
Regional aircraft	588	5	-	-	(132)	461
Land and buildings	357	23	-	-	(28)	352
Right-of-use assets	**$ 2,237**	**$ 285**	**$ -**	**$ -**	**$ (532)**	**$ 1,990**
Property and equipment	**$ 11,950**	**$ 1,554**	**$ -**	**$ (5)**	**$ (1,566)**	**$ 11,933**

(Canadian dollars in millions)	January 1, 2022	Additions	Reclass	Disposals	Depreciation and impairment	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**

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

(Canadian dollars in millions)	2023	2022
Aircraft and flight equipment	$ 952	$ 869
Buildings and leasehold improvements	48	48
Ground and other equipment	34	39
Owned tangible assets	**1,034**	**956**
Air Canada aircraft	372	371
Regional aircraft	132	154
Land and buildings	28	26
Right-of-use assets	**532**	**551**
Property and equipment	**1,566**	**1,507**
Spare part and supplies inventory	11	8
Intangible assets	126	125
Impairment	-	4
Depreciation, amortization and impairment	**$ 1,703**	**$ 1,644**

6 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, 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**
Year ended December 31, 2023					
At January 1, 2023	**$ 97**	**$ 148**	**$ 178**	**$ 631**	**$ 1,054**
Additions	-	-	-	156	156
Amortization	-	(19)	-	(107)	(126)
At December 31, 2023	$ 97	$ 129	$ 178	$ 680	$ 1,084
At December 31, 2023					
Cost	$ 97	$ 225	$ 178	$ 1,259	$ 1,759
Accumulated amortization	-	(96)	-	(579)	(675)
	$ 97	**$ 129**	**$ 178**	**$ 680**	**$ 1,084**

In 2023, technology-based assets with cost and accumulated amortization of $3 million (2022 – $14 million) were retired.

International route rights and slots are pledged as security for Senior Secured Notes and debt as described in Note 8.

Impairment Assessment of Indefinite Lived Intangibles

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 these did not impact 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. 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%	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. Inputs to the various scenarios ranged from 9.5%-11% for the wide-body CGU and 7.5%-9% for the narrow-body CGU.
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	Jet fuel prices are assumed to follow the global market recovery and represent management's best estimate of the range of future market conditions. Emerging issues in climate-related matters, such as change in regulations, may impact this assumption in future years.

7 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, 2023 and 2022. Reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value.

8 Long-Term Debt and Lease Liabilities

	Final Maturity	Weighted Average Interest Rate (%)	December 31, 2023 (Canadian dollars in millions)	December 31, 2022 (Canadian dollars in millions)
Aircraft financing (a)				
Fixed rate U.S. dollar financing	2025 – 2030	5.00	$ 2,877	$ 3,408
Floating rate U.S. dollar financing	2027	7.81	296	399
Fixed rate CDN dollar financing	2026 – 2030	3.78	165	182
Floating rate CDN dollar financing			-	1,240
Fixed rate Japanese yen financing	2027	1.84	110	121
Convertible notes (b)	2025	4.00	327	313
Credit facility – CDN dollar (c)	2028	1.21	1,091	1,054
Senior secured notes – CDN dollar (d)	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar (d)	2026	3.88	1,589	1,626
Senior secured credit facility – U.S. dollar (d)	2028	9.13	3,000	3,102
Long-term debt		**5.50**	**11,455**	**13,445**
Lease liabilities				
Air Canada aircraft	2024 – 2031	5.24	1,377	1,667
Regional aircraft	2025 – 2035	5.70	711	917
Land and buildings	2024 – 2078	5.62	449	454
Lease liabilities (e)		**5.44**	**2,537**	**3,038**
Total debt and lease liabilities		**5.48**	**13,992**	**16,483**
Unamortized debt issuance costs and discounts			(130)	(177)
Current portion – Long-term debt			(359)	(713)
Current portion – Air Canada aircraft			(337)	(337)
Current portion – Regional aircraft			(144)	(187)
Current portion – Land and buildings			(26)	(26)
Long-term debt and lease liabilities			**$ 12,996**	**$ 15,043**

(a) Aircraft financing (US$2,396 million, CDN $165 million and JPY ¥11,749 million) (2022 – US$2,809 million, CDN $1,412 million and JPY ¥11,748 million) is secured primarily by specific aircraft with a carrying value of $3,774 million (2022 – $5,745 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$43 million of the financing is supported by a loan guarantee by the Export-Import Bank of the United States.

In the first quarter of 2023, Air Canada drew on financing for the final two Airbus A220 aircraft under a committed secured facility. The financing on these two aircraft was subsequently prepaid when the Corporation prepaid loans of $1,112 million which had been used to finance the acquisition of 33 Airbus A220-300 aircraft. In addition, financing of $164 million previously used to fund the acquisition of five Boeing 787-8 aircraft was also prepaid. A loss of $10 million was recorded on these debt settlements.

As a result of the prepayments, these aircraft have been added to the Corporation's unencumbered asset pool.

(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 Convertible 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, 2023, the fair value was $56 million (2022 - $120 million) and the Corporation recorded a gain of $64 million for the year ended December 31, 2023 ($219 million gain for the year 2022). Refer to Note 16.

In 2022, the Corporation repurchased $635 million (US$473 million) aggregate principal amount of its outstanding 4% Convertible Notes for an aggregate cash repurchase price of $778 million (US$579 million), including accrued interest. The Corporation recorded a $14 million loss on debt settlement related to this repurchase. As at December 31, 2023, $363 million (US$274 million) aggregate principal amount of Convertible Notes remains outstanding (US$274 million at December 31, 2022).

(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 (which were purchased and cancelled with settlement completed in January 2022), 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 2023, grant income of $50 million (2022 – $50 million) was recognized in Other revenues.

(d) 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 "Senior Secured 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").

The Senior Secured 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.

The Corporation also has a $200 million Canadian dollar revolving credit facility maturing in December 2026. Both of the revolving credit facilities remained undrawn as of December 31, 2023.

(e) Lease liabilities, related to facilities and aircraft, total $2,537 million ($406 million, US$1,593 million and GBP £13 million) (2022 – $3,038 million ($415 million, US$1,923 million and GBP £10 million)). The carrying value of aircraft and facilities under lease liabilities amounted to $1,637 million and $352 million respectively (2022 – $1,882 million and $355 million).

Other

Under Interbank Offered Rate ("IBOR") reform, IBORs are replaced with alternative benchmark rates. As at December 31, 2023, debt and aircraft leases referencing $3,296 million USD LIBOR were transitioned to term SOFR (Secured Overnight Financing Rate). There was no significant impact to the financial statements as the change in contractual cash flows was on an economically equivalent basis, and therefore the change is accounted for by updating the effective interest rate with no gain or loss recognized. As at December 31, 2023, the Corporation had transitioned all exposure to USD LIBOR settings to alternative reference rates.

Cash interest paid on Long-term debt and lease liabilities in 2023 by the Corporation was $858 million (2022 – $761 million).

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	2023	2022
Interest on debt	$ 791	$ 748
Interest on lease liabilities		
Air Canada aircraft	85	85
Regional aircraft	45	56
Land and buildings	23	20
Interest expense	**$ 944**	**$ 909**

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)	2023	2022
Short-term leases	$ 25	$ 17
Variable lease payments not included in lease liabilities	43	39
Expense related to leases (included in Other operating expenses)	$ 68	$ 56

Total cash outflows for payments on lease liabilities was $679 million for the year ended December 31, 2023 (2022 – $673 million), of which $526 million was for principal repayments (2022 – $512 million).

Maturity Analysis

Principal and interest repayment requirements as at December 31, 2023 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the December 31, 2023 closing rate of CDN$1.3243.

(Canadian dollars in millions)	2024	2025	2026	2027	2028	Thereafter	Total
Principal							
Long-term debt obligations(1)	$ 359	$ 1,092	$ 2,337	$ 1,032	$ 4,222	$ 2,631	$ 11,673
Air Canada aircraft	337	320	260	211	144	105	1,377
Regional aircraft	144	138	50	40	39	300	711
Land and buildings	26	27	27	28	27	314	449
Lease liabilities	507	485	337	279	210	719	2,537
Total long-term debt and lease liabilities	**$ 866**	**$ 1,577**	**$ 2,674**	**$ 1,311**	**$ 4,432**	**$ 3,350**	**$ 14,210**

(Canadian dollars in millions)	2024	2025	2026	2027	2028	Thereafter	Total
Interest							
Long-term debt obligations(1)	$ 630	$ 604	$ 546	$ 451	$ 323	$ 119	$ 2,673
Air Canada aircraft	71	54	39	26	16	7	213
Regional aircraft	35	26	20	18	16	55	170
Land and buildings	24	22	21	20	18	220	325
Lease liabilities	130	102	80	64	50	282	708
Total long-term debt and lease liabilities	**$ 760**	**$ 706**	**$ 626**	**$ 515**	**$ 373**	**$ 401**	**$ 3,381**

(1) Assumes the principal balance of the convertible notes, $363 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 8(c).

Principal repayments in the table above exclude discounts and transaction costs of $130 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.

(Canadian dollars in millions)	Jan. 1, 2023	Cash Flows			Non-Cash Changes			Dec. 31, 2023
		Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
Long-term debt	$ 13,445	$ 84	$ (1,926)	$ -	$ (208)	$ 60	$ -	$ 11,455
Air Canada aircraft	1,667	-	(343)	-	(34)	-	87	1,377
Regional aircraft	917	-	(154)	-	(17)	-	(35)	711
Land and buildings	454	-	(29)	-	-	-	24	449
Lease liabilities	3,038	-	(526)	-	(51)	-	76	2,537
Unamortized debt issuance costs and other adjustments	(177)	-	-	(1)	-	48	-	(130)
Total liabilities from financing activities	**$ 16,306**	**$ 84**	**$ (2,452)**	**$ (1)**	**$ (259)**	**$ 108**	**$ 76**	**$ 13,862**

(Canadian dollars in millions)	Jan. 1, 2022	Cash Flows			Non-Cash Changes			Dec. 31, 2022
		Borrowings	Repayments	Financing fees	Foreign exchange adjustments	Amortization of financing fees and other adjustments	New lease liabilities (new and modified contracts)	
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**

9 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, Compensation and Pension 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, 2023, the aggregate solvency surplus in the Domestic Registered Plans was $4.6 billion. The next required valuation to be made as at January 1, 2024 will be completed in the first half of 2024. With the Corporation's Domestic Registered Plans in a solvency surplus position as at January 1, 2023, past service contributions were not required in 2023. 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 2023 amounted to $61 million ($86 million employer contribution net of $25 million of surplus used to fund employer contribution in defined contribution components of the same plans). Pension funding obligations for 2024 are expected to be $101 million.

Benefit Obligations 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:

	Pension Benefits		Other Employee Future Benefits		Total	
(Canadian dollars in millions)	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Non-current assets						
Pension assets	$ 2,588	$ 2,444	$ -	$ -	$ 2,588	$ 2,444
Current liabilities						
Accounts payable and accrued liabilities	-	-	65	62	65	62
Non-current liabilities						
Pension and other benefit liabilities	842	825	1,033	945	1,875	1,770
Net benefit obligations (assets)	**$ (1,746)**	**$ (1,619)**	**$ 1,098**	**$ 1,007**	**$ (648)**	**$ (612)**

The current portion of the net benefit obligation represents an estimate of other employee future benefits claims to be paid during 2024.

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	
	2023	2022	2023	2022
Change in benefit obligations				
Benefit obligations at beginning of year	$ 16,927	$ 22,051	$ 1,007	$ 1,463
Current service cost	162	242	32	41
Past service cost	-	12	(2)	-
Interest cost	879	750	53	45
Employees' contributions	73	71	-	-
Benefits paid	(1,038)	(1,045)	(46)	(50)
Remeasurements:				
Experience loss (gain)	5	10	(19)	(136)
Loss (gain) from change in demographic assumptions	-	(5)	-	-
Loss (gain) from change in financial assumptions	1,297	(5,149)	76	(368)
Foreign exchange loss (gain)	4	(10)	(3)	12
Total benefit obligations	18,309	16,927	1,098	1,007
Change in plan assets				
Fair value of plan assets at beginning of year	21,378	26,666	-	-
Return on plan assets, excluding amounts included in Net financing expense	373	(5,284)	-	-
Interest income	1,105	923	-	-
Employer contributions	61	70	46	50
Employees' contributions	73	71	-	-
Benefits paid	(1,038)	(1,045)	(46)	(50)
Administrative expenses paid from plan assets	(8)	(9)	-	-
Foreign exchange gain (loss)	5	(14)	-	-
Total plan assets	21,949	21,378	-	-
(Surplus) deficit at end of year	**(3,640)**	**(4,451)**	**1,098**	**1,007**
Asset ceiling / additional minimum funding liability	1,894	2,832	-	-
Net benefit obligations (assets)	**$ (1,746)**	**$ (1,619)**	**$ 1,098**	**$ 1,007**

The actual return on plan assets was a gain of $1,478 million (2022 – $4,361 million loss).

Plan assets include an annuity contract for the UK plan defined benefit pension obligation.

The pension benefit deficit of only those plans that are not fully funded is as follows:

(Canadian dollars in millions)	2023	2022
Domestic Registered Plans	$ 7	$ 2
International plans	53	57
Supplementary plans	782	766
	$ 842	**$ 825**

The weighted average duration of the defined benefit obligation is 12.7 years (2022 – 12.5 years).

Pension and Other Employee Future Benefit Expense

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

	Pension Benefits		**Other Employee Future Benefits**	
(Canadian dollars in millions)	**2023**	**2022**	**2023**	**2022**
Consolidated Statement of Operations				
Components of cost				
Current service cost	$ 162	$ 242	$ 32	$ 41
Past service cost	-	12	(2)	-
Administrative and other expenses	8	9	-	-
Actuarial losses (gains), including foreign exchange	-	-	(9)	(32)
Total cost recognized in Wages, salaries and benefits	**$ 170**	**$ 263**	**$ 21**	**$ 9**
Net interest relating to employee benefits in Non-operating-other	**$ (78)**	**$ (70)**	**$ 53**	**$ 46**
Total cost recognized in statement of operations	**$ 92**	**$ 193**	**$ 74**	**$ 55**
Consolidated Other Comprehensive (Income) Loss				
Remeasurements:				
Experience loss (gain), including foreign exchange	4	14	(14)	(96)
Loss (gain) from change in demographic assumptions	-	(5)	-	-
Loss (gain) from change in financial assumptions	1,297	(5,149)	75	(363)
Return on plan assets	(395)	5,138	-	-
Change in asset ceiling	(1,085)	492	-	-
Total cost (income) recognized in OCI	**$ (179)**	**$ 490**	**$ 61**	**$ (459)**

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)	2023	2022
Net defined pension and other future employee benefits expense recorded in the consolidated statement of operations		
Wages, salaries and benefits	$ 191	$ 272
Net interest relating to employee benefit liabilities	(25)	(24)
	$ 166	**$ 248**
Employee benefit funding by Air Canada		
Pension benefits	$ 61	$ 70
Other employee benefits	46	50
	$ 107	**$ 120**
Employee benefit funding less than expense	**$ 59**	**$ 128**

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:

	2023	2022	Target Allocation
Fixed income investments	62%	64%	60%
Canadian equities	2%	2%	2%
Foreign equities	3%	3%	3%
Alternative investments	33%	31%	35%
	100%	**100%**	**100%**

For the Domestic Registered Plan assets, approximately 67% of assets as of December 31, 2023 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 (2022 – 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 $330 million at December 31, 2023 (2022 – $342 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:

- The broad equity portfolio (Canadian and foreign equities) is required to be diversified among regions, industries and economic sectors. Limitations are placed on the 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. The Alternative investments portfolio is required to be diversified by asset class, strategy, sector and geography.
- The fixed income portfolio is 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, 2023, approximately 85% 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, 2023, approximately 85% 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, 2023 and 2022.

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

	Pension Benefits		Other Employee Future Benefits	
	2023	**2022**	**2023**	**2022**
Discount rate used to determine:				
Net interest on the net defined benefit obligation for the year ended December 31	5.28%	3.20%	5,28%	3.20%
Service cost for the year ended December 31	5.28%	3.37%	5.28%	3.37%
Accrued benefit obligation as at December 31	4.64%	5.28%	4.64%	5.28%
Rate of future increases in compensation used to determine:				
Accrued benefit cost and service cost for the year ended December 31	2.75%	2.50%	Not applicable	Not applicable
Accrued benefit obligation as at December 31	2.75%	2.75%	Not applicable	Not applicable

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 2023 pension expense, net interest relating to pension benefit liabilities and pension obligation, 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.

	0.25 Percentage Point	
(Canadian dollars in millions)	**Decrease**	**Increase**
Discount rate on obligation assumption		
Pension expense	$ 12	$ (11)
Net interest relating to pension benefit liabilities	(1)	-
	$ 11	**$ (11)**
Increase (decrease) in pension obligation	**$ 591**	**$ (573)**

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, 2023, approximately 85% 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 $431 million.

Assumed health care cost trend rates impact the amounts reported for the health care plans. A 4.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2023 and thereafter (2022 – 4.75% and 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 $5 million and the obligation by $62 million. A one percentage point decrease in assumed health care trend rates would have decreased the total of current service and interest costs by $4 million and the obligation by $64 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 $36 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 $34 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, $25 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 2023 (2022 – $19 million).

The Corporation's expense for these pension plans amounted to $85 million for the year ended December 31, 2023 (2022 – $61 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 2024 are $72 million.

10 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, 2022				
Current	$ 36	$ -	$ 41	$ 77
Non-current	1,352	36	-	1,388
	$ 1,388	**$ 36**	**$ 41**	**$ 1,465**
Provisions arising during the year	$ 162	$ -	$ 4	$ 166
Amounts utilized	(161)	-	(3)	(164)
Changes in estimated costs	3	(8)	(4)	(9)
Accretion expense	55	1	-	56
Foreign exchange loss (gain)	(33)	-	-	(33)
At December 31, 2023	**$ 1,414**	**$ 29**	**$ 38**	**$ 1,481**
Current	$ 187	$ -	$ 38	$ 225
Non-current	1,227	29	-	1,256
	$ 1,414	**$ 29**	**$ 38**	**$ 1,481**

(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 2024 to 2035 with the average remaining lease term of approximately 3 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 $72 million at December 31, 2023 and an increase to maintenance expense in 2024 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 $28 million at December 31, 2023. 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 2024 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.

11 Income Taxes

Income Tax Recovery (Expense)

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

(Canadian dollars in millions)	2023	2022
Current income tax recovery (expense)	$ 17	$ (47)
Deferred income tax recovery (expense)	47	(129)
Income tax recovery (expense)	**$ 64**	**$ (176)**

The income tax recovery (expense) 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)	2023	2022
Income (loss) before income taxes	$ 2,212	$ (1,524)
Statutory income tax rate based on combined federal and provincial rates	26.46%	26.46%
Income tax (expense) recovery based on statutory tax rates	**(585)**	**403**
Effects of:		
Non-taxable (non-deductible) portion of capital gains (losses)	26	(80)
Recognition of (unrecognized) deferred income tax assets	638	(528)
(Non-deductible) non-taxable items	(23)	29
Other	8	-
Income tax recovery (expense)	**$ 64**	**$ (176)**

The applicable statutory tax rate is 26.46% (2022 – 26.46%). 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 income (loss) before income taxes in the consolidated statement of operations primarily due to recognizing only certain of the deferred income tax assets.

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

(Canadian dollars in millions)	2023	2022
Remeasurements on employee benefit liabilities		
- current income tax (expense) recovery	$ (3)	$ 8
- deferred income tax (expense) recovery	(45)	138
Income tax (expense) recovery	**$ (48)**	**$ 146**

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)	2023	2022
Other comprehensive income (loss) before income taxes	$ 107	$ (32)
Statutory income tax rate based on combined federal and provincial rates	26.46%	26.46%
Income tax (expense) recovery based on statutory tax rates	**(28)**	**9**
Non-deductible portion of capital loss	(1)	-
(Unrecognized) recognition of deferred income tax assets	(19)	124
Other	-	13
Income tax (expense) recovery	**$ (48)**	**$ 146**

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 prior years. Such negative evidence currently outweighs the positive evidence and, accordingly, net deferred tax assets are not being recognized. The future tax deductions underlying the unrecognized deferred income tax assets of $1,504 million remain available for use in the future to reduce taxable income. The deferred income tax expense recorded in Other comprehensive income (loss) related to remeasurements on employee benefit liabilities is offset by a deferred income tax recovery which was recorded through the statement of operations. As such, a deferred income tax recovery of $47 million (2022 – deferred income tax expense of $129 million) was recorded for the year, which is partially offsetting the deferred income tax expense of $45 million (2022 – deferred income tax recovery of $138 million) recorded in Other comprehensive income (loss).

Deferred tax assets and liabilities of $50 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 (2022 – $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)	2023	2022
Deferred income tax assets		
Non-capital losses	$ 1,927	$ 1,693
Accounting provisions not currently deductible for tax	7	7
Lease liabilities	783	934
	2,717	**2,634**
Deferred income tax liabilities		
Post-employment obligations – pension	(460)	(423)
Property, equipment, technology-based and other intangible assets	(2,135)	(2,103)
Indefinite-lived intangible assets	(73)	(73)
Other	(72)	(60)
	(2,740)	(2,659)
Net recognized deferred income tax liabilities	**$ (23)**	**$ (25)**
Balance sheet presentation		
Deferred income tax assets	50	48
Deferred income tax liabilities	(73)	(73)
Net recognized deferred income tax liabilities	**$ (23)**	**$ (25)**

The following table presents the variation of the components of deferred income tax balances:

(Canadian dollars in millions)	January 1, 2023	2023 income statement movement	2023 OCI movement	December 31, 2023
Non-capital losses	$ 1,693	$ 234	$ -	$ 1,927
Accounting provisions not currently deductible for tax	7	-	-	7
Lease liabilities	934	(151)		783
Post-employment obligations – pension	(423)	8	(45)	(460)
Property, equipment, technology-based and other intangible assets	(2,103)	(32)	-	(2,135)
Indefinite-lived intangible assets	(73)	-	-	(73)
Other deferred tax liabilities	(60)	(12)	-	(72)
Total recognized deferred income tax assets (liabilities)	**$ (25)**	**$ 47**	**$ (45)**	**$ (23)**

(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)**

At December 31, 2023, 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)	2023	2022
Unrecognized non-capital losses carryforwards	$ 1,507	$ 3,820
Post-employment obligations - other employee future benefits	1,104	1,009
Accounting provisions not currently deductible for tax	427	307
Maintenance provision	1,414	1,388
Deferred revenue	754	933
Unrecognized net capital losses carryforwards	131	118
Unrealized foreign exchange losses	202	309
Total unrecognized net temporary differences	**$ 5,539**	**$ 7,884**
Deferred income tax rate based on combined federal and provincial rates	26.45%	26.45%
	$ 1,465	**$ 2,085**
Unrecognized recoverable taxes	39	38
Total unrecognized net deferred income tax assets	**$ 1,504**	**$ 2,123**

The following are the Federal non-capital tax losses expiry dates:

(Canadian dollars in millions)	Tax Losses
2033	$ 1
2034	3
2036	3
2037	2
2038	2
2040	2,791
2041	4,260
2042	1,630
Non-capital losses carryforwards	**$ 8,692**

Cash income taxes paid in 2023 by the Corporation were $45 million (2022 – $67 million).

12 Share Capital

	Number of shares	Value (Canadian dollars in millions)
At January 1, 2022	**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**
Shares issued on the exercise of stock options	107,028	1
At December 31, 2023	**358,469,286**	**$ 2,744**

The issued and outstanding shares of Air Canada, along with the potential shares, were as follows:

		2023	2022
Issued and outstanding			
Class A variable voting shares		82,887,375	72,431,001
Class B voting shares		275,581,911	285,931,257
Total issued and outstanding		**358,469,286**	**358,362,258**
Potential shares			
Convertible notes	Note 8	17,856,599	17,856,599
Stock options	Note 13	6,642,516	5,304,745
Total outstanding and potentially issuable shares		**382,968,401**	**381,523,602**

Shares

As at December 31, 2023, 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 as explained below.

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.

The Rights Plan was renewed at Air Canada's 2023 annual meeting of shareholders for an additional period of three years from 2023 to 2026.

Convertible Notes

As described in Note 8, 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.

13 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 3,929,646 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:

	2023	2022
Compensation expense ($ millions)	$ 15	$ 16
Number of stock options granted to Air Canada employees	1,644,782	1,242,544
Weighted average fair value per option granted ($)	$ 10.01	$ 11.39
Aggregated fair value of options granted ($ millions)	$ 16	$ 14
Weighted average assumptions:		
Share price	$ 19.88	$ 24.25
Risk-free interest rate	2.81%-4.59%	1.43%-3.39%
Expected volatility	58.60%	55.64%
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:

	2023		2022	
	Options	Weighted Average Exercise Price/ Share	Options	Weighted Average Exercise Price/ Share
Beginning of year	5,304,745	$ 26.39	4,420,051	$ 25.72
Granted	1,644,782	19.88	1,242,544	24.25
Exercised	(107,028)	10.64	(350,535)	10.47
Expired	-	-	(306)	12.64
Forfeited	(199,983)	23.44	(7,009)	23.80
Outstanding options, end of year	**6,642,516**	**$ 25.10**	**5,304,745**	**$ 26.39**
Options exercisable, end of year	**3,037,801**	**$ 26.90**	**2,405,704**	**$ 25.12**

The weighted average share price on the date of exercise for options exercised in 2023 was $20.73 (2022 – $20.30).

		2023 Outstanding Options			2023 Exercisable Options	
Range of Exercise Prices	Expiry Dates	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price/ Share	Number of Exercisable Options	Weighted Average Exercise Price/ Share
$9.41	2026	68,498	3	9.41	68,498	9.41
$12.83 – $26.40	2027	434,869	4	14.86	434,869	14.86
$22.53 – $27.75	2028	824,758	5	26.52	824,758	26.52
$33.11 – $43.22	2029	828,814	6	33.27	823,249	33.20
$15.35 – $32.42	2030	1,141,435	7	31.16	563,295	30.84
$23.80 – $26.93	2031	541,757	8	25.37	167,411	25.39
$17.37 – $24.61	2032	1,164,354	9	24.29	145,721	24.29
$17.61-$24.19	2033	1,638,031	10	19.88	10,000	24.19
		6,642,516		**$ 25.10**	**3,037,801**	**$ 26.90**

		2022 Outstanding Options			2022 Exercisable Options	
Range of Exercise Prices	Expiry Dates	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	86,327	1	9.34	86,327	9.34
$9.41	2026	68,498	4	9.41	68,498	9.41
$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**

Performance and Restricted Share Units

The Long-term Incentive Plan also includes performance share units ("PSUs") and restricted share units ("RSUs"). 75% of PSUs granted vest based on the Corporation achieving its cumulative annual earnings target over a three-year period, while 25% of PSUs vest based on relative total shareholder returns over the same three-year period. RSUs 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 2023 was $23 million (2022 – $16 million).

A summary of the Long-term Incentive Plan share unit activity is as follows:

	2023	2022
Beginning of year	2,891,925	2,197,983
Granted	1,840,914	1,316,113
Settled	(574,614)	(595,284)
Forfeited	(124,134)	(26,887)
Outstanding share units, end of year	4,034,091	2,891,925

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. Air Canada will match 33.33% of the contributions made by employees. During 2023, the Corporation recorded compensation expense of $21 million (2022 – $9 million, with the plan effective June 1, 2022) related to the Employee Share Purchase Plan.

14 Earnings (Loss) Per Share

The following table outlines the calculation of basic and diluted loss per share:

(in millions, except per share amounts)	2023	2022
Numerator:		
Net income (loss)	**$ 2,276**	**$ (1,700)**
Effect of assumed conversion of convertible notes	(33)	(46)
Remove anti-dilutive impact	-	46
Adjusted numerator for diluted earnings (loss) per share	**$ 2,243**	**$ (1,700)**
Denominator:		
Weighted-average shares	**358**	**358**
Effect of potential dilutive securities:		
Stock options	-	-
Convertible notes	18	44
Remove anti-dilutive impact	-	(44)
Adjusted denominator for diluted earnings (loss) per share	**376**	**358**
Basic earnings (loss) per share	$ 6.35	$ (4.75)
Diluted earnings (loss) per share	$ 5.96	$ (4.75)

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 2023 calculation of diluted loss per share were 4,975,000 (2022 – 4,341,000) outstanding options where the options' exercise prices were greater than the average market price of the shares for the year. Outstanding options that had exercise prices lower than the average market price of the shares for the year were included in the calculation of diluted loss per share; using the treasury stock method, this resulted in less than one million in potential dilutive securities.

15 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. U.S. dollar amounts are converted using the December 31, 2023 closing rate of CDN$1.3243. Minimum future commitments under these contractual arrangements are shown below.

Capital commitments include the acquisition of 18 Boeing 787-10 aircraft which Air Canada announced in 2023. Deliveries are scheduled to begin in the fourth quarter of 2025 with the last aircraft scheduled for delivery in the first quarter of 2027. The purchase agreement includes options for 12 additional Boeing 787-10 aircraft. This purchase agreement substitutes for a previously announced agreement to purchase two Boeing 777 freighter aircraft and, as a result, Air Canada will no longer take delivery of the two freighters.

Capital commitments also include the purchase of two Boeing 787-9 aircraft scheduled to be delivered in 2024 and deliveries for the remaining 27 firm orders of Airbus A220 aircraft planned between 2024 and 2027.

Also included below are capital commitments relating to the acquisition of 30 extra-long range (XLR) versions of the Airbus A321neo aircraft (Airbus A321XLR). Deliveries are scheduled to begin in 2025 with the final aircraft scheduled to arrive in 2029. Of the 30 total aircraft, 15 aircraft will be leased and 15 are being acquired under a purchase agreement with Airbus S.A.S that includes purchase rights to acquire up to 10 additional aircraft between 2027 and 2031. The amounts related to the periodic lease payments on the 15 leases are included for the periods noted. Lease payments related to five Boeing 737 MAX 8 aircraft expected to be delivered in 2025 are also included.

(Canadian dollars in millions)	2024	2025	2026	2027	2028	Thereafter	Total
Capital commitments	$ 2,000	$ 2,204	$ 4,003	$ 1,397	$ 790	$ 2,067	**$12,461**

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.

The Corporation leases and subleases certain aircraft and spare engines to its regional carrier, Jazz, 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-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 $119 million in 2023 (2022 – $150 million).

Other Contractual Commitments

The future minimum non-cancellable commitment for the next 12 months under commercial agreements with regional carriers is approximately $1,370 million which includes pass-through costs to sustain the minimum flying commitment.

16 Financial Instruments and Risk Management

Summary of Financial Instruments

(Canadian dollars in millions)	Carrying Amounts					
	December 31, 2023					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	$ 2,817	$ -	$ -	$ -	$ 2,817	$ 2,693
Short-term investments	5,734	-	-	-	5,734	5,295
Accounts receivable	-	-	1,121	-	1,121	1,037
Investments, deposits and other assets						
Long-term investments	744	-	-	-	744	823
Equity investment in Chorus	-	40	-	-	40	51
Restricted cash	89	-	-	-	89	79
Aircraft related and other deposits	-	-	53	-	53	54
Other investments	11	25	-	-	36	13
Derivative instruments						
Share forward contracts		-	-	-		6
Foreign exchange derivatives	14	-	-	-	14	52
	$ 9,409	**65**	**1,174**	**-**	**10,648**	**$ 10,103**
Financial Liabilities						
Accounts payable	$ -	$ -	$	$ 3,034	$ 3,034	$ 2,314
Foreign exchange derivatives	179	-	-	-	179	192
Embedded derivative on convertible notes	56	-	-	-	56	120
Current portion of long-term debt and lease liabilities	-	-	-	866	866	1,263
Long-term debt and lease liabilities	-	-	-	12,996	12,996	15,043
	$ 235	**$ -**	**$ -**	**$ 16,896**	**$ 17,131**	**$ 18,932**

Summary of Gain on Financial Instruments Recorded at Fair Value

(Canadian dollars in millions)		2023	2022
Embedded derivative on convertible notes	Note 8	$ 64	$ 219
Short-term and long-term investments		45	(86)
Other		6	-
Gain on financial instruments recorded at fair value		**$ 115**	**$ 133**

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, 2023, total liquidity was $10,290 million comprised of cash and cash equivalents, short-term and long-term investments of $9,295 million, and $995 million available under undrawn credit facilities. Cash and cash equivalents include $393 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators ($386 million at December 31, 2022).

Cash and cash equivalents include $364 million pertaining to investments with original maturities of three months or less at December 31, 2023 ($464 million as at December 31, 2022).

In 2023, net cashflows used in short-term and long-term investing activities were $245 million and included gross purchases of $1,963 million long-term investments and gross disposals of $1,261 million long-term investments. In 2022, net cashflows used in short-term and long-term investing activities were $959 million and included gross purchases of $1,516 million long-term investments and gross disposals of $764 million long-term investments.

A maturity analysis of the Corporation's principal and interest repayment requirements on long-term debt and lease liabilities is set out in Note 8, and fixed operating commitments and capital commitments are set out in Note 15.

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.

During 2023, the Corporation purchased jet fuel call options covering a portion of 2023 fuel exposure. The cash premium related to these contracts was $44 million. Premium costs and any hedging gains and losses are reclassified from other comprehensive income to Aircraft fuel expense on settlement of the derivatives. Fuel derivative contracts cash settled with a fair value of $95 million in favour of the Corporation, with a net hedging gain of $51 million recorded in Aircraft fuel expense. No hedge ineffectiveness was recorded. There were no outstanding fuel derivatives as at December 31, 2023.

There was no fuel hedging activity during 2022.

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 2023, these net operating cash inflows totalled approximately US$4.2 billion and U.S. denominated operating costs amounted to approximately US$7.8 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$2.2 billion. For 2023, this resulted in a U.S. dollar net cash flow exposure of approximately US$5.8 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, 2023 amounted to $1,123 million (US$845 million) ($693 million (US$511 million) as at December 31, 2022). 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 2023, a loss of $18 million (gain of $72 million in 2022) 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, 2023, as further described below, approximately 63% of net U.S. cash outflows are hedged for 2024 and 39% for 2025, resulting in derivative coverage of 56% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 60% coverage over the next 18 months.

As at December 31, 2023, the Corporation had outstanding foreign currency options and swap agreements, settling in 2024 and 2025, to purchase at maturity $5,982 million (US$4,542 million) of U.S. dollars at a weighted average rate of $1.3089 per US$1.00 (2022 – $5,798 million (US$4,310 million) with settlements in 2023 and 2024 at a weighted average rate of $1.2986 per $1.00 U.S. dollar). The Corporation also has protection in place to sell a portion of its excess Euros, Sterling, YEN, and AUD (EUR €276 million, GBP £166 million, JPY ¥14,797 million, and AUD $124 million) which settle in 2024 and 2025 at weighted average rates of €1.1292, £1.2790, ¥0.0075, and AUD $0.6920 per $1.00 U.S. dollar, respectively (as at December 31, 2022 – EUR €198 million, GBP £244 million, JPY ¥17,405 million, CNH ¥355 million and AUD $126 million with settlement in 2023 and 2024 at weighted average rates of €1.0828, £1.2467, ¥0.0082, ¥0.1419, and AUD $0.7072 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, 2023 was $165 million in favour of the counterparties (2022 – $140 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 2023, a gain of $139 million was recorded in Foreign exchange gain (loss) related to these derivatives (2022 – $174 million gain). In 2023, foreign exchange derivative contracts cash settled with a net fair value of $163 million in favour of the Corporation (2022 – $46 million in favour of the Corporation).

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, 2023 is 75% fixed and 25% floating (71% and 29%, respectively as at December 31, 2022).

Share-based Compensation Risk

The Corporation issues RSUs and PSUs to certain of its employees, as described in Note 13, 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 vested in 2023. The forward dates for the share forward contracts coincided 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 2023, a gain of less than $1 million was recorded (2022 – loss of less than $1 million). Share forward contracts cash settled with a fair value of $6 million in favour of the Corporation in 2023 (2022 – $7 million). There are no share forward contracts outstanding as at December 31, 2023.

Credit Risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. As at December 31, 2023, 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 agreements for the issuance 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, 2023. 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, 2023 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.

	Interest rate risk		Foreign exchange rate risk[(1)]		Other price risk[(2),(3)]	
	Income		Income		Income	
(Canadian dollars in millions)	1% increase	1% decrease	5% increase	5% decrease	10% increase	10% decrease
Cash and cash equivalents	$ 28	$ (28)	$ (21)	$ 21	$ -	$ -
Short–term investments	$ 57	$ (57)	$ (32)	$ 32	$ -	$ -
Long-term investments	$ 7	$ (7)	$ (3)	$ 3	$ -	$ -
Aircraft related deposits	$ -	$ -	$ (2)	$ 2	$ -	$ -
Long-term debt and lease liabilities	$ (33)	$ 33	$ 517	$ (517)	$ -	$ -
Foreign exchange derivatives	$ -	$ -	$ (8)	$ 8	$ -	$ -
Embedded derivative on convertible notes	$ -	$ -	$ -	$ -	$ (6)	$ 6

(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 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 $4 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 2023, the Corporation made no cash deposits under these agreements (nil in 2022).

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 $10,975 million compared to its carrying value of $11,455 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, 2023	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	$ 364	$ -	$ 364	$ -
Short-term investments	5,734	-	5,734	-
Long-term investments	744	-	744	-
Equity investment in Chorus	40	40	-	-
Derivative instruments				
Foreign exchange derivatives	14	-	14	-
Total	**$ 6,896**	**$ 40**	**$ 6,856**	**$ -**
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	$ 179	-	179	$ -
Embedded derivative on convertible notes	56	-	56	-
Total	**$ 235**	**$ -**	**$ 235**	**$ -**

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

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 2023.

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 $126 million as at December 31, 2023 ($112 million as at December 31, 2022). 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, 2023 and 2022, 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: Gross assets	Amounts offset: Gross liabilities offset	Amounts offset: Net amounts presented	Amounts not offset: Financial instruments	Net
December 31, 2023					
Derivative assets	$ 43	$ (29)	$ 14	$ -	$ 14
	$ 43	**$ (29)**	**$ 14**	**$ -**	**$ 14**
December 31, 2022					
Derivative assets	$ 115	$ (63)	$ 52	$ 6	$ 58
	$ 115	**$ (63)**	**$ 52**	**$ 6**	**$ 58**

Financial liabilities (Canadian dollars in millions)	Amounts offset: Gross liabilities	Amounts offset: Gross assets offset	Amounts offset: Net amounts presented	Amounts not offset: Financial instruments	Net
December 31, 2023					
Derivative liabilities	$ 257	$ (78)	$ 179	$ -	$ 179
	$ 257	**$ (78)**	**$ 179**	**$ -**	**$ 179**
December 31, 2022					
Derivative liabilities	$ 245	$ (53)	$ 192	$ -	$ 192
	$ 245	**$ (53)**	**$ 192**	**$ -**	**$ 192**

17 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 $1,215 million as at December 31, 2023 (December 31, 2022 – $1,181 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 extra-contractual liabilities and certain contractual indemnities.

18 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, 2023	December 31, 2022
Long-term debt and lease liabilities	$ 12,996	$ 15,043
Current portion of long-term debt and lease liabilities	866	1,263
Total long-term debt and lease liabilities	13,862	16,306
Embedded derivative on convertible notes	56	120
Shareholders' equity (deficiency)	796	(1,555)
Total Capital	**$ 14,714**	**$ 14,871**
Total long-term debt and lease liabilities	$ 13,862	$ 16,306
Less Cash and cash equivalents, and short-term and long-term investments	(9,295)	(8,811)
Net debt	**$ 4,567**	**$ 7,495**

19 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:

(Canadian dollars in millions)	2023	2022
Passenger Revenues		
Canada	$ 5,106	$ 4,424
U.S. Transborder	4,123	3,017
Atlantic	6,049	4,381
Pacific	2,380	1,118
Other	1,745	1,298
	$ 19,403	**$ 14,238**

(Canadian dollars in millions)	2023	2022
Cargo Revenues		
Canada	$ 94	$ 114
U.S. Transborder	45	51
Atlantic	432	556
Pacific	222	409
Other	131	136
	$ 924	**$ 1,266**

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, 2023	December 31, 2022
Receivables, which are included in Accounts receivable	$ 852	$ 770
Contract costs which are included in Prepaid expenses and other current assets	127	133
Contract liabilities – Advance ticket sales	4,341	4,104
Contract liabilities – Aeroplan deferred revenue (current and long-term)	3,562	3,409
Contract liabilities – Other deferred revenue (current and long-term)	900	1,046

Receivables include passenger, cargo and other receivables from contracts with customers. The Corporation sells passenger tickets 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, 2023 of $325 million (2022 - $401 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)	2023	2022
Aeroplan deferred revenue, beginning of year	$ 3,409	$ 3,452
Proceeds from Aeroplan Points issued pursuant to program partner arrangements	1,678	1,253
Equivalent ticket value of Aeroplan Points issued	294	207
Aeroplan Points redeemed	(1,819)	(1,503)
Aeroplan deferred revenue, end of year	**$ 3,562**	**$ 3,409**

Proceeds from Points issued pursuant to Aeroplan program partner arrangements 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.

20 Related Party Transactions

Compensation of Key Management

Key management includes Air Canada's Board of Directors and its Executive Officers (President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Operations Officer, Executive Vice President Marketing and Digital , Executive Vice President, Revenue and Network Planning, Executive Vice President – Chief Human Resources Officer and Public Affairs, and Executive Vice President – Chief Legal Officer and Corporate Secretary). 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)	2023	2022
Salaries and other benefits	$ 9	$ 8
Pension and post-employment benefits	5	(3)
Share-based compensation	17	15
	$ 31	**$ 20**

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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 service directly to more than 180 airports in Canada, the United States and internationally on six continents. 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 partners. Through Air Canada Vacations, it offers more travel choices than any other Canadian tour operator to hundreds of destinations worldwide, with a wide selection of hotels, flights, cruises, day tours and car rentals. Its freight division, Air Canada Cargo, provides air freight lift and connectivity to hundreds of destinations across six continents using Air Canada's passenger and freighter aircraft. Air Canada aims to achieve an ambitious net zero emissions goal from all global operations by 2050. Air Canada shares are publicly traded on the TSX in Canada and the OTCQX in the U.S.

AIR CANADA

A STAR ALLIANCE MEMBER

4 STAR AIRLINE SKYTRAX

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