2022

Consolidated Financial Statements and Notes

February 17, 2023

AIR CANADA

A STAR ALLIANCE MEMBER

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

(signed) Michael Rousseau	*(signed)* Amos Kazzaz
Michael Rousseau	**Amos Kazzaz**
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer

February 16, 2023

Independent auditor's report

To the Shareholders of Air Canada

Our opinion

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

What we have audited
The Corporation's consolidated financial statements comprise:

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

Basis for opinion

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

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

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

PricewaterhouseCoopers LLP
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Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Passenger and cargo revenue recognition *Refer to note 2 – Basis of presentation and summary of significant accounting policies and note 20 – Revenue to the consolidated financial statements.* Passenger and cargo revenues are recognized when the transportation is provided. Total passenger and cargo revenues recognized for the year ended December 31, 2022 amounted to $14,238 million and $1,266 million, respectively. Such transactions rely on multiple Information Technology (IT) systems and controls to process, record, and recognize a high volume of low value revenue transactions through a combination of IT systems and outsourced service providers. We considered this a key audit matter due to the significance of passenger and cargo revenues and the volume of these transactions resulting in significant audit effort to test the revenue recognized.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of internal controls related to passenger and cargo revenue recognition which included the following: - Tested the controls over the relevant IT systems that management used to recognize passenger and cargo revenues. - For the IT systems or processes that are outsourced to third party service providers, assessed the assurance reports attesting to the appropriateness and effectiveness of the internal control systems established by the service providers. • Tested a sample of passenger and cargo revenue transactions recorded during the year by inspecting the consideration received and the evidence of when the transportation was provided for passengers or cargo.

Key audit matter	How our audit addressed the key audit matter
Measurement of the total benefit obligation *Refer to note 2 – Basis of presentation and summary of significant accounting policies, note 3 – Critical accounting estimates and judgments, and note 10 – Pensions and other benefit liabilities to the consolidated financial statements.* The Corporation has a net benefit asset of $612 million, which includes a total benefit obligation associated with pension benefit obligations of $16,927 million and other employee future benefit obligations of $1,007 million as at December 31, 2022. The total benefit obligation associated with pension benefit obligations and other employee future benefit obligations is actuarially determined annually as at December 31 and is prepared by the Corporation's consulting actuaries (management's experts). The total benefit obligation is determined using the projected unit credit method. Management applied significant judgment in determining the discount rates and mortality assumptions to develop the estimates for the total benefit obligation. We considered this a key audit matter due to the significance of the total benefit obligation and the significant judgment made by management, including the use of management's experts, in determining the discount rates and mortality assumptions, which resulted in a high degree of auditor judgment and subjectivity in performing procedures related to those assumptions. The audit effort involved the use of professionals with specialized skill and knowledge in the field of actuarial services.	Our approach to addressing the matter included the following procedures, among others: • Tested how management developed the estimates for the total benefit obligation which included the following: - The work of management's experts was used in performing the procedures to evaluate the reasonableness of the total benefit obligation associated with pension benefit obligations and other employee future benefit obligations. As a basis for using this work, management's experts' competence, capabilities and objectivity were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluating the methods and assumptions used by management's experts, testing the data used by management's experts and evaluating their findings. - Professionals with specialized skill and knowledge in the field of actuarial services assisted in evaluating the appropriateness of the projected unit credit method and the reasonableness of the discount rates and mortality assumptions. • Tested the disclosures, including the sensitivity analysis, made in the consolidated financial statements with regard to the measurement of the pension benefit obligations and other employee future benefit obligations.

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
February 16, 2023

[1] CPA auditor, public accountancy permit No. A113048

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

On behalf of the Board of Directors:

(signed) Vagn Sørensen
Vagn Sørensen
Chairman

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

CONSOLIDATED STATEMENTS OF OPERATIONS

For the year ended December 31 (Canadian dollars in millions except per share figures)		2022	2021 Restated - Note 2AA
Operating revenues			
Passenger	Note 20	$ 14,238	$ 4,498
Cargo	Note 20	1,266	1,495
Other		1,052	407
Total revenues		**16,556**	**6,400**
Operating expenses			
Aircraft fuel		5,276	1,576
Wages, salaries and benefits	Notes 2Z & 10	3,260	2,143
Depreciation and amortization	Note 6	1,640	1,616
Airport and navigation fees		1,213	723
Sales and distribution costs		797	286
Capacity purchase fees	Note 2D	763	558
Aircraft maintenance	Note 2J	706	711
Ground package costs		474	120
Communications and information technology		468	373
Catering and onboard services		425	184
Impairment of assets	Note 6	4	38
Restructuring and transaction costs	Note 4	-	175
Other		1,717	946
Total operating expenses		**16,743**	**9,449**
Operating loss		**(187)**	**(3,049)**
Non-operating income (expense)			
Foreign exchange loss		(732)	(52)
Interest income		168	72
Interest expense	Note 9	(909)	(749)
Interest capitalized		13	17
Net interest relating to employee benefits	Note 10	24	(8)
Financial instruments recorded at fair value	Note 17	133	(55)
Loss on debt settlements and modifications	Note 9	(14)	(129)
Other		(20)	(28)
Total non-operating expense		**(1,337)**	**(932)**
Loss before income taxes		**(1,524)**	**(3,981)**
Income tax recovery (expense)	Note 12	(176)	379
Net loss		**$ (1,700)**	**$ (3,602)**
Net loss per share			
Basic and diluted loss per share	Note 15	$ (4.75)	$ (10.25)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the year ended December 31 (Canadian dollars in millions)		2022	2021
Comprehensive income (loss)			
Net loss		$ (1,700)	$ (3,602)
Other comprehensive income (loss), net of tax:	Note 12		
Items that will not be reclassified to net income			
Remeasurements on employee benefit liabilities	Note 10	115	1,311
Remeasurements on equity investments		(1)	(6)
Total comprehensive loss		**$ (1,586)**	**$ (2,297)**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

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

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

CONSOLIDATED STATEMENTS OF CASH FLOW

For the year ended December 31 (Canadian dollars in millions)		2022	2021 Restated -Note 2P
Cash flows from (used for)			
Operating			
Net loss		$ (1,700)	$ (3,602)
Adjustments to reconcile to net cash from operations			
Deferred income tax	Note 12	129	(395)
Depreciation and amortization	Note 6	1,640	1,616
Foreign exchange (gain) loss	Note 17	735	(339)
Employee benefit funding less than expense	Note 10	128	571
Financial instruments recorded at fair value	Note 17	(133)	55
Loss on debt settlements and modifications	Note 9	14	129
Change in maintenance provisions		111	(129)
Changes in non-cash working capital balances		1,498	473
Impairment of assets	Note 6	4	38
Restructuring and transaction costs	Note 4	-	(13)
Other		(58)	94
Net cash flows from (used in) operating activities		**2,368**	**(1,502)**
Financing			
Proceeds from borrowings	Note 9	202	8,171
Repayment of long-term debt and lease liabilities	Note 9	(1,814)	(4,510)
Issue of shares	Note 13	6	555
Financing fees	Note 9	(6)	(205)
Net cash flows from (used in) financing activities		**(1,612)**	**4,011**
Investing			
Investments, short-term and long-term		(959)	(862)
Additions to property, equipment and intangible assets		(1,572)	(1,073)
Proceeds from sale of assets		36	19
Proceeds from sale and leaseback of assets	Note 6	-	11
Other		(3)	36
Net cash flows (used in) investing activities		**(2,498)**	**(1,869)**
Effect of exchange rate changes on cash and cash equivalents		**20**	**11**
Increase (decrease) in cash and cash equivalents		**(1,722)**	**651**
Cash and cash equivalents, beginning of year		4,415	3,764
Cash and cash equivalents, end of year		**$ 2,693**	**$ 4,415**

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

For the years ended December 31, 2022 and 2021
(Canadian dollars except where otherwise indicated)

1. GENERAL INFORMATION

The accompanying audited consolidated financial statements (the “financial statements”) are of Air Canada (the “Corporation”). The term Corporation also refers to, as the context may require, Air Canada and/or one or more of its subsidiaries, including its principal wholly-owned operating subsidiaries, Aeroplan Inc. (“Aeroplan”), Touram Limited Partnership doing business under the brand name Air Canada Vacations® (“Air Canada Vacations”), and Air Canada Rouge LP doing business under the brand name Air Canada Rouge® (“Air Canada Rouge”).

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

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with generally accepted accounting principles in Canada ("GAAP") as set out in the CPA Canada Handbook – Accounting ("CPA Handbook") which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board("IASB").

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

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

A) BASIS OF MEASUREMENT

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

B) PRINCIPLES OF CONSOLIDATION

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

C) PASSENGER AND CARGO REVENUES

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

D) CAPACITY PURCHASE AGREEMENT

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

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

For the year ended December 31, 2022, these costs are no longer allocated to regional airline expenses on the consolidated statement of operations. Capacity purchase fees are now presented as a separate line item in the consolidated statement of operations and continue to exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16. This reclassification provides improved presentation of the total cost by nature of each expense associated with the Corporation's operations. This presentation change has no impact on total operating expenses. Comparative figures for 2021 have been reclassified to conform to the financial statement presentation adopted for the current year. Refer to Note 2AA for presentation of the line items that were affected.

E) AEROPLAN LOYALTY PROGRAM

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

Aeroplan members can earn Aeroplan Points: (i) through travel and (ii) based on spending with program partners.

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

Points Sold to Program Partners
Aeroplan members can earn Aeroplan Points based on their spending with participating Aeroplan partners such as credit card companies, hotels and car rental agencies and other program partners. Aeroplan Points issued under program partner agreements are accounted for as a single performance obligation being the future delivery of a redemption reward to the Aeroplan member. The consideration received for Aeroplan Points issued to Aeroplan members under these agreements is recorded as Aeroplan deferred revenue.

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

F) OTHER REVENUES

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

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

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

G) EMPLOYEE BENEFITS

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

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

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

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

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

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

H) EMPLOYEE PROFIT SHARING PLANS

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

I) SHARE-BASED COMPENSATION PLANS

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

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

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

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

J) MAINTENANCE AND REPAIRS

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

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

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

K) OTHER OPERATING EXPENSES

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

L) FINANCIAL INSTRUMENTS

Recognition

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

Classification

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

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

The Corporation has implemented the following classifications:

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

- The equity investment in Chorus is classified as an asset at fair value through other comprehensive income and any period change in fair value is recorded through other comprehensive income in the consolidated statement of comprehensive income, as applicable.

- Accounts receivable and Aircraft-related and other deposits are classified as assets at amortized cost and are measured using the effective interest rate method. Interest income is recorded in the consolidated statement of operations, as applicable.

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

Measurement

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

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

Impairment

The Corporation assesses all information available, including, on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Corporation compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Corporation applies the simplified approach as permitted by IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of receivables.

Derivatives and Hedge Accounting

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

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

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

M) FOREIGN CURRENCY TRANSLATION

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

N) INCOME TAXES

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

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

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

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

O) EARNINGS (LOSS) PER SHARE

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

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

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

P) RESTRICTED CASH

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

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

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

Q) AIRCRAFT FUEL INVENTORY AND SPARE PARTS AND SUPPLIES INVENTORY

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

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

R) PROPERTY AND EQUIPMENT

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

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

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

S) INTEREST CAPITALIZED

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

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

T) LEASES

Accounting for Leases and Right-of-Use Assets

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

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

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

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

Sale and Leaseback

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

Aircraft Leases

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

Property Leases

The Corporation has leases related to airport terminal operations space and other real estate leases. For leases related to terminal operations space, there are generally effective substitution rights in the hands of the lessor and therefore these are not considered lease contracts under the standard. Leases with reciprocal termination rights with a notice period of less than 12 months are considered short-term leases and therefore excluded from balance sheet recognition under the practical expedient. Finally, those airport terminal contracts with entirely variable lease payments are also excluded since variable lease payments, other than those based on an index or rate, are excluded from the measurement of the lease liability. This results in a portfolio of property leases that are recorded as right-of-use assets and lease liabilities under the standard which relate to dedicated space in Air Canada's hub locations of Toronto, Montreal and Vancouver, lease contracts on building space dedicated to the Corporation for offices, airport and maintenance operations, Maple Leaf Lounges and land leases.

U) INTANGIBLE ASSETS

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

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

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

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

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

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

V) GOODWILL

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

W) IMPAIRMENT OF LONG-LIVED ASSETS

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

Long-lived assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Management assesses whether there is any indication that an impairment loss recognized in a prior period no longer exists or has decreased. In assessing whether there is a possible reversal of an impairment loss, management considers the indicators that gave rise to the impairment loss. If any such indicators exist that an impairment loss has reversed, management estimates the recoverable amount of the long-lived asset. An impairment loss recognized in prior periods for an asset other than goodwill shall be reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of any individual asset in the CGU is not increased above the carrying value that would have been determined had the original impairment not occurred. A reversal of an impairment loss is recognized immediately in the consolidated statement of operations.

X) PROVISIONS

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

Y) SEGMENT REPORTING

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

Z) GOVERNMENT GRANTS

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

In 2020, in response to challenges posed by the COVID-19 pandemic, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") in order to help employers retain and/or return Canadian-based employees to payrolls. Air Canada continued its participation in the CEWS program until the program ended in October 2021. In October 2021, the Government of Canada announced two new programs designed to support businesses that were still facing challenges due to the COVID-19 pandemic: the Hardest Hit Business Recovery Program ("HHBRP") and the Tourism and Hospitality Recovery Program ("THRP").

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

AA) COMPARATIVE FIGURES – CONSOLIDATED STATEMENT OF OPERATIONS

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

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

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

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

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

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

BB) ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Impairment Considerations on Long-lived Assets

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

Employee Future Benefits

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

Aeroplan Loyalty Program

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

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

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

Breakage

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

Depreciation and Amortization Period for Long-lived Assets

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

Maintenance Provisions

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

4. RESTRUCTURING AND TRANSACTION COSTS

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

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

Workforce Reduction Provisions

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

Other

Termination of Transat Arrangement Agreement

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

Amendments to Capacity Purchase Agreements

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

5. INVESTMENTS, DEPOSITS AND OTHER ASSETS

(Canadian dollars in millions)		2022	2021
Long-term investments		$ 823	$ 601
Investment in Chorus (a)		51	52
Restricted cash	Note 2P	79	75
Aircraft related deposit		47	57
Prepayments under maintenance agreements		53	52
Other investments		13	-
Other deposits		7	14
Share forward contracts		-	7
		$ 1,073	**$ 858**

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

6. PROPERTY AND EQUIPMENT

(Canadian dollars in millions)	December 31, 2022			December 31, 2021		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Owned tangible assets						
Aircraft and flight equipment	$ 14,777	$ 6,152	$ 8,625	$ 13,704	$ 5,610	$ 8,094
Buildings and leasehold improvements	1,091	646	445	1,050	599	451
Ground and other equipment	664	491	173	656	472	184
Purchase deposits and assets under development	470	-	470	549	-	549
Owned tangible assets	**$ 17,002**	**$ 7,289**	**$ 9,713**	**$ 15,959**	**$ 6,681**	**$ 9,278**
Air Canada aircraft	$ 4,042	$ 2,750	$ 1,292	$ 4,083	$ 2,599	$ 1,484
Regional aircraft	1,982	1,394	588	1,924	1,254	670
Land and buildings	578	221	357	508	200	308
Right-of-use assets	**$ 6,602**	**$ 4,365**	**$ 2,237**	**$ 6,515**	**$ 4,053**	**$ 2,462**
Property and equipment	**$ 23,604**	**$ 11,654**	**$ 11,950**	**$ 22,474**	**$ 10,734**	**$ 11,740**

Additions to owned aircraft in 2022 include five new Airbus A220, nine new Boeing 737 MAX-8 and two new Boeing 767 freighter aircraft.

In response to COVID-19 related capacity reductions in 2020, the Corporation accelerated the retirement of certain older aircraft from its fleet. In 2021, a charge of $46 million, net of impairment reversals of $8 million, was recorded as a result of reductions to the estimates of the expected disposal proceeds on owned aircraft and flight equipment, partially offset by lower-than-expected costs to meet contractual return conditions on lease returns. An impairment charge of $4 million was recorded in 2022 related to the return of leased aircraft.

Included in aircraft and flight equipment are 15 aircraft and 13 spare engines (2021 – 15 aircraft and 15 spare engines) which are leased to Jazz with a cost of $425 million (2021 – $400 million) less accumulated depreciation of $215 million (2021 – $198 million) for a net book value of $210 million (2021 – $202 million). Depreciation expense for 2022 for these aircraft and flight equipment amounted to $29 million (2021 – $26 million).

In 2021, the Corporation sold and leased back two Boeing 767 aircraft for total proceeds of $11 million.

Certain property and equipment are pledged as collateral as further described under the applicable debt instruments in Note 9.

(Canadian dollars in millions)	January 1, 2022	Additions	Reclassific-ations	Disposals	Depreciation	December 31, 2022
Owned tangible assets						
Aircraft and flight equipment	$ 8,094	$ 954	$ 464	$ (18)	$ (869)	$ 8,625
Buildings and leasehold improvements	451	3	39	-	(48)	445
Ground and other equipment	184	26	2	-	(39)	173
Purchase deposits and assets under development	549	426	(505)	-	-	470
Owned tangible assets	$ 9,278	$ 1,409	$ -	$ (18)	$ (956)	$ 9,713
Right-of-use assets						
Air Canada aircraft	$ 1,484	$ 181	$ -	$ (2)	$ (371)	$ 1,292
Regional aircraft	670	72	-	-	(154)	588
Land and buildings	308	75	-	-	(26)	357
Right-of-use assets	$ 2,462	$ 328	$ -	$ (2)	$ (551)	$ 2,237
Property and equipment	$ 11,740	$ 1,737	$ -	$ (20)	$ (1,507)	$ 11,950

(Canadian dollars in millions)	January 1, 2021	Additions	Reclassific-ations	Disposals	Depreciation and impairment	December 31, 2021
Owned tangible assets						
Aircraft and flight equipment	$ 7,832	$ 767	$ 411	$ (48)	$ (868)	$ 8,094
Buildings and leasehold improvements	480	-	22	-	(51)	451
Ground and other equipment	226	7	-	-	(49)	184
Purchase deposits and assets under development	754	228	(433)	-	-	549
Owned tangible assets	$ 9,292	$ 1,002	$ -	$ (48)	$ (968)	$ 9,278
Right-of-use assets						
Air Canada aircraft	$ 1,679	$ 190	$ -	$ (10)	$ (375)	$ 1,484
Regional aircraft	833	36	-	(24)	(175)	670
Land and buildings	333	1	-	-	(26)	308
Right-of-use assets	$ 2,845	$ 227	$ -	$ (34)	$ (576)	$ 2,462
Property and equipment	$ 12,137	$ 1,229	$ -	$ (82)	$ (1,544)	$ 11,740

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

(Canadian dollars in millions)	2022	2021
Aircraft and flight equipment	$ 869	$ 822
Buildings and leasehold improvements	48	51
Ground and other equipment	39	49
Owned tangible assets	**956**	**922**
Air Canada aircraft	371	375
Regional aircraft	154	175
Land and buildings	26	26
Right-of-use assets	**551**	**576**
Property and equipment	**1,507**	**1,498**
Spare part and supplies inventory	8	14
Intangible assets	125	104
Depreciation and amortization	**$ 1,640**	**$ 1,616**

7. INTANGIBLE ASSETS

(Canadian dollars in millions)	International route rights and slots	Contract-based	Marketing-based trade names	Technology-based (internally developed)	Total
Year ended December 31, 2021					
At January 1, 2021	$ 97	$ 187	$ 178	$ 672	$ 1,134
Additions	-	-	-	50	50
Amortization	-	(20)	-	(84)	(104)
At December 31, 2021	$ 97	$ 167	$ 178	$ 638	$ 1,080
At December 31, 2021					
Cost	$ 97	$ 225	$ 178	$ 1,021	$ 1,521
Accumulated amortization	-	(58)	-	(383)	(441)
	$ 97	**$ 167**	**$ 178**	**$ 638**	**$ 1,080**
Year ended December 31, 2022					
At January 1, 2022	$ 97	$ 167	$ 178	$ 638	$ 1,080
Additions	-	-	-	99	99
Amortization	-	(19)	-	(106)	(125)
At December 31, 2022	$ 97	$ 148	$ 178	$ 631	$ 1,054
At December 31, 2022					
Cost	$ 97	$ 225	$ 178	$ 1,106	$ 1,606
Accumulated amortization	-	(77)	-	(475)	(552)
	$ 97	**$ 148**	**$ 178**	**$ 631**	**$ 1,054**

In 2022, technology-based assets with cost and accumulated amortization of $14 million (2021 – $80 million) were retired.

International route rights and slots are pledged as security for senior secured notes and debt as described in Note 9.

Impairment Assessment

Due to the recoverable amount of the cash-generating units exceeding their respective carrying values by an aggregate amount of approximately $13 billion, the most recent calculation from the 2021 period was carried forward and used in the impairment test in the current period. Management considered reasonably possible changes in key assumptions using multiple modelling scenarios and sensitivity analysis and determined such changes would not cause the recoverable amount of each CGU to be less than the carrying value. In addition, management has updated the impairment review to take into account the most recent projections from the annual business plan and it did not have an impact to this conclusion.

The assessment of the recoverable amount of the Corporation's cash-generating units compared to their carrying values was performed based on cash flow projections prepared in 2021 taking into account the COVID-19 pandemic. This review was performed in conjunction with the annual impairment review conducted on all intangible assets that have an indefinite life. The allocation of the indefinite lived intangible assets to the cash-generating units was $165 million to wide-body aircraft and $110 million to narrow-body aircraft. The recoverable amount of the cash-generating units was measured based on fair value less cost to dispose, using a discounted cash flow model. The discounted cash flow model represents a level 3 fair value measurement within the IFRS 13 fair value hierarchy. The cash flows are management's best estimates using current and anticipated market conditions covering a five-year period.

Key assumptions used for the fair value less cost to dispose calculations in fiscal 2021 were as follows:

Key Assumption	2021	Approach used to determine values
Average discount rate	9.25%	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.

8. GOODWILL

Goodwill is tested at least annually for impairment. Goodwill is tested for impairment using the fair value less cost to dispose model at the operating segment level. Air Canada is managed as one operating segment based on how financial information is produced internally for the purposes of making operating decisions, and it is the lowest level at which goodwill is monitored for internal management purposes.

In assessing the goodwill for impairment, the Corporation compares the aggregate recoverable amount consisting of the sum of its quoted equity market capitalization and the fair value of its debt to the carrying value of its net assets excluding long-term debt. An impairment charge is recognized to the extent that the carrying value exceeds the recoverable amount. No impairment losses have been recorded against the value of goodwill since its acquisition.

No impairment charges have arisen as a result of the reviews performed as at December 31, 2022 and 2021. Reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value.

9. LONG-TERM DEBT AND LEASE LIABILITIES

	Final Maturity	Weighted Average Interest Rate (%)	December 31, 2022 (Canadian dollars in millions)	December 31, 2021 (Canadian dollars in millions)
Aircraft financing (a)				
Fixed rate U.S. dollar financing	2023 – 2030	4.92	$ 3,408	$ 3,471
Floating rate U.S. dollar financing	2026 – 2027	6.42	399	427
Fixed rate CDN dollar financing	2026 – 2030	3.78	182	206
Floating rate CDN dollar financing	2026 – 2033	6.61	1,240	1,169
Fixed rate Japanese yen financing	2027	1.84	121	129
Floating rate Japanese yen financing			-	2
Convertible notes (b)	2025	4.00	313	723
Credit facility – CDN dollar (c)	2028	1.21	1,054	1,018
Senior secured notes – CDN dollar (d)	2029	4.63	2,000	2,000
Senior secured notes – U.S. dollar (d)	2026	3.88	1,626	1,516
Senior secured credit facility – U.S. dollar (d)	2028	8.13	3,102	2,907
Long-term debt		**5.33**	**13,445**	**13,568**
Lease liabilities				
Air Canada aircraft	2023 – 2031	5.02	1,667	1,792
Regional aircraft	2023 – 2035	5.93	917	981
Land and buildings	2023 – 2078	5.37	454	406
Lease liabilities (e)		**5.35**	**3,038**	**3,179**
Total debt and lease liabilities		**5.34**	**16,483**	**16,747**
Unamortized debt issuance costs and discounts			(177)	(224)
Current portion – Long-term debt			(713)	(511)
Current portion – Air Canada aircraft			(337)	(310)
Current portion – Regional aircraft			(187)	(166)
Current portion – Land and buildings			(26)	(25)
Long-term debt and lease liabilities			**$ 15,043**	**$ 15,511**

(a) Aircraft financing (US$2,809 million, CDN $1,412 million and JPY ¥11,748 million) (2021 – US$3,085 million, CDN $1,375 million and JPY ¥11,884 million) is secured primarily by specific aircraft with a carrying value of $5,745 million (2021 – $6,025 million). For the majority of the financing, principal and interest is repayable quarterly until maturity and can be repaid at any time with the payment of applicable fees. US$91 million and CDN $155 million of the financing is supported by a loan guarantee by the Export-Import Bank of the United States ("EXIM").

In May 2021, US$84 million ($101 million) related to the series 2013-1B equipment notes were refinanced, at their original maturity, with an interest rate of 4.75% per annum and a final expected distribution date of May 2025.

In March 2021, Air Canada concluded a committed secured facility totaling US$475 million to finance the purchase of 15 Airbus A220 aircraft scheduled for delivery in 2021 and 2022. As at December 31, 2022, Air Canada has drawn $494 million, and financing remains available for an additional two A220 aircraft under this facility. Loans for each aircraft have a final maturity date 10 years after delivery of the applicable aircraft. Interest rates, which can be floating or fixed, are set on draw down of each loan. Floating interest rates are generally CDOR plus a margin of 2.28%. Fixed interest rates are based on the rate to swap floating rate debt of CDOR plus a margin of 2.28% to a fixed rate debt plus a margin of 2.49%.

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

The Corporation's option to deliver cash or a combination of cash and shares on the conversion date in lieu of shares (based on the daily conversion values for 40 consecutive trading days) gives rise to an embedded derivative financial liability measured separately at fair value through profit or loss. The carrying value of the underlying notes is accreted to their face value using the effective interest method, which results in an effective interest rate of 10.76%. The fair value of the embedded derivative which is recorded in Other long-term liabilities was $320 million at initial recognition. At December 31, 2022, the fair value was $120 million (2021 - $579 million) and the Corporation recorded a gain of $219 million for the year ended December 31, 2022 ($45 million loss for the year 2021). Refer to Note 17.

In September 2022, the Corporation repurchased $273 million (US$207 million) aggregate principal amount of outstanding Convertible Notes for an aggregate cash repurchase price of $329 million (US$249 million), including accrued interest. The Corporation recorded a $17 million gain on debt settlement related to this repurchase. In December 2022, the Corporation repurchased an additional $362 million (US$266 million) aggregate principal amount of the outstanding Convertible Notes for an aggregate cash repurchase price of $449 million (US$330 million), including accrued interest. As at December 31, 2022, $372 million (US$274 million) aggregate principal amount of Convertible Notes remains outstanding. The Corporation recorded a $31 million loss on debt settlement related to this repurchase.

(c) Government of Canada unsecured credit facility to support customer refunds of non-refundable tickets. The facility has a seven-year term maturing April 2028 with a stated annual interest rate of 1.211%, with the balance due on maturity. The carrying value of the debt was recognized at inception using an effective interest rate of 4.90%. The difference accretes the carrying value of the underlying debt upwards to its face value using the effective interest rate method.

The debt and equity instruments issued under the financing agreement with the Government of Canada were measured at fair value at inception. The difference between fair value and proceeds received was recognized for accounting purposes as a government grant. The deferred grant income recorded at the inception of the agreement and taking into account the amounts drawn under the ticket refund facility up to December 31, 2021, was $138 million. This deferred grant income reflects the aggregate net fair value adjustments of the ticket refund facility, the shares issued and the vested warrants, and is being amortized into Other revenues on a straight line basis over three years. The amortization period was based on the Corporation's approximation of the expected timing of the costs for which the grant is intended to compensate. During 2022, grant income of $50 million (2021 – $26 million) was recognized in Other revenues. The vested warrants (as described in Note 13) have since been repurchased and cancelled with settlement completed in January 2022.

(d) In February 2021, the Corporation had extended its US$600 million revolving credit facility by one year to April 2024 with an increased interest rate of 75 basis points, to an interest rate margin of 250 basis points over LIBOR. The Corporation had also extended its $200 million revolving credit facility by one year to December 2023 with an increased interest rate of 25 basis points, to an interest rate margin of 275 basis points over banker's acceptance rates. The Corporation recorded a $19 million loss on debt modification related to this transaction. The US$600 million revolver was repaid with the August 2021 refinancing described below and the Canadian dollar revolver was repaid in 2021.

In August 2021, Air Canada completed a private offering of $2.0 billion of 4.625% senior secured notes due 2029 (the "Canadian Dollar Notes") and US$1.2 billion of 3.875% senior secured notes due 2026 (the "US Dollar Notes", and together with the Canadian Dollar Notes, the "Notes"). Air Canada also closed a US$2.9 billion new senior secured credit facility, comprised of a US$2.3 billion new term loan B maturing in 2028 (the "Term Loan"), together with a new undrawn US$600 million revolving credit facility maturing in 2025 (the "Revolving Facility" and, together with the Term Loan, the "Senior Secured Credit Facilities"). Air Canada received aggregate gross proceeds of approximately $7.1 billion from the sale of the Notes and from the Senior Secured Credit Facilities. Air Canada applied the proceeds from the sale of the Canadian Dollar Notes, together with the proceeds from the Term Loan, to (i) satisfy and discharge all of the Corporation's outstanding $200 million aggregate principal amount of its 4.75% senior secured notes due 2023 and redeem all of the Corporation's outstanding $840 million aggregate principal amount of its 9% second lien notes due 2024, (ii) repay all of the Corporation's US$1,178 million of indebtedness outstanding under the loan agreement dated as of October 6, 2016, which was comprised of a syndicated secured US dollar term loan B facility and a syndicated secured US dollar revolving credit facility and (iii) satisfy applicable transaction costs, fees and expenses. The Corporation recorded a $110 million loss on debt settlements related to these repayments.

The Notes and Air Canada's obligations under the Senior Secured Credit Facilities are senior secured obligations of the Corporation, secured on a first-lien basis, subject to certain permitted liens, by certain collateral comprised of substantially all of the Corporation's international routes, airport slots and gate leaseholds.

Separate from the offering, in August 2021, the Corporation repaid its $200 million revolving credit facility and it was extended to December 2024. In November 2022, this Canadian dollar revolving credit facility was extended to December 2025.

Both of the revolving credit facilities remain undrawn as of December 31, 2022.

(e) Lease liabilities, related to facilities and aircraft, total $3,038 million ($415 million, US$1,923 million and GBP £10 million) (2021 – $3,179 million ($361 million, US$2,195 million and GBP £12 million)). The carrying value of aircraft and facilities under lease liabilities amounted to $1,882 million and $355 million respectively (2021 – $2,154 million and $308 million).

Cash interest paid on Long-term debt and lease liabilities in 2022 by the Corporation was $761 million (2021 – $531 million).

The Corporation has recorded Interest expense as follows:

(Canadian dollars in millions)	**2022**	**2021**
Interest on debt	$ 748	$ 576
Interest on lease liabilities		
Air Canada aircraft	85	90
Regional aircraft	56	62
Land and buildings	20	21
Interest expense	**$ 909**	**$ 749**

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

(Canadian dollars in millions)	**2022**	**2021**
Short-term leases	$ 17	$ 10
Variable lease payments not included in lease liabilities	39	27
Expense related to leases (included in Other operating expenses)	**$ 56**	**$ 37**

Total cash outflows for payments on lease liabilities was $673 million for the year ended December 31, 2022 (2021 – $731 million), of which $512 million was for principal repayments (2021 – $558 million).

Maturity Analysis

Principal and interest repayment requirements as at December 31, 2022 on Long-term debt and lease liabilities are as follows. U.S. dollar amounts are converted using the December 31, 2022 closing rate of CDN$1.3554.

Principal (Canadian dollars in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Long-term debt obligations[(1)]	$ 713	$ 525	$ 1,276	$ 2,548	$ 1,182	$ 7,479	**$ 13,723**
Air Canada aircraft	337	323	308	255	207	237	**1,667**
Regional aircraft	187	153	138	51	41	347	**917**
Land and buildings	26	25	25	25	25	328	**454**
Lease liabilities	550	501	471	331	273	912	**3,038**
Total long-term debt and lease liabilities	**$ 1,263**	**$ 1,026**	**$ 1,747**	**$ 2,879**	**$ 1,455**	**$ 8,391**	**$ 16,761**

Interest (Canadian dollars in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Long-term debt obligations[(1)]	$ 711	$ 680	$ 643	$ 574	$ 472	$ 514	**$ 3,594**
Air Canada aircraft	82	65	50	36	23	20	**276**
Regional aircraft	47	36	27	21	18	73	**222**
Land and buildings	23	22	21	19	18	228	**331**
Lease liabilities	152	123	98	76	59	321	**829**
Total long-term debt and lease liabilities	**$ 863**	**$ 803**	**$ 741**	**$ 650**	**$ 531**	**$ 835**	**$ 4,423**

(1) Assumes the principal balance of the convertible notes, $372 million (US$274 million), remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of $1,273 million for the unsecured credit facility is included and the carrying value is described in Note 9(c).

Principal repayments in the table above exclude discounts and transaction costs of $177 million which are offset against Long-term debt and lease liabilities in the consolidated statement of financial position.

Cash Flows from Financing Activities

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

		Cash Flows			Non-Cash Changes			
(Canadian dollars in millions)	**Jan. 1, 2022**	**Borrowings**	**Repayments**	**Financing fees**	**Foreign exchange adjustments**	**Amortization of financing fees and other adjustments**	**New lease liabilities (new and modified contracts)**	**Dec. 31, 2022**
Long-term debt	$ 13,568	$ 202	$ (1,302)	$ -	$ 645	$ 332	$ -	$ 13,445
Air Canada aircraft	1,792	-	(313)	-	122	-	66	1,667
Regional aircraft	981	-	(172)	-	67	-	41	917
Land and buildings	406	-	(27)	-	1	-	74	454
Lease liabilities	3,179	-	(512)	-	190	-	181	3,038
Unamortized debt issuance costs and other adjustments	(224)	-	-	(6)	-	53	-	(177)
Total liabilities from financing activities	**$ 16,523**	**$ 202**	**$ (1,814)**	**$ (6)**	**$ 835**	**$ 385**	**$ 181**	**$ 16,306**

		Cash Flows			Non-Cash Changes			
(Canadian dollars in millions)	**Jan. 1, 2021**	**Borrowings**	**Repayments**	**Financing fees**	**Foreign exchange adjustments**	**Amortization of financing fees and other adjustments**	**New lease liabilities (new and modified contracts)**	**Dec. 31, 2021**
Long-term debt	$ 9,561	$ 8,171	$ (3,952)	$ -	$ (40)	$ (172)	$ -	$ 13,568
Air Canada aircraft	1,996	-	(366)	-	(16)	-	178	1,792
Regional aircraft	1,171	-	(167)	-	(9)	-	(14)	981
Land and buildings	429	-	(25)	-	(1)	-	3	406
Lease liabilities	3,596	-	(558)	-	(26)	-	167	3,179
Unamortized debt issuance costs and other adjustments	(168)	-	-	(205)	-	149	-	(224)
Total liabilities from financing activities	**$ 12,989**	**$ 8,171**	**$ (4,510)**	**$ (205)**	**$ (66)**	**$ (23)**	**$ 167**	**$ 16,523**

10. PENSIONS AND OTHER BENEFIT LIABILITIES

The Corporation maintains several defined benefit and defined contribution pension plans, as well as other post-retirement and post-employment benefit plans.

The Corporation is the administrator and sponsoring employer of eight domestic registered plans ("Domestic Registered Plans") with defined benefit commitments registered under the Pension Benefits Standard Act, 1985 (Canada). The defined benefit components of the Domestic Registered Plans are closed to new members, except for the hybrid component of three plans which are open to new members. The Corporation also has a U.S. plan, a UK plan and a Japan plan, which are international defined benefit plans covering members in those countries. In addition, the Corporation maintains a number of supplementary pension plans which are not registered. The defined benefit pension plans provide benefits upon retirement, termination or death based on the member's years of service and final average earnings for a specified period. Benefit payments are from trustee-administered funds, however there are also a number of unfunded plans where the Corporation meets the benefit payment obligation as it falls due. Plan assets held in trusts are governed by regulations. The governance of the plans, overseeing all aspects of the plans including investment decisions and contributions, lies primarily with the Corporation. The Human Resources and Compensation Committee, a committee of the Board of Directors, assists in the monitoring and oversight of the plans to ensure pension liabilities are appropriately funded, pension assets are prudently invested, risk is managed at an acceptable level and retirement benefits are administered in a proper and effective manner.

Other employee benefits include health, life and disability. These benefits consist of both post-employment and post-retirement benefits. The post-employment benefits relate to disability benefits available to eligible active employees, while the post-retirement benefits are comprised of health care and life insurance benefits available to eligible retired employees.

Pension Plan Cash Funding Obligations

As at January 1, 2022, the aggregate solvency surplus in the Domestic Registered Plans was $4.8 billion. The next required valuation to be made as at January 1, 2023 will be completed in the first half of 2023. With the Corporation's Domestic Registered Plans in a solvency surplus position as at January 1, 2022, past service contributions were not required in 2022. In addition, in accordance with legislation and applicable plan rules, the excess over 105% on a solvency basis can be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan. Based on that, and including the international and supplemental plans, the total employer pension funding contributions during 2022 amounted to $70 million ($89 million employer contribution net of $19 million of surplus used to fund employer contribution in defined contribution components of the same plans). Pension funding obligations for 2023 are expected to be $88 million.

Benefit Obligation and Plan Assets

These consolidated financial statements include all the assets and liabilities of all Corporation-sponsored plans. The amounts recorded in the statement of financial position are as follows:

	Pension Benefits		Other Employee Future Benefits		Total	
(Canadian dollars in millions)	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Non-current assets						
Pension assets	$ 2,444	$ 3,571	$ -	$ -	$ 2,444	$ 3,571
Current liabilities						
Accounts payable and accrued liabilities	-	-	62	67	62	67
Non-current liabilities						
Pension and other benefit liabilities	825	1,192	945	1,396	1,770	2,588
Net benefit obligation (asset)	**$ (1,619)**	**$ (2,379)**	**$ 1,007**	**$ 1,463**	**$ (612)**	**$ (916)**

The current portion of the net benefit obligation represents an estimate of other employee future benefits claims to be paid during 2023.

The following table presents financial information related to the changes in the pension and other post-employment benefits plans:

(Canadian dollars in millions)	Pension Benefits 2022	Pension Benefits 2021	Other Employee Future Benefits 2022	Other Employee Future Benefits 2021
Change in benefit obligation				
Benefit obligation at beginning of year	$ 22,051	$ 23,720	$ 1,463	$ 1,562
Current service cost	242	262	41	53
Past service cost	12	240	-	4
Plan settlements	-	125	-	-
Interest cost	750	641	45	42
Employees' contributions	71	60	-	-
Benefits paid	(1,045)	(1,071)	(50)	(42)
Settlement payments	-	(125)	-	-
Remeasurements:				
Experience loss (gain)	10	88	(136)	(19)
Loss (gain) from change in demographic assumptions	(5)	(1)	-	(3)
Loss (gain) from change in financial assumptions	(5,149)	(1,875)	(368)	(133)
Foreign exchange loss (gain)	(10)	(13)	12	(1)
Total benefit obligation	16,927	22,051	1,007	1,463
Change in plan assets				
Fair value of plan assets at beginning of year	26,666	25,887	-	-
Return on plan assets, excluding amounts included in Net financing expense	(5,284)	1,149	-	-
Interest income	923	710	-	-
Employer contributions	70	79	50	42
Employees' contributions	71	60	-	-
Benefits paid	(1,045)	(1,071)	(50)	(42)
Settlements	-	(125)	-	-
Administrative expenses paid from plan assets	(9)	(9)	-	-
Foreign exchange gain (loss)	(14)	(14)	-	-
Total plan assets	21,378	26,666	-	-
(Surplus) deficit at end of year	**(4,451)**	**(4,615)**	**1,007**	**1,463**
Asset ceiling / additional minimum funding liability	2,832	2,236	-	-
Net benefit obligation (asset)	**$ (1,619)**	**$ (2,379)**	**$ 1,007**	**$ 1,463**

The actual return on plan assets was a loss of $4,361 million (2021 – $1,859 million gain).

Benefit Plan Amendments

In 2021, Air Canada received the decision of the arbitrator determining the cap on pensionable earnings recognized in the defined benefit pension plan for IAMAW-represented technical employees. The decision resulted in an increase to the maximum pensionable earnings, effective from 2021, with retroactivity to 2019 for employees that so elected. The Corporation recorded a one-time pension past service cost of $82 million in 2021 as a result of this plan amendment. This amendment did not impact the Corporation's liquidity position as it is funded out of the surplus in the domestic registered pension plans.

Benefit Plan Settlement

Plan assets include an annuity contract for the UK plan defined benefit pension obligation. In 2021, a settlement loss of $125 million was recognized and represented the difference between the premium paid on the purchase of an annuity to insure the liabilities and the related defined pension benefit obligation for the UK defined benefit pension plan.

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

(Canadian dollars in millions)	2022	2021
Domestic Registered Plans	$ 2	$ 8
International plans	57	62
Supplementary plans	766	1,122
	$ 825	**$ 1,192**

The weighted average duration of the defined benefit obligation is 12.5 years (2021 – 14.0 years).

Pension and Other Employee Future Benefit Expense

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

	Pension Benefits		Other Employee Future Benefits	
(Canadian dollars in millions)	2022	2021	2022	2021
Consolidated Statement of Operations				
Components of cost				
Current service cost	$ 242	$ 262	$ 41	$ 53
Past service cost	12	82	-	(1)
Administrative and other expenses	9	9	-	-
Settlement loss	-	125	-	-
Actuarial losses (gains), including foreign exchange	-	-	(32)	(9)
Total cost recognized in Wages, salaries and benefits	**$ 263**	**$ 478**	**$ 9**	**$ 43**
Total cost recognized in Restructuring and transaction costs (note 4)	**$ -**	**$ 158**	**$ -**	**$ 5**
Net interest relating to employee benefits	**$ (70)**	**$ (34)**	**$ 46**	**$ 42**
Total cost recognized in statement of operations	**$ 193**	**$ 602**	**$ 55**	**$ 90**
Consolidated Other Comprehensive (Income) Loss				
Remeasurements:				
Experience loss (gain), including foreign exchange	14	89	(96)	(14)
Loss (gain) from change in demographic assumptions	(5)	(1)	-	(3)
Loss (gain) from change in financial assumptions	(5,149)	(1,875)	(363)	(130)
Return on plan assets	5,138	(1,157)	-	-
Change in asset ceiling	492	1,360	-	-
Total cost (income) recognized in OCI	**$ 490**	**$ (1,584)**	**$ (459)**	**$ (147)**

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

(Canadian dollars in millions)		2022	2021
Net defined pension and other future employee benefits expense recorded in the consolidated statement of operations			
Wages, salaries and benefits		$ 272	$ 521
Restructuring and transaction costs	Note 4	-	163
Net interest relating to employee benefit liabilities		(24)	8
		$ 248	**$ 692**
Employee benefit funding by Air Canada			
Pension benefits		$ 70	$ 79
Other employee benefits		50	42
		$ 120	**$ 121**
Employee benefit funding less than expense		**$ 128**	**$ 571**

Composition of Defined Benefit Pension Plan Assets

Domestic Registered Plans

The composition of the Domestic Registered Plan assets and the target allocation are the following:

	2022	2021	Target Allocation
Bonds	64%	60%	65%
Canadian equities	2%	3%	2%
Foreign equities	3%	7%	3%
Alternative investments	31%	30%	30%
	100%	**100%**	**100%**

For the Domestic Registered Plan assets, approximately 68% of assets as of December 31, 2022 have a quoted market price in an active market. Assets that do not have a quoted market price in an active market are mainly investments in privately held entities. The asset composition in the table represents the allocation of plan assets to each asset type.

Included in plan assets, for determining the net benefit obligation for accounting purposes, are 17,646,765 (2021 – 17,646,765) shares of Air Canada which were issued to a trust in 2009 in connection with pension funding agreements reached with all of the Corporation's Canadian-based unions. The trust arrangement provides that proceeds of any sale of the trust shares will be retained and applied to reduce future pension solvency deficits, if any should materialize. With the Corporation's Domestic Registered Plans now in a surplus position on a solvency basis, the accounting rules prevent the recognition of the value of the shares held in trust as part of the pension assets. The shares held in trust have a fair value of $342 million at December 31, 2022 (2021 – $373 million), although after giving effect to the asset ceiling, the recognized accounting value of the trust asset is nil.

In November 2021, Air Canada announced that its Canadian unions and the Air Canada Pionairs agreed in principle to permit certain other uses of the proceeds of the shares discussed above. If all conditions are met, shares in the trust will be gradually sold over a period of up to 15 years with the net proceeds from the sales used to make lump sum payments to Canadian pensioners and to fund voluntary separation packages for senior unionized employees and non-executive employees. There are several conditions to the completion of the agreement and effecting such sales and payments. These include the conclusion of definitive documentation, and the receipt of all required regulatory and other approvals which remain outstanding. While the satisfaction of the conditions is being pursued, there can be no assurance that these or any other conditions will be satisfied. The financial statements do not reflect any accounting consequences related to this, as these would only be determined upon the conditions and required approvals being met.

For the Domestic Registered Defined Benefit Plans, the investments conform to the Statement of Investment Policies and Procedures of the Air Canada Pension Funds. As permitted under the investment policy, the actual asset mix may deviate from the target allocation from time to time. The investment return objective is to achieve a total annualized rate of return that exceeds by a minimum of 1.0% before investment fees on average over the long term (i.e. 10 years) the total annualized return that could have been earned by passively managing the Liability Replicating Portfolio. The Liability Replicating Portfolio, which is referenced to widely used Canadian fixed income indices (FTSE Canada), closely matches the characteristics of the pension liabilities.

Recognizing the importance of surplus risk management, Air Canada manages the Domestic Registered Defined Benefit Plans in an effort to mitigate surplus risk (defined as the difference between asset value and pension liability value), which is considered to be the key risk to be minimized and monitored. In addition, the objective of the investment strategy is to invest the plan assets in a prudent and diversified manner to mitigate the risk of price fluctuation of asset classes and individual investments within those asset classes and to combine those asset classes and individual investments in an effort to reduce overall risk.

In addition to the broad asset allocation, as summarized in the asset allocation section above, the following policies apply to individual asset classes invested within the pension funds:

- Equities are required to be diversified among regions, industries and economic sectors. Limitations are placed on the overall allocation to any individual security.

- Alternative investments are investments in non-publicly traded securities and in non-traditional asset classes. They may comprise, but are not limited to, investments in real estate, agriculture, timber, private equity, venture capital, infrastructure, emerging markets debt, high yield bonds and commodity futures. Alternative investments are required to be diversified by asset class, strategy, sector and geography.

- Canadian bonds are oriented toward long-term investment grade securities rated “BBB” or higher. With the exception of Government of Canada securities or a province thereof or the U.S. Government, in which the plan may invest the entire fixed income allocation, these investments are required to be diversified among individual securities and sectors.

Derivatives are permitted provided that they are used for managing a particular risk (including interest rate risk related to pension liabilities) or to create exposures to given markets and currencies and that counterparties have a minimum credit rating of A. The Corporation manages interest rate risk related to its actuarial liabilities through a combination of financial instruments including, but not limited to, bonds, bond repurchase and reverse repurchase agreements, bond forwards, bond futures and interest rate swaps. As at December 31, 2022, approximately 75% of Air Canada's Domestic Registered Defined Benefit Plans’ assets were invested in fixed income instruments to mitigate a significant portion of the interest rate (discount rate) risk. Counterparty credit risk associated with such financial instruments is mitigated by receiving collateral from counterparties based on collateralization agreements, as well as by monitoring the counterparties’ credit ratings and ensuring compliance with the investment policy. The fair value of these derivative instruments is included in the Bonds in the asset composition table and is not a significant component of the aggregate bond fair values of the portfolio.

The trusts for the supplemental plans are invested 50% in a mix of indexed equity investments and alternative investments, in accordance with their investment policies, with the remaining 50% held by the Canada Revenue Agency as a refundable tax, in accordance with tax legislation. Due to unrealized gains and losses on invested assets, the market value of assets could deviate from this allocation from time to time.

Risks

Through its defined benefit pension plans, the Corporation is exposed to a number of risks, the most significant of which are detailed below:

Asset risk

Asset risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price. Asset risk comprises currency risk, credit risk, and other price risk. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. This risk is mitigated through implementation of hedging strategies. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. This risk is mitigated by receiving collateral from counterparties based on collateralization agreements and by monitoring the issuers' credit risk. Other price risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. This risk is mitigated through proper diversification of plan assets.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. A decrease in corporate and/or government bond yields will increase plan liabilities, which will be partially offset by an increase in the value of the plans' bond holdings. As at December 31, 2022, approximately 75% of Air Canada's Domestic Registered Defined Benefit Plans' assets were invested in fixed income instruments to mitigate a significant portion of the interest rate risk (discount rate risk).

Funding risk

Adverse changes in the value of plan assets or in interest rates, and therefore in the discount rate used to value liabilities, could have a significant impact on pension plan solvency valuations and future cash funding requirements.

Life expectancy

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

Assumptions

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

Discount Rate

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

Future Increases in Compensation

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

Mortality Assumptions

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

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

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

(1) Weighted average reflecting re-measurements during the year due to items as described in Note 4 related to early retirement incentive programs.

Sensitivity Analysis

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

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

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

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

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

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

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

Defined Contribution Pension Plans

Certain of the Corporation's management, administrative and unionized employees participate in a defined contribution pension plan, a defined contribution component of a plan which also includes a defined benefit component or a multi-employer plan which are accounted for as defined contribution plans. The Corporation contributes an amount expressed as a percentage of employees' contributions with such percentage varying by group and for some groups, based on the number of years of service. As permitted by legislation and applicable plan rules, surplus in the defined benefit component can be used to cover the employer contributions in the defined contribution component of such plan. As such, $19 million of surplus in the defined benefit components of the Domestic Registered Plans was used to cover the employer contributions in the defined contribution components during 2022 (2021 – $12 million).

The Corporation's expense for these pension plans amounted to $61 million for the year ended December 31, 2022 (2021 – $35 million). Net of the surplus in the defined benefit components which can be used to fund the employer contribution to a defined contribution component within the same pension plan, expected total employer contributions for 2023 are $60 million.

11. PROVISIONS FOR OTHER LIABILITIES

The following table provides a continuity schedule of all recorded provisions. Current provisions are recorded in Accounts payable and accrued liabilities.

(Canadian dollars in millions)	Maintenance (a)	Asset retirement (b)	Litigation	Total provisions
At December 31, 2021				
Current	$ 139	$ -	$ 38	$ 177
Non-current	1,032	35	-	1,067
	$ 1,171	**$ 35**	**$ 38**	**$ 1,244**
Provisions arising during the year	$ 151	$ -	$ 16	$ 167
Amounts utilized	(72)	-	(5)	(77)
Changes in estimated costs	32	-	(8)	24
Accretion expense	18	1	-	19
Foreign exchange loss	88	-	-	88
At December 31, 2022	**$ 1,388**	**$ 36**	**$ 41**	**$ 1,465**
Current	$ 36	$ -	$ 41	$ 77
Non-current	1,352	36	-	1,388
	$ 1,388	**$ 36**	**$ 41**	**$ 1,465**

(a) Maintenance provisions relate to the provision for the costs to meet the contractual return conditions on aircraft under operating leases. The provision relates to leases with expiry dates ranging from 2023 to 2035 with the average remaining lease term of approximately 4 years. The maintenance provisions take into account current costs of maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. Assuming the aggregate cost for return conditions increases by 5%, holding all other factors constant, there would be a cumulative balance sheet adjustment to increase the provision by $70 million at December 31, 2022 and an increase to maintenance expense in 2023 of approximately $9 million. Expected future cash flows to settle the obligation are discounted. If the discount rates were to increase by 1%, holding all other factors constant, there would be a cumulative balance sheet adjustment to decrease the provision by $31 million at December 31, 2022. An equivalent but opposite movement in the discount rate would result in a similar impact in the opposite direction.

(b) Under the terms of certain land and facilities leases, the Corporation has an obligation to restore the land to vacant condition at the end of the lease and to rectify any environmental damage for which it is responsible. The related leases expire over terms ranging from 2023 to 2078. These provisions are based on numerous assumptions including the overall cost of decommissioning and remediation and the selection of alternative decommissioning and remediation approaches. The non-current provision is recorded in Other long-term liabilities.

12. INCOME TAXES

Income Tax (Expense) Recovery

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

(Canadian dollars in millions)	2022	2021
Current income tax (expense)	$ (47)	$ (16)
Deferred income tax (expense) recovery	(129)	395
Income tax (expense) recovery	**$ (176)**	**$ 379**

The income tax (expense) recovery differs from the amount that would have resulted from applying the statutory income tax rate to income before income tax expense as follows:

(Canadian dollars in millions)	2022	2021
Loss before income taxes	$ (1,524)	$ (3,981)
Statutory income tax rate based on combined federal and provincial rates	26.46%	26.47%
Income tax recovery based on statutory tax rates	**403**	**1,054**
Effects of:		
Non-taxable (non-deductible) portion of capital gains (losses)	(80)	4
Unrecognized deferred income tax assets	(528)	(628)
Non-taxable (deductible) items	29	(45)
Other	-	(6)
Income tax (expense) recovery	**$ (176)**	**$ 379**

The applicable statutory tax rate is 26.46% (2021 – 26.47%). The Corporation’s applicable tax rate is the Canadian combined tax rate applicable in the jurisdiction in which the Corporation operates. The income tax recovery in the consolidated statement of operations differs from the amount that would have resulted from applying the statutory income tax rate to the loss before income taxes in the consolidated statement of operations primarily due to not recognizing all deferred income tax assets.

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

(Canadian dollars in millions)	2022	2021
Remeasurements on employee benefit liabilities - current income tax recovery (expense)	$ 8	$ (41)
- deferred income tax recovery (expense)	138	(379)
Income tax recovery (expense)	**$ 146**	**$ (420)**

The income tax differs from the amount that would have resulted from applying the statutory income tax rate to other comprehensive income before income tax expense as follows:

(Canadian dollars in millions)	2022	2021
Other comprehensive (loss) income before income taxes	$ (32)	$ 1,725
Statutory income tax rate based on combined federal and provincial rates	26.46%	26.47%
Income tax recovery (expense) based on statutory tax rates	**9**	(457)
Non-deductible portion of capital loss	-	(1)
Recognition of deferred income tax assets	124	38
Other	13	-
Income tax recovery (expense)	**$ 146**	**$ (420)**

Deferred Income Tax

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available to realize them. In making this assessment, consideration is given to available positive and negative evidence and relevant assumptions, including, historical financial results, and expectations relating to future taxable income, the overall business environment, and industry-wide trends.

As a result of the COVID-19 pandemic, there is considerable negative evidence relating to losses incurred in the current and prior years. Such negative evidence currently outweighs the positive historical evidence and, accordingly, net deferred tax assets are not being recognized. The future tax deductions underlying the unrecognized deferred income tax assets of $2,123 million remain available for use in the future to reduce taxable income. The deferred income tax recovery recorded in Other comprehensive income (loss) related to remeasurements on employee benefit liabilities is offset by a deferred income tax expense which was recorded through the statement of operations. As such, a deferred income tax expense of $129 million (2021 – deferred income tax recovery of $395 million) was recorded for the year, which is partially offsetting the deferred income tax recovery of $138 million (2021 – deferred income tax expense of $379 million) recorded in Other comprehensive income (loss).

Deferred tax assets and liabilities of $48 million are recorded net as a non-current deferred income tax asset and deferred tax liabilities of $73 million are recorded as a non-current deferred income tax liability on the consolidated statement of financial position. Certain intangible assets with nominal tax cost and a carrying value of $275 million have indefinite lives and accordingly, the associated deferred income tax liability of $73 million (2021 – $73 million) is not expected to reverse until the assets are disposed of, become impaired or amortizable and as a result is included as part of the non-current deferred income tax liability.

The significant components of deferred income tax assets and liabilities were as follows:

(Canadian dollars in millions)	2022	2021
Deferred income tax assets		
Non-capital losses	$ 1,693	$ 1,502
Accounting provisions not currently deductible for tax	7	6
Lease liabilities	934	978
Maintenance provisions	-	215
	2,634	2,701
Deferred income tax liabilities		
Post-employment obligations – pension	(423)	(593)
Property, equipment, technology-based and other intangible assets	(2,103)	(2,030)
Indefinite-lived intangible assets	(73)	(73)
Other	(60)	(39)
	(2,659)	(2,735)
Net recognized deferred income tax liabilities	**$ (25)**	**$ (34)**
Balance sheet presentation		
Deferred income tax assets	48	39
Deferred income tax liabilities	(73)	(73)
Net recognized deferred income tax liabilities	**$ (25)**	**$ (34)**

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

(Canadian dollars in millions)	January 1, 2022	2022 income statement movement	2022 OCI movement	December 31, 2022
Non-capital losses	$ 1,502	$ 191	$ -	$ 1,693
Accounting provisions not currently deductible for tax	6	1	-	7
Lease liabilities	978	(44)	-	934
Maintenance provisions	215	(215)	-	-
Post-employment obligations – pension	(593)	32	138	(423)
Property, equipment, technology-based and other intangible assets	(2,030)	(73)	-	(2,103)
Indefinite-lived intangible assets	(73)	-	-	(73)
Other deferred tax liabilities	(39)	(21)	-	(60)
Total recognized deferred income tax assets (liabilities)	**$ (34)**	**$ (129)**	**$ 138**	**$ (25)**

(Canadian dollars in millions)	January 1, 2021	2021 income statement movement	2021 OCI movement	December 31, 2021
Non-capital losses	$ 1,126	$ 376	$ -	$ 1,502
Accounting provisions not currently deductible for tax	9	(3)	-	6
Lease liabilities	1,110	(132)	-	978
Maintenance provisions	215	-	-	215
Post-employment obligations – pension	(353)	139	(379)	(593)
Property, equipment, technology-based and other intangible assets	(2,023)	(7)	-	(2,030)
Indefinite-lived intangible assets	(73)	-	-	(73)
Other deferred tax liabilities	(61)	22	-	(39)
Total recognized deferred income tax assets (liabilities)	**$ (50)**	**$ 395**	**$ (379)**	**$ (34)**

At December 31, 2022, the Corporation has deductible temporary differences of an operating and a capital nature for which no deferred income tax asset has been recognized at this time as the ability to utilize these tax attributes is limited to future taxable income and capital gains. Net capital losses do not have an expiry date.

The following are the temporary differences and tax loss carryforwards for which no deferred income tax assets could be recognized:

(Canadian dollars in millions)	2022	2021
Unrecognized non-capital losses carryforwards	$ 3,820	$ 2,956
Post-employment obligations - other employee future benefits	1,009	1,472
Accounting provisions not currently deductible for tax	307	286
Maintenance provision	1,388	358
Deferred revenue	933	1,161
Unrecognized net capital losses carryforwards	118	124
Unrealized foreign exchange losses (gains)	309	(1)
Other	-	1
Total unrecognized net temporary differences	**$ 7,884**	**$ 6,357**
Deferred income tax rate based on combined federal and provincial rates	26.45%	26.46%
	$ 2,085	**$ 1,682**
Unrecognized recoverable taxes	38	37
Total unrecognized net deferred income tax assets	**$ 2,123**	**$ 1,719**

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

(Canadian dollars in millions)	**Tax Losses**
2030	$ 16
2031	6
2032	6
2033	1
2034	3
2036	3
2037	2
2038	2
2040	4,251
2041	4,249
2042	1,596
Non-capital losses carryforwards	**$ 10,135**

Cash income taxes paid in 2022 by the Corporation were $67 million (2021 – $2 million).

13. SHARE CAPITAL

		Number of shares	Value (Canadian dollars in millions)	
At January 1, 2021		**332,172,288**	**$**	**2,150**
Shares issued on the exercise of stock options		1,507,355		21
Shares issued on settlement of restricted share units		4,272		-
Shares issued in public offering		2,587,000		60
Shares issued to government	Note 9	21,570,942		504
At December 31, 2021		**357,841,857**	**$**	**2,735**
Shares issued on the exercise of stock options		350,535		6
Shares issued on settlement of restricted share units		169,866		2
At December 31, 2022		**358,362,258**	**$**	**2,743**

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

		2022	2021
Issued and outstanding			
Class A variable voting shares		72,431,001	82,897,507
Class B voting shares		285,931,257	274,944,350
Total issued and outstanding		**358,362,258**	**357,841,857**
Potential shares			
Convertible notes	Note 9	17,856,599	48,687,441
Warrants		-	7,288,282
Stock options	Note 14	5,304,745	4,420,051
Total outstanding and potentially issuable shares		**381,523,602**	**418,237,631**

Shares

As at December 31, 2022, the shares issuable by Air Canada consist of an unlimited number of Class A Variable Voting Shares ("Variable Voting Shares") and an unlimited number of Class B Voting Shares ("Voting Shares"). The two classes of shares have equivalent rights as shareholders except for voting rights.

Variable Voting Shares may only be held, beneficially owned or controlled, directly or indirectly, by persons who are not Canadians (within the meaning of the *Canada Transportation Act*). An issued and outstanding Variable Voting Share is converted into one Voting Share automatically and without any further act of Air Canada or the holder, if such Variable Voting Share becomes held, beneficially owned and controlled, directly or indirectly, otherwise than by way of security only, by a Canadian, as defined in the *Canada Transportation Act*.

Voting Shares may only be held, beneficially owned and controlled, directly or indirectly, by Canadians. An issued and outstanding Voting Share is converted into one Variable Voting Share automatically and without any further act of Air Canada or the holder, if such Voting Share becomes held, beneficially owned or controlled, directly or indirectly, otherwise than by way of security only, by a person who is not a Canadian.

Air Canada's articles provide that holders of Variable Voting Shares are entitled to one vote per share unless (i) the number of Variable Voting Shares outstanding, as a percentage of the total number of voting shares of Air Canada exceeds 49% or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 49% of the total number of votes that may be cast at such meeting. If either of the above noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease proportionately such that (i) the Variable Voting Shares as a class do not carry more than 49% of the aggregate votes attached to all issued and outstanding Voting Shares of Air Canada and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 49% of the votes that may be cast at such meeting. Air Canada's articles also provide for the automatic reduction of the voting rights attached to Variable Voting

Shares in the event any of the following limits are exceeded. In such event, the votes attributable to Variable Voting Shares will be affected as follows:

- *first*, if required, a reduction of the voting rights of any single non-Canadian holder (including a single non-Canadian holder authorized to provide an air service) carrying more than 25% of the votes to ensure that such non-Canadian holder never carries more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders;

- *second*, if required and after giving effect to the first proration set out above, a further proportional reduction of the voting rights of all non-Canadian holders authorized to provide an air service to ensure that such non-Canadian holders authorized to provide an air service, in the aggregate, never carry more than 25% of the votes which holders of Voting Shares cast at any meeting of shareholders; and

- *third*, if required and after giving effect to the first two prorations set out above, a proportional reduction of the voting rights for all non-Canadian holders as a class to ensure that non-Canadians never carry, in aggregate, more than 49% of the votes which holders of Voting Shares cast at any meeting of shareholders.

Shareholder Rights Plan

Under the terms of the shareholder rights plan agreement (the “Rights Plan”), one right (a “Right”) is issued with respect to each share of Air Canada issued and outstanding. These Rights would become exercisable only when a person, including any party related to it, acquires or announces its intention to acquire 20% or more of the outstanding shares of Air Canada calculated on a combined basis, without complying with the “Permitted Bid” provisions of the Rights Plan or, in certain cases, without the approval of the Board. Until such time, the Rights are not separable from the shares, are not exercisable and no separate rights certificates are issued. To qualify as a “Permitted Bid” under the Rights Plan, a bid must, among other things: (i) be made to all holders of shares, (ii) remain open for a period of not less than 105 days (or such shorter minimum period determined in accordance with National Instrument 62-104 - *Take-Over Bids and Issuer Bids* (“NI 62-104”), (iii) provide that no shares shall be taken up unless more than 50% of the then outstanding shares, other than the shares held by the person pursuing the acquisition and parties related to it, have been tendered and not withdrawn, and (iv) provide that if such 50% condition is satisfied, the bid will be extended for at least 10 days to allow other shareholders to tender.

Following the occurrence of an event which triggers the right to exercise the Rights and subject to the terms and conditions of the Rights Plan, each Right would entitle the holders thereof, other than the acquiring person or any related persons, to exercise their Rights and purchase from Air Canada two hundred dollars’ worth of shares for one hundred dollars (i.e. at a 50% discount to the market price at that time). Upon such exercise, holders of rights beneficially owned and controlled by Qualified Canadians would receive Class B Voting Shares and holders of rights beneficially owned or controlled by persons who are not Qualified Canadians would receive Class A Variable Voting Shares.

Pursuant to its terms, the Rights Plan will remain in effect until the close of business on the date of Air Canada's annual meeting of shareholders in 2023 and would be renewed in accordance with its terms for an additional period of three years (from 2023 to 2026) provided that the shareholders ratify such renewal at or prior to the annual meeting of shareholders to be held in 2023.

Share Offering and Warrants

In January 2021, the underwriters to a public offering which had been completed in December 2020, partially exercised their over-allotment option to purchase an additional 2,587,000 Air Canada shares for gross proceeds of $62 million. After deduction of the underwriters’ fees and expenses, net proceeds from the exercise of this over-allotment option were $60 million.

In April 2021, and as described in Note 9, Air Canada entered into a series of debt and equity financing agreements with the Government of Canada (acting through Canada Enterprise Emergency Funding Corporation), including the issuance of shares and warrants. Air Canada issued 21,570,942 shares to the Government of Canada for net proceeds of $480 million. Air Canada exercised its call right on the vested warrants as per their terms at fair market value, purchasing and cancelling the warrants in January 2022 at a price of $82 million which was equivalent to the carrying value of the vested warrants as at December 31, 2021, with settlement completed in January 2022.

Convertible Notes

As described in Note 9, in 2022, the Corporation repurchased and cancelled $635 million (US$473 million) aggregate principal amount of its convertible notes. The conversion rate of the convertible notes is 65.1337 shares per US$1,000 principal amount of convertible notes, thereby reducing the potentially issuable shares.

14. SHARE-BASED COMPENSATION

Air Canada Long-Term Incentive Plan

Certain of the Corporation's employees participate in the Air Canada Long-term Incentive Plan (the "Long-term Incentive Plan"). The Long-term Incentive Plan provides for the grant of stock options, performance share units and restricted share units to senior management and officers of Air Canada. With respect to the stock options, 19,381,792 shares were initially authorized for issuance under the Long-term Incentive Plan of which 5,374,445 remain available for future issuance. The outstanding performance share units and restricted share units will generally not result in the issuance of new shares as these share units will be redeemed for shares purchased on the secondary market (and not issued from treasury) and/or equivalent cash, at the discretion of the Corporation.

Stock Options

The options to purchase shares granted under the Long-term Incentive Plan have a maximum term of up to ten years and an exercise price based on the fair market value of the shares at the time of the grant of the options. Fifty percent of options are time-based and vest over four years. The remaining options vest based upon performance conditions, which are based on operating margin (operating income over operating revenues) targets established by the Air Canada Board over the same time period. Each option entitles the employee to purchase one share at the stated exercise price.

The number of Air Canada stock options granted to employees, the related compensation expense recorded and the assumptions used to determine stock-based compensation expense, using the Black-Scholes option valuation model are as follows:

	2022		2021	
Compensation expense ($ millions)	$	16	$	12
Number of stock options granted to Air Canada employees		1,242,544		988,997
Weighted average fair value per option granted ($)	$	11.39	$	11.56
Aggregated fair value of options granted ($ millions)	$	14	$	11
Weighted average assumptions:				
Share price	$	24.25	$	25.36
Risk-free interest rate		1.43%-3.39%		0.29%-1.35%
Expected volatility		55.64%		55.04%
Dividend yield		0%		0%
Expected option life (years)		5.25		5.25

Expected volatility was determined at the time of grant using the share price on a historical basis. It reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

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

	2022			2021		
	Options	Weighted Average Exercise Price/Share		Options	Weighted Average Exercise Price/Share	
Beginning of year	4,420,051	$	25.72	5,903,174	$	22.06
Granted	1,242,544		24.25	988,997		25.36
Exercised	(350,535)		10.47	(1,507,355)		9.97
Expired	(306)		12.64	-		-
Forfeited	(7,009)		23.80	(964,765)		27.56
Outstanding options, end of year	**5,304,745**	**$**	**26.39**	**4,420,051**	**$**	**25.72**
Options exercisable, end of year	**2,405,704**	**$**	**25.12**	**2,384,587**	**$**	**22.43**

The weighted average share price on the date of exercise for options exercised in 2022 was $20.30 (2021 – $24.16).

		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	154,825	1		9.37	154,825		9.37
$12.83 – $26.40	2027	451,405	5		14.82	451,405		14.82
$22.53 – $27.75	2028	851,506	6		26.53	846,843		26.52
$33.11 – $43.22	2029	837,189	7		33.28	401,914		33.26
$15.35 – $32.42	2030	1,183,930	8		30.80	461,819		30.78
$23.80 – $26.93	2031	583,346	9		25.35	88,898		25.37
$17.37 – $24.61	2032	1,242,544	10		24.25	-		-
		5,304,745		**$**	**26.39**	**2,405,704**	**$**	**25.12**

		2021 Outstanding Options				2021 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	
$12.64	2022	126,316	1	$	12.64	126,316	$	12.64
$9.23 – $9.61	2023	378,126	2		9.29	378,126		9.29
$12.83 – $26.40	2027	452,629	6		14.81	442,629		14.55
$22.53 – $27.75	2028	852,512	7		26.53	772,460		26.53
$33.11 – $43.22	2029	837,189	8		33.28	325,391		33.24
$15.35 – $32.42	2030	1,183,930	9		30.80	339,665		31.31
$23.80 – $26.93	2031	589,349	10		25.34	-		-
		4,420,051		**$**	**25.72**	**2,384,587**	**$**	**22.43**

Performance and Restricted Share Units

The Long-term Incentive Plan also includes performance share units ("PSUs") and restricted share units ("RSUs"). The vesting of PSUs is based on the Corporation achieving its cumulative annual earnings target over a three-year period, while RSUs will vest after three years from their date of grant. The PSUs and RSUs granted are generally redeemed for Air Canada shares purchased on the secondary market and/or equivalent cash at the discretion of the Board of Directors.

The compensation expense related to PSUs and RSUs in 2022 was $16 million (2021 – $12 million).

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

	2022	2021
Beginning of year	2,197,983	2,374,006
Granted	1,316,113	1,106,028
Settled	(595,284)	(646,964)
Forfeited	(26,887)	(635,087)
Outstanding share units, end of year	**2,891,925**	**2,197,983**

Refer to Note 17 for a description of derivative instruments used by the Corporation to mitigate the cash flow exposure to the PSUs and RSUs granted.

Employee Share Purchase Plan

Eligible employees can participate in the employee share purchase plan under which employees can invest between 2% and 10% of their base salary for the purchase of shares on the secondary market. The Corporation's matching of employee contributions was suspended effective May 1, 2020 and reinstated June 1, 2022. For 2022 contributions made between June 1 December 31, Air Canada will match 33.33% of the contributions made by employees. During 2022, the Corporation recorded compensation expense of $9 million (2021 – nil) related to the Employee Share Purchase Plan.

15. LOSS PER SHARE

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

(in millions, except per share amounts)	2022	2021
Numerator:		
Net loss	**$ (1,700)**	**$ (3,602)**
Effect of assumed conversion of convertible notes	(46)	143
Effect of assumed conversion of warrants	-	(27)
Remove anti-dilutive impact	46	(116)
Adjusted numerator for diluted loss per share	**$ (1,700)**	**$ (3,602)**
Denominator:		
Weighted-average shares	**358**	**351**
Effect of potential dilutive securities:		
Stock options	-	1
Warrants	-	-
Convertible notes	44	49
Remove anti-dilutive impact	(44)	(50)
Adjusted denominator for diluted loss per share	**358**	**351**
Basic and diluted loss per share	**$ (4.75)**	**$ (10.25)**

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

Excluded from the 2022 calculation of diluted loss per share were 4,341,000 (2021 – 2,930,000) outstanding options where the options' exercise prices were greater than the average market price of the shares for the year.

The potential dilutive securities related to the warrants described in Note 13 were considered only for the portion of the year during which they were outstanding; however they were excluded from the calculation of dilutive loss per share since their exercise price was greater than the average market price of the shares for the period they were outstanding.

16. COMMITMENTS

Capital Commitments and Leases

Capital commitments consist of the future firm aircraft deliveries and commitments related to acquisition of other property and equipment. The estimated aggregate cost of aircraft is based on delivery prices that include estimated escalation and, where applicable, deferred price delivery payment interest calculated based on the 90-day U.S. LIBOR rate at December 31, 2022. U.S. dollar amounts are converted using the December 31, 2022 closing rate of CDN$1.3554. Minimum future commitments under these contractual arrangements are shown below.

They include the acquisition of 30 Airbus A321XLR aircraft, which Air Canada announced in 2022. Deliveries are scheduled to begin in 2025 with the final aircraft to arrive in 2028. The acquisitions include 20 aircraft leased with lessors and 10 to be purchased under an agreement with Airbus S.A.S. The amounts related to the periodic lease payments on the 20 leases is included for the periods noted.

In 2022, Air Canada elected to proceed with the purchase of an additional 10 Airbus A220 aircraft, in addition to the two Airbus A220 aircraft that were added in 2021. Planned deliveries for the 12 aircraft are: six in 2024, and six in 2025.

Also finalized in 2022 and included below, is the purchase of two new Boeing 777 freighter aircraft with deliveries expected in 2024 and the exercise of options to purchase 15 additional Airbus A220 aircraft which are expected to be delivered in 2026.

(Canadian dollars in millions)	2023	2024	2025	2026	2027	Thereafter	Total
Capital commitments	$ 1,334	$ 1,048	$ 660	$ 1,193	$ 743	$ 2,811	$ **7,789**

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

The Corporation leases and subleases certain aircraft and spare engines to its regional carrier which are charged back to Air Canada through its capacity purchase agreement with Jazz. These are reported net on the consolidated statement of operations. The leases and subleases relate to 15 Mitsubishi CRJ-200 aircraft, 20 Mitsubishi CRJ-705/900 aircraft, 25 Embraer 175 aircraft, and 13 spare engines. The lease and sublease revenue and expense related to these aircraft and engines amount to $150 million in 2022 (2021 – $152 million).

Other Contractual Commitments

The future minimum non-cancellable commitment for the next 12 months under the capacity purchase agreement is approximately $1,236 million which includes pass-through costs to sustain the minimum flying commitment.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Summary of Financial Instruments

(Canadian dollars in millions)	Carrying Amounts					
	December 31, 2022					December 31, 2021 Restated - Note 2P
	Financial instruments classification					
	Fair value through profit and loss	Fair value through OCI	Assets at amortized cost	Liabilities at amortized cost	Total	
Financial Assets						
Cash and cash equivalents	$ 2,693	$ -	$ -	$ -	**$ 2,693**	**$ 4,415**
Short-term investments	5,295	-	-	-	**5,295**	**4,554**
Accounts receivable	-	-	1,037	-	**1,037**	**691**
Investments, deposits and other assets						
Long-term investments	823	-	-	-	**823**	**601**
Equity investment in Chorus	-	51	-	-	**51**	**52**
Restricted cash	79	-	-	-	**79**	**75**
Aircraft related and other deposits	-	-	54	-	**54**	**71**
Other investments	6	7	-	-	**13**	**-**
Derivative instruments						
Share forward contracts	6	-	-	-	**6**	**13**
Foreign exchange derivatives	52	-	-	-	**52**	**5**
	$ 8,954	**$ 58**	**$ 1,091**	**$ -**	**$ 10,103**	**$ 10,477**
Financial Liabilities						
Accounts payable	$ -	$ -	$ -	$ 2,314	**$ 2,314**	**$ 2,051**
Foreign exchange derivatives	192	-	-	-	**192**	**273**
Embedded derivative on convertible notes	120	-	-	-	**120**	**579**
Warrants	-	-	-	-	**-**	**82**
Current portion of long-term debt and lease liabilities	-	-	-	1,263	**1,263**	**1,012**
Long-term debt and lease liabilities	-	-	-	15,043	**15,043**	**15,511**
	$ 312	**$ -**	**$ -**	**$ 18,620**	**$ 18,932**	**$ 19,508**

Summary of Gain (Loss) on Financial Instruments Recorded at Fair Value

(Canadian dollars in millions)		2022	2021
Embedded derivative on convertible notes	Note 9	$ 219	$ (45)
Short-term investments		(86)	(36)
Warrants	Note 9	-	27
Share forward contracts		-	(1)
Gain (loss) on financial instruments recorded at fair value		**$ 133**	**$ (55)**

Risk Management

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

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

Liquidity risk

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

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations. The Corporation monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least twelve months after each reporting period, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. At December 31, 2022, total liquidity was $9,824 million comprised of cash and cash equivalents, short-term and long-term investments of $8,811 million, and $1,013 million available under undrawn credit facilities.

Cash and cash equivalents include $464 million pertaining to investments with original maturities of three months or less at December 31, 2022 ($407 million as at December 31, 2021).

A maturity analysis of the Corporation's principal and interest repayment requirements on long-term debt and lease liabilities is set out in Note 9, and fixed operating commitments and capital commitments are set out in Note 16.

Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk can be further divided into the following sub-classifications related to the Corporation: fuel price risk, foreign exchange risk, interest rate risk, and share-based compensation risk.

Fuel Price Risk

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

There was no fuel hedging activity during 2022 or 2021.

Foreign Exchange Risk

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

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

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

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

- Locking in the foreign exchange rate through the use of a variety of foreign exchange derivatives which have maturity dates corresponding to the forecasted dates of U.S. dollar net outflows.

The level of foreign exchange derivatives entered into and their related maturity dates are dependent upon a number of factors, which include the amount of foreign revenue conversion available, U.S. dollar net cash outflows, as well as the amount attributed to aircraft and debt payments. Based on the notional amount of currency derivatives outstanding at December 31, 2022, as further described below, approximately 69% of net U.S. cash outflows are hedged for 2023 and 43% for 2024, resulting in derivative coverage of 60% over the next 18 months. Operational U.S. dollar cash and investment reserves combined with derivative coverage results in 60% coverage.

As at December 31, 2022, the Corporation had outstanding foreign currency options and swap agreements, settling in 2023 and 2024, to purchase at maturity $5,798 million (US$4,310 million) of U.S. dollars at a weighted average rate of $1.2986 per US$1.00 (2021 – $2,423 million (US$1,925 million) with settlements in 2022 and 2023 at a weighted average rate of $1.2742 per $1.00 U.S. dollar). The Corporation also has protection in place to sell a portion of its excess Euros, Sterling, YEN, YUAN, and AUD (EUR €198 million, GBP £244 million, JPY ¥17,405 million, CNH ¥355 million and AUD $126 million) which settle in 2023 and 2024 at weighted average rates of €1.0828, £1.2467, ¥0.0082, ¥0.1419, and AUD $0.7072 per $1.00 U.S. dollar, respectively (as at December 31, 2021 – EUR €260 million, GBP £56 million, JPY ¥4,577 million, CNH ¥31 million and AUD $36 million with settlement in 2022 and 2023 at weighted average rates of €1.1704, £1.4125, ¥0.0092, ¥0.1471, and AUD $0.7300 respectively per $1.00 U.S. dollar).

The hedging structures put in place have various option pricing features, such as knock-out terms and profit cap limitations, and based on the assumed volatility used in the fair value calculation, the net fair value of these foreign currency contracts as at December 31, 2022 was $140 million in favour of the counterparties (2021 – $268 million in favour of the counterparties). These derivative instruments have not been designated as hedges for accounting purposes and are recorded at fair value. During 2022, a gain of $174 million was recorded in Foreign exchange gain (loss) related to these derivatives (2021 – $114 million loss). In 2022, foreign exchange derivative contracts cash settled with a net fair value of $46 million in favour of the Corporation (2021 – $437 million in favour of the counterparties).

Interest Rate Risk

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

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

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

Share-based Compensation Risk

The Corporation issues RSUs and PSUs to certain of its employees, as described in Note 14, which entitles the employees to receive a payment in the form of one share, cash in the amount equal to market value of one share, or a combination thereof, at the discretion of the Board of Directors.

To hedge the share price exposure, the Corporation entered into share forward contracts to hedge PSUs and RSUs that may vest in 2023, subject to the terms of vesting including realization of performance vesting criteria. The forward dates for the share forward contracts coincide with the vesting terms and planned settlement dates of 325,000 PSUs and RSUs in 2023. These contracts were not designated as hedging instruments for accounting purposes. Accordingly, changes in the fair value of these contracts are recorded in Gain (loss) on financial instruments recorded at fair value in the period in which they arise. During 2022, a loss of less than $1 million was recorded (2021 – loss of $1 million). Share forward contracts cash settled with a fair value of $7 million in favour of the Corporation in 2022 (2021 – $6 million). As at December 31, 2022, the fair value of the share forward contracts is $6 million in favour of the Corporation (2021 – $13 million in favour of the Corporation), with those contracts maturing in 2023 valued at $6 million recorded in Prepaid expenses and other current assets.

Credit Risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. As at December 31, 2022, the Corporation's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, long-term investments and derivative instruments. Cash and cash equivalents and short and long-term investments are in place with major financial institutions, various levels of government in Canada, and major corporations. Accounts receivable are generally the result of sales of passenger tickets to individuals, largely through the use of major credit cards, through geographically dispersed travel agents, corporate outlets, or other airlines. Similarly, accounts receivable related to cargo revenues relate to accounts from a large number of geographically dispersed customers. Accounts receivable related to the sale of Aeroplan Points are mainly with major financial institutions and any exposure associated with these customers is mitigated by the relative size and nature of business carried on by such partners. Credit rating guidelines are used in determining derivative counterparties. In order to manage its exposure to credit risk and assess credit quality, the Corporation reviews counterparty credit ratings on a regular basis and sets credit limits when deemed necessary.

Sensitivity Analysis

The following table is a sensitivity analysis for each type of market risk relevant to the significant financial instruments recorded by the Corporation as at December 31, 2022. The sensitivity analysis is based on certain movements in the relevant risk factor. These assumptions may not be representative of actual movements in these risks and may not be relied upon. Given potential volatility in the financial and commodity markets, the actual movements and related percentage changes may differ significantly from those outlined below. Changes in income generally cannot be extrapolated because the relationship of the change in assumption to the change in income may not be linear. For purposes of presentation, each risk is contemplated independent of other risks; however, in reality, changes in any one factor may result in changes in one or more several other factors, which may magnify or counteract the sensitivities.

The sensitivity analysis related to derivative contracts is based on the estimated fair value change applicable to the derivative as at December 31, 2022 considering a number of variables including the remaining term to maturity and does not consider the fair value change that would be applicable to the derivative assuming the market risk change was applicable to the maturity date of the derivative contract.

	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	$ 27	$ (27)	$ (10)	$ 10	$ -	$ -
Short–term investments	$ 53	$ (53)	$ (24)	$ 24	$ -	$ -
Long-term investments	$ 8	$ (8)	$ (1)	$ 1	$ -	$ -
Aircraft related deposits	$ -	$ -	$ (2)	$ 2	$ -	$ -
Long-term debt and lease liabilities	$ (47)	$ 47	$ 582	$ (582)	$ -	$ -
Share forward contracts	$ -	$ -	$ -	$ -	$ -	$ -
Foreign exchange derivatives	$ -	$ -	$ (7)	$ 7	$ -	$ -
Embedded derivative on convertible notes	$ -	$ -	$ -	$ -	$ (12)	$ 12

(1) Increase (decrease) in foreign exchange relates to a strengthening (weakening) of the Canadian dollar versus the U.S. dollar. The impact on long-term debt and lease liabilities includes $6 million related to the Canadian dollar versus the Japanese yen. The impact of changes in other currencies is not significant to the Corporation's financial instruments.

(2) The sensitivity analysis for share forward contracts is based upon a 10% increase or decrease in the Air Canada share price.

(3) The sensitivity analysis for the embedded derivative on the convertible notes is based on a total 10% change in value.

For Air Canada's equity investment in Chorus, a 10% increase (decrease) to the Chorus share price would increase (decrease) Other comprehensive income by $5 million.

Covenants in Credit Card Agreements

The Corporation's principal credit card processing agreements for credit card processing services contain triggering events upon which the Corporation is required to provide the applicable credit card processor with cash deposits. The obligations to provide cash deposits and the required amount of deposits are each based upon a matrix measuring, on a quarterly basis, both a fixed charge coverage ratio for the Corporation and the unrestricted cash and short-term investments of the Corporation. In 2022, the Corporation made no cash deposits under these agreements (nil in 2021).

Financial Instrument Fair Values in the Consolidated Statement of Financial Position

The carrying amounts reported in the consolidated statement of financial position for short-term financial assets and liabilities, which includes Accounts receivable and Accounts payable and accrued liabilities, approximate fair values due to the immediate or short-term maturities of these financial instruments. Cash equivalents and short and long-term investments are classified as held for trading and therefore are recorded at fair value.

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

Management estimated the fair value of its long-term debt based on valuation techniques including discounted cash flows, taking into account market information and traded values where available, market rates of interest, the condition of any related collateral, the current conditions in credit markets and the current estimated credit margins applicable to the Corporation based on recent transactions. Based on significant unobservable inputs (Level 3 in the fair value hierarchy), the estimated fair value of debt is $12,485 million compared to its carrying value of $13,445 million.

Following is a classification of fair value measurements recognized in the consolidated statement of financial position using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

		Fair value measurements at reporting date using:		
Recurring measurements (Canadian dollars in millions)	**December 31, 2022**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Financial Assets				
Held–for–trading securities				
Cash equivalents	$ 464	$ -	$ 464	$ -
Short-term investments	5,295	-	5,295	-
Long-term investments	823	-	823	-
Equity investment in Chorus	51	51	-	-
Derivative instruments				
Share forward contracts	6	-	6	-
Foreign exchange derivatives	52	-	52	-
Total	**$ 6,691**	**$ 51**	**$ 6,640**	**$ -**
Financial Liabilities				
Derivative instruments				
Foreign exchange derivatives	$ 192	-	192	$ -
Embedded derivative on convertible notes	120	-	120	-
Total	**$ 312**	**$ -**	**$ 312**	**$ -**

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

The Corporation's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers within the fair value hierarchy during 2022.

Offsetting of Financial Instruments in the Consolidated Statement of Financial Position

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position where the Corporation has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. In the normal course of business, the Corporation enters into various master netting arrangements or other similar arrangements that do not meet the criteria for offsetting in the consolidated statement of financial position but still allow for the related amounts to be set-off in certain circumstances, such as the termination of the contracts or in the event of bankruptcy or default of either party to the agreement.

Air Canada participates in industry clearing house arrangements whereby certain accounts receivable balances related to passenger, cargo and other billings are settled on a net basis with the counterparty through the clearing house. These billings are mainly the result of interline agreements with other airlines, which are commercial agreements that enable the sale and settlement of travel and related services between the carriers. Billed and work in process interline receivables are presented on a gross basis and amount to $112 million as at December 31, 2022 ($46 million as at December 31, 2021). These balances will be settled at a net value at a later date; however, such net settlement amount is unknown until the settlement date.

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting arrangements or other similar arrangements but not offset, as at December 31, 2022 and 2021, and shows in the Net column what the net impact would be on the consolidated statement of financial position if all set-off rights were exercised.

Financial assets (Canadian dollars in millions)	Amounts offset			Amounts not offset	Net
	Gross assets	Gross liabilities offset	Net amounts presented	Financial instruments	
December 31, 2022					
Derivative assets	$ 115	$ (63)	$ 52	$ 6	$ 58
	$ 115	**$ (63)**	**$ 52**	**$ 6**	**$ 58**
December 31, 2021					
Derivative assets	$ 22	$ (17)	$ 5	$ 13	$ 18
	$ 22	**$ (17)**	**$ 5**	**$ 13**	**$ 18**

Financial liabilities (Canadian dollars in millions)	Amounts offset			Amounts not offset	Net
	Gross liabilities	Gross assets offset	Net amounts presented	Financial instruments	
December 31, 2022					
Derivative liabilities	$ 245	$ (53)	$ 192	$ -	$ 192
	$ 245	**$ (53)**	**$ 192**	**$ -**	**$ 192**
December 31, 2021					
Derivative liabilities	$ 317	$ (44)	$ 273	$ -	$ 273
	$ 317	**$ (44)**	**$ 273**	**$ -**	**$ 273**

18. CONTINGENCIES, GUARANTEES AND INDEMNITIES

Contingencies and Litigation Provisions

Various lawsuits and claims, including claims filed by various labour groups of Air Canada are pending by and against the Corporation and provisions have been recorded where appropriate. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or the results of the Corporation.

Guarantees

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

Indemnification Agreements

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

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

19. CAPITAL DISCLOSURES

The Corporation views capital as the sum of Long-term debt and lease liabilities, the embedded derivative on convertible notes, and the book value of Shareholders' equity (deficiency). The Corporation also monitors its net debt which is calculated as the sum of Long-term debt and lease liabilities less cash and cash equivalents, and short-term and long-term investments.

The Corporation's main objectives when managing capital are:

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

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

The total capital and net debt as at December 31 are calculated as follows:

(Canadian dollars in millions)	December 31, 2022	December 31, 2021 Restated - Note 2P
Long-term debt and lease liabilities	$ 15,043	$ 15,511
Current portion of long-term debt and lease liabilities	1,263	1,012
Total long-term debt and lease liabilities	16,306	16,523
Embedded derivative on convertible notes	120	579
Shareholders' equity (deficiency)	(1,555)	9
Total Capital	**$ 14,871**	**$ 17,111**
Total long-term debt and lease liabilities	$ 16,306	$ 16,523
Less Cash and cash equivalents, and short-term and long-term investments	(8,811)	(9,570)
Net debt	**$ 7,495**	**$ 6,953**

20. REVENUE

Disaggregation of revenue

The Corporation disaggregates revenue from contracts with customers according to the nature of the air transportation services. The nature of services is presented as passenger, cargo and other revenue on its consolidated statement of operations. The Corporation further disaggregates passenger and cargo air transportation service revenue according to geographic market segments.

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

Passenger Revenues **(Canadian dollars in millions)**	**2022**	**2021**
Canada	$ 4,424	$ 2,050
U.S. Transborder	3,017	770
Atlantic	4,381	1,100
Pacific	1,118	245
Other	1,298	333
	$ 14,238	**$ 4,498**

Cargo Revenues **(Canadian dollars in millions)**	**2022**	**2021**
Canada	$ 114	$ 124
U.S. Transborder	51	62
Atlantic	556	538
Pacific	409	667
Other	136	104
	$ 1,266	**$ 1,495**

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

Other operating revenues are principally derived from customers located in Canada and consist primarily of revenues from the sale of the ground portion of vacation packages, redemption of Aeroplan Points for non-air goods and services, buy on board and related passenger ancillary services and charges, and other airline-related services.

Contract balances

The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers.

(Canadian dollars in millions)	December 31, 2022	December 31, 2021
Receivables, which are included in Accounts receivable	$ 770	$ 513
Contract costs which are included in Prepaid expenses and other current assets	133	80
Contract liabilities – Advance ticket sales	4,104	2,326
Contract liabilities – Aeroplan deferred revenue (current and long-term)	3,409	3,452
Contract liabilities – Other deferred revenue (current and long-term)	1,046	1,187

Receivables include passenger, cargo and other receivables from contracts with customers. The Corporation sells passenger ticket and related ancillary services via cash, credit card or other card-based forms of payment with payment generally collected in advance of the performance of related transportation services. Passenger ticket and ancillary receivables are amounts due from other airlines for interline travel, travel agency payment processing intermediaries or credit card processors associated with sales for future travel and are included in Accounts receivable on the consolidated statement of financial position. Aeroplan Points are sold to program partners based on member accumulations and which billings are generally settled monthly. Cargo and other accounts receivable relate to amounts owing from customers, including from freight forwarders and interline partners for cargo and other services provided.

Contract costs include payment card fees, commissions and global distribution system charges on passenger tickets. These costs are capitalized at time of sale and expensed at the time of passenger revenue recognition.

Airline passenger and cargo sales transactions rely on multiple information technology systems and controls to process, record, and recognize a high volume of low value transactions, through a combination of internal information technology systems and outsourced service providers, including industry clearing houses, global distribution systems, and other partner airlines. Passenger sales and the ground portion of vacation packages are deferred and included in Current liabilities. A portion of the passenger sale related to the equivalent ticket value of any Aeroplan Points issued is separated and deferred in Aeroplan deferred revenue. The Advance ticket sales liability is recognized in revenue when the related flight occurs or over the period of the vacation. Depending on the fare class, passengers may exchange their tickets up to the time of the flight or obtain a refund, generally in exchange for the payment of a fee. The Corporation performs regular evaluations on the advance ticket sales liability.

The practical expedient in IFRS 15 allows entities not to disclose the amount of the remaining transaction prices and its expected timing of recognition for performance obligations if the contract has an original expected duration of one year or less. The Corporation elects to use this practical expedient for the passenger travel performance obligation as passenger tickets expire within a year if unused.

Air Canada offers and has issued and outstanding non-expiring travel credits. Customers have the ability to use the travel credits within the next 12 months and the Corporation does not have an unconditional right to defer settlement beyond the next 12 months. As such, the entire liability amount as at December 31, 2022 of $401 million (2021 - $250 million) related to these credits has been recorded in current liabilities even though some could be used after the next 12 months.

The following table presents financial information related to the changes in Aeroplan deferred revenue:

(Canadian dollars in millions)	2022	2021
Aeroplan deferred revenue, beginning of year	$ 3,452	$ 3,256
Proceeds from Aeroplan Points issued to program partners	1,253	822
Equivalent ticket value of Aeroplan Points issued	207	65
Aeroplan Points redeemed	(1,503)	(691)
Aeroplan deferred revenue, end of year	**$ 3,409**	**$ 3,452**

Proceeds from Points issued to Aeroplan program partners and the equivalent ticket value of Points issued through travel are deferred until the Points are redeemed and the reward is provided to the member. The Corporation expects the majority of the Points outstanding will be redeemed within three years.

21. RELATED PARTY TRANSACTIONS

Compensation of Key Management

Key management includes Air Canada's Board of Directors, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President and Chief Commercial Officer, Executive Vice President and Chief Operations Officer, Executive Vice President - Chief Human Resources Officer and Public Affairs, and Executive Vice President and Chief Legal Officer. Amounts reported are based upon the expense as reported in the consolidated financial statements, which in the case of Pension and post-employment benefits, includes actuarial gains or losses, as applicable. Compensation to key management is summarized as follows:

(Canadian dollars in millions)	**2022**	**2021**
Salaries and other benefits	$ 8	$ 4
Pension and post-employment benefits	(3)	(2)
Share-based compensation	15	11
	$ 20	**$ 13**