First Quarter 2023

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

May 12, 2023

AIR CANADA

A STAR ALLIANCE MEMBER

TABLE OF CONTENTS

1. SELECTED FINANCIAL METRICS AND STATISTICS 1
2. INTRODUCTION AND KEY ASSUMPTIONS 3
3. ABOUT AIR CANADA 5
4. OVERVIEW 6
5. RESULTS OF OPERATIONS – Q1 2023 VERSUS Q1 2022 8
6. FLEET 14
7. FINANCIAL AND CAPITAL MANAGEMENT 16
   7.1 LIQUIDITY 16
   7.2 NET DEBT 16
   7.3 WORKING CAPITAL 17
   7.4 CASH FLOW MOVEMENTS 18
   7.5 CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS 19
   7.6 PENSION FUNDING OBLIGATIONS 20
   7.7 CONTRACTUAL OBLIGATIONS 21
   7.8 SHARE INFORMATION 22
8. QUARTERLY FINANCIAL DATA 23
9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT 24
10. ACCOUNTING POLICIES 24
11. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 24
12. OFF-BALANCE SHEET ARRANGEMENTS 25
13. RELATED PARTY TRANSACTIONS 25
14. RISK FACTORS 25
15. CONTROLS AND PROCEDURES 25
16. NON-GAAP FINANCIAL MEASURES 26
17. GLOSSARY 30

1. SELECTED FINANCIAL METRICS AND STATISTICS

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

(Canadian dollars in millions, except per share data or where indicated)	First Quarter		
Financial Performance Metrics	**2023**	**2022**	**$ Change**
Operating revenues	4,887	2,573	2,314
Operating loss	(17)	(550)	533
Operating margin (1) (%)	(0.3)	(21.4)	21.1 pp (8)
Adjusted EBITDA (2)	411	(143)	554
Adjusted EBITDA margin (2) (%)	8.4	(5.6)	14.0 pp
Loss before income taxes	(23)	(814)	791
Net income (loss)	4	(974)	978
Adjusted pre-tax loss (2)	(194)	(740)	546
Adjusted net loss (2)	(188)	(747)	559
Total liquidity (3)	10,543	10,361	182
Net cash flows from operating activities	1,437	367	1,070
Free cash flow (2)	987	91	896
Net debt (2)	6,532	7,031	(499)
Diluted loss per share	(0.03)	(2.72)	2.69
Adjusted loss per share – diluted (2)	(0.53)	(2.09)	1.56
Operating Statistics (4)	**2023**	**2022**	**Change %**
Revenue passenger miles (RPMs) (millions)	18,578	9,481	96.0
Available seat miles (ASMs) (millions)	21,907	14,297	53.2
Passenger load factor %	84.8%	66.3%	18.5 pp
Passenger revenue per RPM (Yield) (cents)	22.0	20.2	8.8
Passenger revenue per ASM (PRASM) (cents)	18.7	13.4	39.2
Operating revenue per ASM (TRASM) (cents)	22.3	18.0	23.9
Operating expense per ASM (CASM) (cents)	22.4	21.8	2.5
Adjusted CASM (cents) (2)	14.5	15.6	(6.9)
Average number of full-time-equivalent (FTE) employees (thousands) (5)	34.5	27.3	26.1
Aircraft in operating fleet at period-end	352	332	6
Seats dispatched (thousands)	12,293	8,653	42.1
Aircraft frequencies (thousands)	85.2	65.0	31.0
Average stage length (miles) (6)	1,782	1,652	7.9
Fuel cost per litre (cents)	128.5	98.6	30.4
Fuel litres (thousands)	1,067,085	760,862	40.2
Revenue passengers carried (thousands) (7)	9,969	5,435	83.4

(1) Operating margin is a supplementary financial measure and is defined as operating income (loss) as a percentage of operating revenues.

(2) Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), adjusted EBITDA margin, adjusted pre-tax income (loss), adjusted net income (loss), free cash flow, net debt, adjusted earnings (loss) per share and adjusted CASM are non-GAAP financial measures, capital management measures, non-GAAP ratios or supplementary financial measures. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for descriptions of Air Canada's non-GAAP financial measures and for a quantitative reconciliation of Air Canada's non-GAAP financial measures to the most comparable GAAP measure.

(3) Total liquidity refers to the sum of cash, cash equivalents, short- and long-term investments and the amounts available under Air Canada's credit facilities. Total liquidity, as at March 31, 2023, of $10,543 million consisted of $9,532 million in cash, cash equivalents, short- and long-term investments and $1,011 million available under undrawn credit facilities. As at March 31, 2022, total liquidity of $10,361 million consisted of $9,411

million in cash and cash equivalents, short and long-term investments, and $950 million available under undrawn credit facilities. Cash and cash equivalents also include funds ($231 million as at March 31, 2023, and $199 million as at March 31, 2022) held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators.

(4) Except for the reference to average number of FTE employees, operating statistics in this table include Jazz operating under the capacity purchase agreement with Air Canada.

(5) Reflects average FTE employees at Air Canada and its subsidiaries, excluding FTE employees at Jazz operating under the capacity purchase agreement with Air Canada. As of March 31, 2023, there were 35,981 employees based in Canada.

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

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

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

2. INTRODUCTION AND KEY ASSUMPTIONS

In this Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A), the Corporation refers, as the context may require, to Air Canada and/or one or more of Air Canada's subsidiaries, including its wholly owned operating subsidiaries, Aeroplan Inc. (Aeroplan), Touram Limited Partnership, doing business under the brand name Air Canada Vacations® (Air Canada Vacations), and Air Canada Rouge LP, doing business under the brand name Air Canada Rouge® (Air Canada Rouge). This MD&A provides the reader with a review and analysis, from the perspective of management, of Air Canada's financial results for the first quarter of 2023. This MD&A should be read in conjunction with Air Canada's interim unaudited condensed consolidated financial statements and notes for the first quarter of 2023 dated May 12, 2023, as well as Air Canada's 2022 annual audited consolidated financial statements and notes and Air Canada's 2022 MD&A, each dated February 17, 2023. All financial information has been prepared in accordance with generally accepted accounting principles in Canada (GAAP), as set out in the CPA Canada Handbook – Accounting (CPA Handbook), which incorporates International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), except for any non-GAAP measures and any financial information specifically denoted otherwise.

Except as otherwise noted, monetary amounts are stated in Canadian dollars. For an explanation of certain terms used in this MD&A, refer to section 17 "Glossary" of this MD&A. Except as otherwise noted or where the context may otherwise require, this MD&A is current as of May 11, 2023.

Forward-looking statements are included in this MD&A. See "Caution Regarding Forward-Looking Information" below for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of risks relating to Air Canada, refer to section 18 "Risk Factors" of Air Canada's 2022 MD&A dated February 17, 2023, and section 14 "Risk Factors" of this MD&A. Air Canada issued a news release, dated May 12, 2023, reporting on its results for the first quarter of 2023. This news release is available on Air Canada's website at **aircanada.com** and on SEDAR's website at **www.sedar.com**. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR at **www.sedar.com**.

Caution Regarding Forward-Looking Information

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

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

Factors that may cause results to differ materially from results indicated in forward-looking statements include economic and geopolitical conditions such as the military conflict between Russia and Ukraine, Air Canada's ability to successfully achieve or sustain positive net profitability, industry and market conditions and the demand environment, competition, the remaining effects from the COVID-19 pandemic, Air Canada's dependence on technology, cybersecurity risks, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), energy prices, Air Canada's ability to pay its indebtedness and maintain or increase liquidity, interruptions of service, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from anthropogenic sources), Air Canada's dependence on key suppliers (including government agencies and other stakeholders supporting airport and airline operations), Air Canada's dependence on regional and other carriers, Air Canada's ability to attract and retain required personnel, the availability and onboarding of Air Canada's workforce, other epidemic diseases, changes in laws, regulatory developments or proceedings, employee and labour relations and costs, terrorist acts, war, Air Canada's ability to successfully operate its loyalty program, casualty losses, Air Canada's dependence on Star Alliance® and joint ventures, Air Canada's ability to preserve and grow its brand, pending and future litigation and actions by third parties, currency exchange fluctuations, limitations due to restrictive covenants, insurance issues and costs, and pension plan obligations, as well as the factors identified in Air Canada's public disclosure file available at www.sedar.com and, in particular, those identified in section 18 “Risk Factors” of Air Canada’s 2022 MD&A dated February 17, 2023, and section 14 “Risk Factors” of this MD&A.

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

The forward-looking statements contained or incorporated by reference in this MD&A represent Air Canada’s expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements, whether because of new information, future events or otherwise, except as required under applicable securities regulations.

Key Assumptions

Assumptions were made by Air Canada in preparing its updated guidance. As part of its assumptions, Air Canada assumes moderate Canadian GDP growth for 2023. Air Canada also assumes that the Canadian dollar will trade, on average, at C$1.34 per U.S. dollar for the full year 2023 and that the price of jet fuel will average C$1.09 per litre for the full year 2023.

Intellectual Property

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

Incorporation of Other Information

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

3. ABOUT AIR CANADA

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

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

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

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

Air Canada Cargo, a division of Air Canada, is a global cargo service provider, offering cargo services on passenger flights and on dedicated Boeing 767 freighter aircraft.

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

4. OVERVIEW

In the first quarter of 2023, Air Canada saw continued improvement in the recovery from the impact of the COVID-19 pandemic, compared to the first quarter of 2022, where Air Canada's results from operations were negatively impacted by the COVID-19 pandemic and the emergence of the Omicron variant in late 2021, and the travel restrictions still present at the time.

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

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

- Fund its future by staying vigilant on costs, seizing on opportunities, and making the right strategic investments.
- Reach new frontiers, by embracing its competitive strengths to grow the business, restoring and expanding its international reach, and continually exploring new opportunities.
- Elevate its customers and support the creation of meaningful customer experiences and human connections by leveraging innovations in technology, loyalty and products.
- Foster a collaborative workplace that respects diverse cultures and languages, while making impactful contributions to society.

First Quarter 2023 Financial Summary

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

- Record first quarter operating revenues of $4,887 million increased $2,314 million, primarily from higher passenger revenues due to increased travel demand. Operated capacity increased about 53% from the first quarter of 2022 (to about 84% of first quarter 2019 ASMs), in line with the projection provided in Air Canada's news release dated February 17, 2023.
- Operating expenses of $4,904 million increased $1,781 million or 57% from the first quarter of 2022. The increase included the impact of the year-over-year capacity increase, a growth of 83% in passengers carried and a 30% increase in jet fuel prices.
- Operating loss of $17 million, improved from an operating loss of $550 million in the first quarter of 2022.
- Net income of $4 million improved $978 million from the first quarter of 2022. Diluted loss per share of $0.03 compared to a diluted loss per share of $2.72 in the first quarter of 2022.
- Adjusted net loss of $188 million improved $559 million from the first quarter of 2022. Adjusted loss per share of $0.53 compared to an adjusted loss per share of $2.09 in the first quarter of 2022.
- Adjusted CASM of 14.52 cents improved 6.9% from the first quarter of 2022. The reduction in unit costs resulting from higher operated capacity was partially offset by a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022.
- Adjusted EBITDA of $411 million, with an adjusted EBITDA margin of 8.4%, improved from a negative adjusted EBITDA of $143 million in the first quarter of 2022.

- Net cash flows from operating activities of $1,437 million increased $1,070 million from the first quarter of 2022 due to a combination of improved operating results and higher cash flows from advanced ticket sales.

- Free cash flow of $987 million increased $896 million from the first quarter of 2022.

5. RESULTS OF OPERATIONS – Q1 2023 VERSUS Q1 2022

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

(Canadian dollars in millions, except where indicated)	First Quarter 2023	First Quarter 2022 (1) Restated	$ Change	% Change
Operating revenues				
Passenger	$ 4,088	$ 1,917	2,171	113
Cargo	238	398	(160)	(40)
Other	561	258	303	117
Total operating revenues	**4,887**	**2,573**	**2,314**	**90**
Operating expenses				
Aircraft fuel	1,375	750	625	83
Wages, salaries and benefits	914	737	177	24
Depreciation, amortization and impairment	428	407	21	5
Airport and navigation fees	312	228	84	37
Sales and distribution costs	273	122	151	124
Capacity purchase fees	216	167	49	29
Aircraft maintenance	261	44	217	493
Ground package costs	318	129	189	147
Communications and information technology	146	119	27	23
Catering and onboard services	128	70	58	83
Other	533	350	183	52
Total operating expenses	**4,904**	**3,123**	**1,781**	**57**
Operating loss	**(17)**	**(550)**	**533**	
Non-operating income (expense)				
Foreign exchange gain	127	99	28	
Interest income	83	20	63	
Interest expense	(245)	(209)	(36)	
Interest capitalized	5	3	2	
Financial instruments recorded at fair value	38	(173)	211	
Other	(14)	(4)	(10)	
Total non-operating expense	**(6)**	**(264)**	**258**	
Loss before income taxes	**(23)**	**(814)**	**791**	
Income tax recovery (expense)	27	(160)	187	
Net income (loss)	**$ 4**	**$ (974)**	**$ 978**	
Basic income (loss) per share	**$ 0.01**	**$ (2.72)**	**$ 2.73**	
Diluted loss per share	**$ (0.03)**	**$ (2.72)**	**$ 2.69**	
Adjusted EBITDA (2)	**$ 411**	**$ (143)**	**$ 554**	
Adjusted pre-tax loss (2)	**$ (194)**	**$ (740)**	**$ 546**	
Adjusted net loss (2)	**$ (188)**	**$ (747)**	**$ 559**	
Adjusted loss per share (2)	**$ (0.53)**	**$ (2.09)**	**$ 1.56**	

(1) *Comparative figures for the first quarter of 2022 have been reclassified to conform to the financial statement presentation adopted for the year ended December 31, 2022. Refer to Section 8 "Quarterly Financial Data" of this MD&A and Section 12 "Accounting Policies" of Air Canada's 2022 MD&A for information on the reclassifications on the consolidated statement of operations.*

(2) *Adjusted EBITDA, adjusted pre-tax income (loss), adjusted net income (loss) and adjusted earnings (loss) per share are non-GAAP financial measures or non-GAAP financial ratios. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.*

System Passenger Revenues

Passenger revenues in the first quarter of 2023 more than doubled from the first quarter of 2022 with over half of the increase coming from international markets. This was largely the result of a better operating environment in all markets following the removal of all travel restrictions in Canada in late 2022 as well as a strong pricing environment. About 58% of the year-over-year revenue increase came from local traffic in the markets served.

On a 53% increase in capacity, passenger revenue per available seat mile (PRASM) increased 39% with year-over-year gains in all markets. Traffic growth outpaced capacity growth and resulted in an 18-percentage-point gain in system load factor.

Year-over-year growth of passenger revenues in premium cabins outperformed the economy cabin as a result of premium products outpacing the economy cabin from traffic and yield perspectives.

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

(Canadian dollars in millions)	First Quarter			
	2023	2022	$ Change	% Change
Canada	$ 1,064	$ 648	$ 416	64.2
U.S. transborder	966	425	541	127.5
Atlantic	924	464	460	98.9
Pacific	492	98	394	402.5
Other	642	282	360	128.0
System	**$ 4,088**	**$ 1,917**	**$ 2,171**	**113.3**

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

	First Quarter 2023 versus First Quarter 2022					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	64.2	26.3	51.6	13.7	8.3	30.0
U.S. transborder	127.5	51.7	108.7	22.5	9.0	49.9
Atlantic	98.9	42.0	72.4	15.0	15.3	40.0
Pacific	402.5	244.5	388.3	26.4	2.9	45.8
Other	128.0	44.5	90.2	20.7	19.8	57.8
System	**113.3**	**53.2**	**96.0**	**18.5**	**8.8**	**39.2**

Domestic

Domestic passenger revenues increased 64% from the first quarter of 2022 as a result of continued strong demand in the domestic market and a strong pricing environment. Domestic PRASM increased 30% from the first quarter of 2022 with year-over-year gains in all major domestic services. The year-over-year growth in Domestic passenger revenues was equally split between local traffic and traffic connecting onto international routes.

U.S. transborder

U.S. transborder passenger revenues increased about 2.3 times from the first quarter of 2022 mainly as a result of greater demand for transborder services, with about 50% of the year-over-year growth coming from the U.S. leisure services. The strengthening of the U.S. dollar also contributed to increased traffic and yield originating from the U.S. In addition to local traffic gains, increased sixth freedom traffic and the joint venture with United had a favourable impact on the year-over-year increase. These results also reflect a better operating environment due to the removal of all travel restrictions in Canada and the U.S. through the second half of 2022 and the continued strength in the pricing environment.

Atlantic

Atlantic passenger revenues nearly doubled from the first quarter of 2022 as a result of strong demand for transatlantic services resulting from the removal of travel restrictions in Canada in late 2022. More than 80% of the year-over-year gains came from traffic between Canada and Atlantic markets. Traffic and yield increased from the same period in 2022 in nearly all major Atlantic services, but most notably in western Europe.

Pacific

Pacific passenger revenues increased about five times from the first quarter of 2022 largely as a result of the restoration of services to Japan, Australia, South Korea and, to a lower extent, Hong Kong, following the easing of restrictions in Canada and in the previously mentioned countries. More than 80% of the year-over-year gains came from traffic between Canada and Pacific markets.

Other

Other passenger revenues increased about 2.3 times from the first quarter of 2022 as a result of strong demand for services to the Caribbean and Central and South America, largely due to the removal of travel restrictions in Canada in the second half of 2022. In January 2022, in response to the emergence and impact of the Omicron variant, Air Canada suspended flights to certain Caribbean destinations from January 24 to April 30, 2022. About 70% of the year-over-year gains came from local traffic. The continued strong pricing environment in these regions also contributed to the year-over-year increase.

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

(In millions)	RPMs			ASMs		
	Q1 2023	Q1 2022	% Change	Q1 2023	Q1 2022	% Change
Canada	3,792	2,502	51.6	4,606	3,647	26.3
U.S. transborder	3,743	1,793	108.7	4,540	2,992	51.7
Atlantic	5,021	2,912	72.4	5,902	4,153	42.0
Pacific	2,781	570	388.3	3,100	900	244.5
Other	3,241	1,704	90.2	3,759	2,605	44.5
System	**18,578**	**9,481**	96.0	**21,907**	**14,297**	53.2

Cargo Revenues

In the first quarter of 2023, Cargo revenues declined $160 million or 40% from the first quarter of 2022. The decline was primarily driven by lower revenues in the Pacific market as a result of temporarily converted passenger aircraft having been returned to passenger operations later in 2022. To a lesser extent, yield normalization in all markets also contributed to the year-over-year decline. The decline was partially offset by increased freighter operations to Central and South America and to Europe. At the end of the first quarter of 2023, Air Canada Cargo had six Boeing 767 freighters, of which four were in service. This compared to one Boeing 767 freighter aircraft in service at the end of the first quarter of 2022.

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

(Canadian dollars in millions)	First Quarter			
	2023	2022	$ Change	% Change
Canada	$ 24	$ 30	$ (6)	(20.2)
U.S. transborder	11	13	(2)	(21.2)
Atlantic	119	124	(5)	(4.9)
Pacific	49	194	(145)	(74.6)
Other	35	37	(2)	(4.1)
System	**$ 238**	**$ 398**	**$ (160)**	**(40.4)**

Other Revenues

In the first quarter of 2023, other revenues increased $303 million or more than double from the first quarter of 2022. The year-over-year increase was primarily due to a higher volume of ground package revenues at Air Canada Vacations. Higher onboard purchases and miscellaneous passenger fees on increased passenger traffic also contributed to the year-over-year growth.

Operating Expenses

In the first quarter of 2023, total operating expenses increased 57% from the first quarter of 2022 due primarily to increases in nearly all line items reflecting higher operated capacity and traffic year-over-year. The increase also reflected a 30% increase in aircraft fuel price and a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022.

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

Aircraft Fuel

Aircraft fuel expense increased 83% from the first quarter of 2022 primarily due to a 40% higher volume of litres used due to increased flying and a 30% increase in jet fuel prices. To a lesser extent, an unfavourable foreign exchange also contributed to the increase.

Wages, Salaries and Benefits

Wages, salaries and benefits increased 24% from the first quarter of 2022 mainly due to the increased staffing levels required to support planned operations resulting in a 26% year-over-year increase in full-time equivalent employees.

Depreciation, Amortization and Impairment

Depreciation and amortization increased $21 million from the first quarter of 2022 reflecting new aircraft added to the operating fleet and investments in technology-based assets made over the last year.

Sales and Distribution Costs

Sales and distribution costs increased about 124% from the first quarter of 2022 primarily due to increased credit card and payment fees, commissions and distribution fees, largely reflecting the year-over-year increase in passenger revenues. In addition, higher agency penetration rates, in support of international sales, contributed to the increase.

Capacity Purchase Fees

Capacity purchase fees increased 29% mainly due to higher CPA rates year-over-year due to higher costs incurred by Jazz to operate flights on behalf of Air Canada. To a lesser extent, higher volume of flying year-over-year and an unfavourable foreign exchange variance also contributed to the increase.

Aircraft Maintenance

Aircraft maintenance expense increased $217 million from the first quarter of 2022. The increase was mainly due to a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022, which was the result of an amended agreement with a third-party maintenance provider. Increased maintenance activities due to higher volume of flying year-over-year also contributed to the increase.

Ground Package Costs

Ground package costs increased $189 million from the first quarter of 2022 due to a higher volume of ground package revenues at Air Canada Vacations. In January 2022, in response to the emergence of the Omicron variant and the associated short-term decline in demand, Air Canada had suspended flights to certain Caribbean destinations from January 24 to April 30, 2022.

Other Operating Expenses

Other operating expenses increased $183 million or about 52% from the first quarter of 2022. The increase was mainly driven by a higher volume of flying year-over-year.

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

(Canadian dollars in millions)	First Quarter			
	2023	2022	$ Change	% Change
Terminal handling	$ 112	$ 72	$ 40	56
Crew cycle	60	39	21	54
Building rent and maintenance	69	48	21	44
Miscellaneous fees and services	55	49	6	12
Remaining other expenses	237	142	95	67
Total other expenses	**$ 533**	**$ 350**	**$ 183**	**52**

CASM and Adjusted CASM

In the first quarter of 2023, CASM increased 2.5% while adjusted CASM decreased 6.9% year-over-year. CASM was negatively impacted by significantly higher fuel prices, higher ground package costs and higher passenger service costs due to higher traffic and higher selling costs, which are largely driven by revenues. The adjusted CASM improvement resulting from a higher operated capacity was partially offset by a favourable maintenance cost adjustment of $159 million that was recorded in the first quarter of 2022.

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

(cents per ASM)	First Quarter						
	2023		2022		$ Change		% Change
CASM	**¢**	**22.38**	**¢**	**21.84**	**¢**	**0.54**	**2.5**
Remove:							
Aircraft fuel expense, ground package costs, impairment of assets, and freighter costs		(7.86)		(6.25)		(1.61)	25.7
Adjusted CASM	**¢**	**14.52**	¢	**15.59**	¢	**(1.07)**	**(6.9)**

Non-Operating Expense

In the first quarter of 2023, non-operating expenses totalled $6 million compared to expenses of $264 million in the first quarter of 2022.

Gains on foreign exchange amounted to $127 million in the first quarter of 2023 compared to gains of $99 million in the first quarter of 2022. The March 31, 2023 closing exchange rate was US$1=$1.3516 compared to a closing exchange rate of US$1=1.3554 on December 31, 2022.

Interest expense was $245 million in the first quarter of 2023 compared to $209 million in the first quarter of 2022. The increase was primarily due to higher interest rates year-over-year on floating-rate debt and was partially offset by debt repayments since the end of the first quarter of 2022.

Gains on financial instruments recorded at fair value of $38 million in the first quarter of 2023 compared to losses of $173 million in the first quarter of 2022. The fluctuation in the fair value of Air Canada's Convertible Notes resulted in a gain of $24 million and a gain of $14 million related to Air Canada's short-term investments.

6. FLEET

Mainline and Air Canada Rouge

The tables below provide the number of aircraft in Air Canada's and Air Canada Rouge's operating fleets as at the dates indicated, as well as the planned operating fleet for the future periods indicated. Refer to the Air Canada Express section below for information on the fleet of aircraft operated by Jazz under its capacity purchase agreement with Air Canada.

AIR CANADA	Actual			Planned			
	Dec. 31, 2022	Q1 2023 Fleet Changes	March 31, 2023	Remainder of 2023 Fleet Changes	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024
Wide-body aircraft							
Boeing 777-300ER	18	1	19	-	19	-	19
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 777 freighters	-	-	-	-	-	2	2
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	29	-	29	2	31	1	32
Boeing 767-300 freighters	5	1	6	1	7	2	9
Airbus A330-300	16	1	17	1	18	-	18
Total wide-body aircraft	82	3	85	4	89	5	94
Narrow-body aircraft							
Boeing 737 MAX 8	40	-	40	-	40	-	40
Airbus A321	15	-	15	-	15	-	15
Airbus A320	18	-	18	(2)	16	-	16
Airbus A319	5	-	5	(2)	3	-	3
Airbus A220-300	32	1	33	-	33	3	36
Total narrow-body aircraft	110	1	111	(4)	107	3	110
Total Mainline	**192**	**4**	**196**	**-**	**196**	**8**	**204**

AIR CANADA rouge	Actual			Planned			
	Dec. 31, 2022	Q1 2023 Fleet Changes	March 31, 2023	Remainder of 2023 Fleet Changes	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024
Narrow-body aircraft							
Airbus A321	14	3	17	-	17	-	17
Airbus A320	5	-	5	-	5	-	5
Airbus A319	20	-	20	-	20	-	20
Total Air Canada Rouge	**39**	**3**	**42**	**-**	**42**	**-**	**42**

Total Mainline & Rouge	**231**	**7**	**238**	**-**	**238**	**8**	**246**

Air Canada Express

The table below provides, as at the dates indicated, the number of aircraft operated on behalf of Air Canada by Jazz under the Air Canada Express brand, pursuant to its capacity purchase agreement with Air Canada. The table also provides the planned fleet for the future periods indicated.

AIR CANADA EXPRESS	Actual			Planned			
	Dec. 31, 2022	Q1 2023 Fleet Changes	March 31, 2023	Remainder of 2023 Fleet Changes	Dec. 31, 2023	2024 Fleet Changes	Dec. 31, 2024
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-200	15	-	15	-	15	-	15
Mitsubishi CRJ-900	35	-	35	-	35	-	35
De Havilland Dash 8-400	39	-	39	-	39	-	39
Total Air Canada Express	**114**	**-**	**114**	**-**	**114**	**-**	**114**

7. FINANCIAL AND CAPITAL MANAGEMENT

7.1 LIQUIDITY

Liquidity Risk Management

At March 31, 2023 total liquidity was $10,543 million comprised of cash and cash equivalents, short-term and long-term investments of $9,532 million, and $1,011 million available under undrawn credit facilities. Cash and cash equivalents include $231 million related to funds held in trust by Air Canada Vacations in accordance with regulatory requirements governing advance sales for tour operators. Over the next 12 months, Air Canada expects to meet its liquidity needs with cash from operations as well as with available liquidity. Liquidity needs related to obligations associated with financial liabilities and capital commitments may also be supported through new financing arrangements.

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

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, and contractual and other obligations, which are further discussed in sections 7.5 “Capital Expenditures and Related Financing Arrangements”, 7.6 “Pension Funding Obligations”, and 7.7 “Contractual Obligations” of this MD&A. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least 12 months after each reporting period, including under various scenarios and assumptions, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements.

7.2 NET DEBT

(Canadian dollars in millions)	March 31, 2023	December 31, 2022	$ Change
Long-term debt and lease liabilities	$ 14,901	$ 15,043	$ (142)
Current portion of long-term debt and lease liabilities	1,163	1,263	(100)
Total long-term debt and lease liabilities	**16,064**	**16,306**	**(242)**
Less cash, cash equivalents and short- and long-term investments	(9,532)	(8,811)	(721)
Net debt [(1)]	**$ 6,532**	**$ 7,495**	**$ (963)**
Adjusted EBITDA (trailing 12 months)	**$ 2,011**	**1,457**	**554**
Net debt to adjusted EBITDA ratio [(1)]	**3.2x**	**5.1x**	**(1.9)**

(1) Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Net debt to adjusted EBITDA ratio (also referred to as “leverage ratio” in this MD&A) is a non-GAAP financial ratio and is used by Air Canada to measure financial leverage. For additional information on net debt, refer to section 16 “Non-GAAP Financial Measures” of this MD&A.

Net debt was $6,532 million as at March 31, 2023, a decrease of $963 million from December 31, 2022 resulting mainly from greater cash and investments accumulated through operating cashflows. The decrease in total debt and lease liabilities included $377 million of repayments, and the favourable impact of a stronger Canadian dollar that decreased foreign currency denominated debt (mainly U.S. dollars) by $32 million.

Net debt to adjusted EBITDA ratio was 3.2 as measured at March 31, 2023, an improvement from the ratio of 5.1 as at December 31, 2022 primarily due to growth in adjusted EBITDA and the reduction in net debt.

7.3 WORKING CAPITAL

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

(Canadian dollars in millions)	March 31, 2023	December 31, 2022	$ Change
Cash, cash equivalents and short-term investments	$ 8,517	$ 7,988	$ 529
Accounts receivable	1,091	1,037	54
Other current assets	667	640	27
Total current assets	**$ 10,275**	**$ 9,665**	**$ 610**
Accounts payable and accrued liabilities	2,664	2,691	(27)
Advance ticket sales	5,331	4,104	1,227
Aeroplan and other deferred revenues	1,228	1,295	(67)
Current portion of long-term debt and lease liabilities	1,163	1,263	(100)
Total current liabilities	**$ 10,386**	**$ 9,353**	**$ 1,033**
Net working capital	**$ (111)**	**$ 312**	**$ (423)**

Negative working capital of $111 million at March 31, 2023, resulted from a combination of cash outflows of $450 million for capital expenditures and $292 million used in net financing activities in the first quarter of 2023, partially offset by positive operating cash results. The increase in advance ticket sales is driven by passenger sales demand.

7.4 CASH FLOW MOVEMENTS

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

(Canadian dollars in millions)	First Quarter 2023	First Quarter 2022	$ Change
Net cash flows from operating activities	$ 1,437	$ 367	$ 1,070
Net cash flows used in financing activities	$ (292)	$ (192)	$ (100)
Net cash flows used in investing activities	$ (749)	$ (1,256)	$ 507
Effect of exchange rate changes on cash and cash equivalents	$ 1	$ 11	$ (10)
Increase (decrease) in cash and cash equivalents	**$ 397**	**$ (1,070)**	**$ 1,467**

Net Cash Flows from Operating Activities

Net cash flows from operating activities of $1,437 million improved $1,070 million from the same quarter in 2022 primarily due to the significant improvement in operating results and advance ticket sales compared to the first quarter of 2022.

Net Cash Flows Used in Financing Activities

In the first quarter of 2023, net cash flows used in financing activities of $292 million increased $100 million from the first quarter of 2022. The increase was due to higher debt repayments, partially offset by new borrowings for Airbus A220 deliveries.

Net Cash Flows Used in Investing Activities

Additions to property, equipment, and intangible assets of $450 million in the first quarter of 2023 increased $174 million compared to the same period in 2022. These additions relate mainly to aircraft acquisitions and related pre-delivery payments, capitalized maintenance, and technology projects. Treasury management activity to optimize between cash and investments impacted net cash flows by $676 million year-over-year.

Refer to sections 7.2 “Net Debt”, and 7.3 “Working Capital” of this MD&A for additional information.

Free Cash Flow

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

(Canadian dollars in millions)	First Quarter 2023	First Quarter 2022	$ Change
Net cash flows from operating activities	**$ 1,437**	**$ 367**	**$ 1,070**
Additions to property, equipment, and intangible assets	(450)	(276)	(174)
Free cash flow (1)	**$ 987**	**$ 91**	**$ 896**

(1) Free cash flow is a non-GAAP financial measure used by Air Canada as an indicator of the financial strength and performance of its business, indicating how much cash it can generate from operations after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment, and intangible assets and net of proceeds from sale and leaseback transactions. Such measure is not a recognized measure for financial statement presentation under GAAP, does not have a standardized meaning, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

7.5 CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS

Airbus A321XLR Aircraft

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

Airbus A220-300 Aircraft

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

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

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

Boeing 737 MAX

Air Canada's agreement with Boeing for the purchase of Boeing 737 MAX aircraft provides for firm orders for 40 Boeing 737 MAX 8 aircraft (which have all been delivered as at December 31, 2022) and purchase options for an additional 10 Boeing 737 MAX aircraft.

Boeing 787-9 Aircraft

In 2021, Air Canada exercised options for the purchase of three Boeing 787-9 aircraft. One Boeing 787-9 aircraft was delivered in April 2023. Of the two remaining aircraft, one is scheduled for delivery in 2023 and the other in 2024.

Boeing 767 Freighter Aircraft

Air Canada expects to have a fleet of seven Boeing 767 freighters by the end of 2023 and expects to add a further three Boeing 767 freighters between 2024 and 2025.

Boeing 777 Freighter Aircraft

In 2022, Air Canada finalized an agreement for the purchase of two new Boeing 777 freighter aircraft with deliveries expected in 2024.

Heart Aerospace ES-30 Electric Aircraft

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

Capital Commitments

The estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments at March 31, 2023 amounted to $7,655 million.

(Canadian dollars in millions)	Remainder of 2023	2024	2025	2026	2027	Thereafter	Total
Committed expenditures	$ 1,174	$ 1,020	$ 763	$ 1,169	$ 735	$ 2,794	$ 7,655
Projected planned but uncommitted expenditures	127	404	522	548	548	Not available	Not available
Projected planned but uncommitted capitalized maintenance (1)	286	493	485	450	450	Not available	Not available
Total projected expenditures (2)	**$ 1,587**	**$ 1,917**	**$ 1,770**	**$ 2,167**	**$ 1,733**	**Not available**	**Not available**

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

(2) U.S. dollar amounts are converted using the March 31, 2023 closing exchange rate of US$1=C$1.3516. 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 March 31, 2023.

7.6 PENSION FUNDING OBLIGATIONS

At January 1, 2023, the aggregate solvency surplus in Air Canada's domestic registered pension plans was $4.6 billion. As permitted by legislation and subject to applicable plan rules, amounts in excess of 105% on a solvency basis may be used to reduce current service contributions under the defined benefit component or to fund the employer contribution to a defined contribution component within the same pension plan.

Air Canada's pension funding obligations are discussed in section 8.7 "Pension Funding Obligations" of Air Canada's 2022 MD&A. There have been no material changes to Air Canada's pension funding obligations from what was disclosed at that time.

7.7 CONTRACTUAL OBLIGATIONS

The table below provides Air Canada's projected contractual obligations as at March 31, 2023, including those relating to interest and principal repayment obligations on Air Canada's long-term debt and lease liabilities and committed capital expenditures.

(Canadian dollars in millions)	Remainder of 2023	2024	2025	2026	2027	Thereafter	Total
Principal							
Long-term debt [1]	$ 482	$ 531	$ 1,279	$ 2,549	$ 1,185	$ 7,518	$ 13,544
Lease liabilities	423	$ 517	$ 487	$ 333	$ 274	$ 916	2,950
Total principal obligations	**$ 905**	**$ 1,048**	**$ 1,766**	**$ 2,882**	**$ 1,459**	**$ 8,434**	**$ 16,494**
Interest							
Long-term debt	$ 497	$ 697	$ 658	$ 588	$ 484	$ 533	$ 3,457
Lease liabilities	114	$ 126	$ 99	$ 77	$ 61	$ 324	801
Total interest obligations	**$ 611**	**$ 823**	**$ 757**	**$ 665**	**$ 545**	**$ 857**	**$ 4,258**
Total long-term debt and lease liabilities	**$ 1,516**	**$ 1,871**	**$ 2,523**	**$ 3,547**	**$ 2,004**	**$ 9,291**	**$ 20,752**
Committed capital expenditures	**$ 1,174**	**$ 1,020**	**$ 763**	**$ 1,169**	**$ 735**	**$ 2,794**	**$ 7,655**
Total contractual obligations [2]	**$ 2,690**	**$ 2,891**	**$ 3,286**	**$ 4,716**	**$ 2,739**	**$ 12,085**	**$ 28,407**

(1) Assumes the principal balance of the convertible notes, $371 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 accessed in 2021 to support customer refunds of non-refundable tickets is included.

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

7.8 SHARE INFORMATION

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

	March 31, 2023	December 31, 2022
Issued and outstanding shares		
Class A variable voting shares	63,115,993	72,431,001
Class B voting shares	295,308,527	285,931,257
Total issued and outstanding shares	**358,424,520**	**358,362,258**
Potential shares		
Convertible notes	17,856,599	17,856,599
Stock options	6,535,749	5,304,745
Total shares potentially issuable	**24,392,348**	**23,161,344**
Total outstanding and potentially issuable shares	**382,816,868**	**381,523,602**

8. QUARTERLY FINANCIAL DATA

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

(Canadian dollars in millions, except per share figures)	2021			2022				2023
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Operating revenues	$ 837	$ 2,103	$ 2,731	$ 2,573	$ 3,981	5,322	4,680	$ 4,887
Operating expenses	1,970	2,467	3,234	3,123	4,234	4,678	4,708	4,904
Operating income (loss)	**(1,133)**	**(364)**	**(503)**	**(550)**	**(253)**	**644**	**(28)**	**(17)**
Non-operating income (expense)	**(165)**	**(315)**	**(114)**	**(264)**	**(99)**	**(1,148)**	**174**	**(6)**
Income (loss) before income taxes	**(1,298)**	**(679)**	**(617)**	**(814)**	**(352)**	**(504)**	**146**	**(23)**
Income tax recovery (expense)	133	39	124	(160)	(34)	(4)	22	27
Net income (loss)	**$ (1,165)**	**$ (640)**	**$ (493)**	**$ (974)**	**$ (386)**	**$ (508)**	**$ 168**	**$ 4**
Basic earnings (loss) per share	**$ (3.28)**	**$ (1.79)**	**$ (1.38)**	**$ (2.72)**	**$ (1.08)**	**$ (1.42)**	**$ 0.47**	**$ 0.01**
Diluted earnings (loss) per share	**$ (3.31)**	**$ (1.79)**	**$ (1.38)**	**$ (2.72)**	**$ (1.60)**	**$ (1.42)**	**$ 0.41**	**$ (0.03)**
Adjusted EBITDA (1)	**$ (656)**	**$ (67)**	**$ 22**	**$ (143)**	**$ 154**	**$ 1,057**	**$ 389**	**$ 411**
Adjusted pre-tax income (loss) (1)	**$ (1,210)**	**$ (649)**	**$ (574)**	**$ (740)**	**$ (447)**	**$ 446**	**$ (211)**	**$ (194)**
Adjusted net income (loss) (1)	**$ (1,207)**	**$ (652)**	**$ (577)**	**$ (747)**	**$ (455)**	**$ 431**	**$ (217)**	**$ (188)**
Adjusted earnings (loss) per share – diluted (1)	**$ (3.40)**	**$ (1.82)**	**$ (1.61)**	**$ (2.09)**	**$ (1.12)**	**$ 1.07**	**$ (0.61)**	**$ (0.53)**

(1) Adjusted EBITDA, adjusted pre-tax income (loss) and adjusted net income (loss) are non-GAAP financial measures. Adjusted earnings (loss) per share is a non-GAAP financial ratio. For additional information, refer to section 16 "Non-GAAP Financial Measures" of this MD&A.

Reclassification of certain operating expenses

Prior to the fourth quarter of 2022, 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, and other costs incurred by Air Canada which were directly related to regional carrier operations, excluding fuel. For the year ended December 31, 2022, these costs are no longer allocated to regional airline expense on the consolidated statement of operations. Capacity purchase fees are now presented as a separate line item and continue to exclude the component of fees related to aircraft costs which are accounted for as lease liabilities in accordance with IFRS 16. Refer to section 12 "Accounting Policies" of Air Canada's 2022 MD&A for additional details.

The table below presents the operating expenses for each quarter and the full year 2022 on this reclassified basis.

(Canadian dollars in millions)	2022				
	Q1	Q2	Q3	Q4	Full Year
Operating expenses					
Aircraft fuel	$ 750	$ 1,450	$ 1,617	$ 1,459	$ 5,276
Wages, salaries and benefits	737	781	850	892	3,260
Depreciation, amortization, and impairment	407	407	413	417	1,644
Airport and navigation fees	228	299	366	320	1,213
Sales and distribution costs	122	197	250	228	797
Capacity purchase fees	167	188	194	214	763
Aircraft maintenance	44	209	205	248	706
Ground package costs	129	102	80	163	474
Communications and information technology	119	107	115	127	468
Catering and onboard services	70	101	127	127	425
Other	350	393	461	513	1,717
Total operating expenses	**$ 3,123**	**$ 4,234**	**$ 4,678**	**$ 4,708**	**$ 16,743**

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Air Canada's financial instruments and risk management practices are summarized in section 11 "Financial Instruments and Risk Management" of Air Canada's 2022 MD&A. There have been no material changes to Air Canada's financial instruments and risk management practices from what was disclosed at that time. Additional information on Air Canada's risk management practices and financial instruments is provided in Note 7 of Air Canada's interim unaudited condensed consolidated financial statements for the first quarter of 2023.

10. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in Note 2 of the audited 2022 consolidated financial statements and notes and in section 12 "Accounting Policies" of Air Canada's 2022 MD&A. There have been no material changes to Air Canada's accounting policies from what was disclosed at that time. Additional information on Air Canada's accounting policies is provided in Note 2 of Air Canada's interim unaudited condensed consolidated financial statements for the first quarter of 2023.

11. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Air Canada's critical accounting estimates and judgments are summarized in section 13 "Critical Accounting Estimates and Judgments" of Air Canada's 2022 MD&A. There have been no material changes to critical accounting estimates and judgments from what was disclosed at that time.

12. OFF-BALANCE SHEET ARRANGEMENTS

Air Canada's off-balance sheet arrangements are summarized in section 14 "Off-Balance Sheet Arrangements" of Air Canada's 2022 MD&A. There have been no material changes to Air Canada's off-balance sheet arrangements from what was disclosed at that time.

13. RELATED PARTY TRANSACTIONS

As at March 31, 2023, Air Canada had no transactions with related parties as defined in the CPA Handbook, except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

14. RISK FACTORS

For a description of risk factors associated with Air Canada and its business, refer to section 18 "Risk Factors" of Air Canada's 2022 MD&A. There have been no material changes to Air Canada's risk factors from what was disclosed at that time.

15. CONTROLS AND PROCEDURES

Air Canada's controls and procedures are summarized in section 19 "Controls and Procedures" of Air Canada's 2022 MD&A. There have been no material changes to Air Canada's controls and procedures from what was disclosed at that time.

16. NON-GAAP FINANCIAL MEASURES

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

Adjusted CASM

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

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

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

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)	First Quarter		
	2023	2022	Change
Operating expense – GAAP	**$ 4,904**	**$ 3,123**	**$ 1,781**
Adjusted for:			
Aircraft fuel	(1,375)	(750)	(625)
Ground package costs	(318)	(129)	(189)
Impairment of assets	-	(4)	4
Freighter costs (excluding fuel)	(31)	(11)	(20)
Operating expense, adjusted for the above-noted items	**$ 3,180**	**$ 2,229**	**$ 951**
ASMs (millions)	**21,907**	**14,297**	**53.2%**
Adjusted CASM (cents)	**¢ 14.52**	**¢ 15.59**	**¢ (1.07)**

EBITDA and Adjusted EBITDA

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

Adjusted EBITDA Margin

Adjusted EBITDA margin (adjusted EBITDA as a percentage of operating revenues) is commonly used in the airline industry and is used by Air Canada as a means to measure the operating margin before interest, taxes, depreciation and amortization as these costs can vary significantly among airlines due to differences in the way airlines finance their aircraft and other assets.

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

	First Quarter		
(Canadian dollars in millions, except where indicated)	**2023**	**2022**	**Change**
Operating loss – GAAP	**$ (17)**	**$ (550)**	**$ 533**
Add back:			
Depreciation and amortization	428	403	25
EBITDA	**$ 411**	**$ (147)**	**$ 558**
Remove:			
Impairment of assets	-	4	(4)
Adjusted EBITDA	**$ 411**	**$ (143)**	**$ 554**
Operating revenues	**$ 4,887**	**$ 2,573**	**$ 2,314**
Operating margin (%)	**(0.3)**	**(21.4)**	**21.1 pp**
Adjusted EBITDA margin (%)	**8.4**	**(5.6)**	**14.0 pp**

Adjusted Pre-tax Income (Loss)

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

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

	First Quarter		
(Canadian dollars in millions)	**2023**	**2022**	**$ Change**
Loss before income taxes – GAAP	**$ (23)**	**$ (814)**	**$ 791**
Adjusted for:			
Impairment of assets	-	4	(4)
Foreign exchange gain	(127)	(99)	(28)
Net interest relating to employee benefits	(6)	(4)	(2)
(Gain) loss on financial instruments recorded at fair value	(38)	173	(211)
Adjusted pre-tax loss	**$ (194)**	**$ (740)**	**$ 546**

Adjusted Net Income (Loss) and Adjusted Earnings (Loss) Per Share – Diluted

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

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

(Canadian dollars in millions)	First Quarter 2023	First Quarter 2022	First Quarter $ Change
Net income (loss) – GAAP	**$ 4**	**$ (974)**	**$ 978**
Adjusted for:			
Impairment of assets	-	4	(4)
Foreign exchange gain	(127)	(99)	(28)
Net interest relating to employee benefits	(6)	(4)	(2)
(Gain) loss on financial instruments recorded at fair value	(38)	173	(211)
Income tax, including for the above reconciling items (1)	(21)	153	(174)
Adjusted net loss	**$ (188)**	**$ (747)**	**$ 559**
Weighted average number of outstanding shares used in computing diluted income per share (in millions)	358	358	-
Adjusted loss per share – diluted	**$ (0.53)**	**$ (2.09)**	**$ 1.56**

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

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

(In millions)	First Quarter 2023	First Quarter 2022
Weighted average number of shares outstanding – basic	**358**	**358**
Effect of dilution	-	-
Weighted average number of shares outstanding – diluted	**358**	**358**

Free Cash Flow

Air Canada uses free cash flow as an indicator of the financial strength and performance of its business, indicating the amount of cash Air Canada can generate from operations and after capital expenditures. Free cash flow is calculated as net cash flows from operating activities minus additions to property, equipment and intangible assets, and is net of proceeds from sale and leaseback transactions. Refer to section 7.4 "Cash Flow Movements" of this MD&A for a reconciliation of this non-GAAP financial measure to the nearest measure under GAAP.

Net Debt

Net debt is a capital management measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. Refer to section 7.2 “Net Debt” of this MD&A for a reconciliation of this non-GAAP measure to the nearest measure under GAAP.

17. GLOSSARY

Adjusted CASM – Refers to operating expense per ASM adjusted to remove the effects of aircraft fuel expense, ground packages costs at Air Canada Vacations, impairment of assets and freighter costs. Adjusted CASM is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted EBITDA – Refers to earnings before interest, taxes, depreciation and amortization excluding impairment of assets. Adjusted EBITDA is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted EBITDA margin – Refers to adjusted EBITDA as a percentage of operating revenue. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted net income (loss) – Refers to the consolidated net income (loss) of Air Canada adjusted to remove the after-tax effects of impairment of assets, foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on the sale and leaseback of assets, gains or losses on debt settlements and modifications, and gains or losses on disposal of assets. Adjusted net income (loss) is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

Adjusted pre-tax income (loss) – Refers to the consolidated income (loss) of Air Canada before income taxes and adjusted to remove the effects of impairment of assets, foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on the sale and leaseback of assets, gains or losses on debt settlements and modifications, and gains or losses on disposal of assets. Adjusted pre-tax income (loss) is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

Aeroplan – Refers to Aeroplan Inc.

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

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

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

CASM – Refers to operating expense per ASM.

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

Free cash flow – Refers to net cash flows from operating activities minus additions to property, equipment, and intangible assets, and is net of proceeds from sale and leaseback transactions. Free cash flow is a non-GAAP financial measure. Refer to sections 7.4 “Cash Flow Movements” and 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

Jazz – Refers to Jazz Aviation LP.

Leverage ratio – Also known as net debt to adjusted EBITDA ratio. Refers to the ratio of net debt to trailing 12-month adjusted EBITDA (calculated by dividing net debt by trailing 12-month adjusted EBITDA). Leverage ratio is a non-GAAP financial measure. Refer to sections 7.2 “Net Debt” and 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

Net debt – Refers to total long-term debt liabilities (including current portion) less cash, cash equivalents. and short- and long-term investments. Refer to section 7.2 "Net Debt" of this MD&A for a reconciliation of this capital management measure to the nearest measure under GAAP.

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

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

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

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

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

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

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

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

Yield – Refers to average passenger revenue per RPM.