



First Quarter 2022

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

April 26, 2022

TABLE OF CONTENTS

1. SELECTED FINANCIAL METRICS AND STATISTICS	1
2. INTRODUCTION AND KEY ASSUMPTIONS	3
3. STRATEGY	6
4. OVERVIEW & FIRST QUARTER 2022 HIGHLIGHTS	7
5. RESULTS OF OPERATIONS – Q1 2022 VERSUS Q1 2021.....	9
6. FLEET.....	16
7. FINANCIAL AND CAPITAL MANAGEMENT	18
7.1 LIQUIDITY.....	18
7.2 FINANCIAL POSITION	19
7.3 NET DEBT	20
7.4 WORKING CAPITAL	21
7.5 CASH FLOW MOVEMENTS	22
7.6 CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS.....	24
7.7 PENSION FUNDING OBLIGATIONS.....	25
7.8 CONTRACTUAL OBLIGATIONS	26
7.9 SHARE INFORMATION	27
8. QUARTERLY FINANCIAL DATA.....	28
9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT	28
10. ACCOUNTING POLICIES	28
11. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS	29
12. OFF-BALANCE SHEET ARRANGEMENTS.....	29
13. RELATED PARTY TRANSACTIONS	29
14. RISK FACTORS.....	29
15. CONTROLS AND PROCEDURES.....	29
16. NON-GAAP FINANCIAL MEASURES.....	30
17. GLOSSARY	33

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	2022	2021	\$ Change
Operating revenues	2,573	729	1,844
Operating loss	(550)	(1,049)	499
Loss before income taxes	(814)	(1,387)	573
Net loss	(974)	(1,304)	330
Adjusted pre-tax loss ⁽¹⁾	(740)	(1,335)	595
Operating margin (%)	(21)	(144)	123 pp ⁽⁸⁾
EBITDA (excluding special items) ⁽¹⁾	(143)	(763)	620
EBITDA margin ⁽¹⁾ (%)	(6)	(105)	99 pp
Unrestricted liquidity ⁽²⁾	10,162	6,582	3,580
Net cash flows from (used in) operating activities	335	(888)	1,223
Free cash flow ⁽¹⁾	59	(1,162)	1,221
Net debt ⁽¹⁾	7,031	6,170	861
Diluted loss per share	(2.72)	(3.90)	1.18
Operating Statistics ⁽³⁾	2022	2021	% Change
Revenue passenger miles ("RPMs") (millions)	9,481	1,831	417.9
Available seat miles ("ASMs") (millions)	14,297	4,211	239.5
Passenger load factor %	66.3%	43.5%	22.8 pp
Passenger revenue per RPM ("Yield") (cents)	20.2	21.6	(6.2)
Passenger revenue per ASM ("PRASM") (cents)	13.4	9.4	43.1
Operating revenue per ASM (cents)	18.0	17.3	4.0
Operating expense per ASM ("CASM") (cents)	21.8	42.2	(48.3)
Adjusted CASM (cents) ⁽¹⁾	15.6	40.4	(61.4)
Average number of full-time-equivalent ("FTE") employees (thousands) ⁽⁴⁾	27.3	16.1	69.5
Aircraft in operating fleet at period-end ⁽⁵⁾	332	332	-
Seats dispatched (thousands)	8,653	2,571	236.6
Aircraft frequencies (thousands)	65.0	22.1	193.7
Average stage length (miles) ⁽⁶⁾	1,652	1,638	0.9
Fuel cost per litre (cents)	98.6	62.7	57.2
Fuel litres (thousands)	760,862	318,358	139.0
Revenue passengers carried (thousands) ⁽⁷⁾	5,435	1,124	383.6

(1) Adjusted pre-tax loss, EBITDA (excluding special items) (earnings before interest, taxes, depreciation, and amortization), EBITDA margin, free cash flow, net debt and adjusted CASM are non-GAAP financial measures, non-GAAP ratios or supplemental 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.

(2) Unrestricted liquidity refers to the sum of cash, cash equivalents, short and long-term investments, and the amounts available under Air Canada's credit facilities. Unrestricted liquidity, as at March 31, 2022, consisted of \$9,212 million in cash, cash equivalents, short and long-term investments and \$950 million available under undrawn credit facilities. As at March 31, 2021, unrestricted liquidity consisted of \$6,582 million in cash, cash equivalents, short and long-term investments.

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

(4) Reflects FTE employees at Air Canada and its subsidiaries. Excludes FTE employees at third party carriers operating under capacity purchase agreements with Air Canada. As of March 31, 2022, there were 29,346 employees based in Canada.

- (5) The number of aircraft in Air Canada's operating fleet at March 31, 2022 and at December 31, 2021 include aircraft that were grounded due to the impact of the COVID-19 pandemic.*
- (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 2022. 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 2022 dated April 26, 2022, as well as Air Canada's 2021 annual audited consolidated financial statements and notes and Air Canada's 2021 MD&A each dated February 18, 2022. 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 April 25, 2022.

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 2021 MD&A and section 14 "Risk Factors" of this MD&A. Air Canada issued a news release dated April 26, 2022 reporting on its results for the first quarter 2022. This news release is available on Air Canada's website at aircanada.com and on SEDAR's website at www.sedar.com. For further information on Air Canada's public disclosures, including Air Canada's Annual Information Form, consult SEDAR at www.sedar.com.

Caution Regarding Forward-Looking Information

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

Forward-looking statements, by their nature, are based on assumptions including those described herein and the documents incorporated by reference 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.

Air Canada and the rest of the global airline industry have faced significantly lower traffic than in 2019, and a corresponding decline in revenue and cash flows, as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world including in Canada. Conditions have improved and travel restrictions have been lifted in many countries, but Air Canada cannot predict the timing and extent of the return to pre-pandemic levels. The COVID-19 pandemic may continue to have significant economic impacts, including on business and consumer spending and behaviour. This may in turn significantly impact demand for travel. Notably, the return of business travel to pre-pandemic levels may be challenged by the evolving nature of business models and remote-work practices adopted during the COVID-19 pandemic, such as the use of videoconferencing and other remote-work technologies, as well as

by interest in more sustainable practices. Air Canada is actively monitoring key indicators relevant to its rebuilding plans and will adjust as required. This will include the evolving impact of the pandemic, such as the course of the virus and its variants, government health measures and other actions, passenger interest and willingness to travel, the complexities of restarting an industry whose many stakeholders must coordinate with each other in doing so, and the timing and extent of recovery in the international and business travel segments. None of these factors can be predicted with certainty.

Other 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, Air Canada's ability to pay its indebtedness and maintain or increase liquidity, competition, Air Canada's dependence on technology, cybersecurity risks, energy prices, Air Canada's ability to successfully implement appropriate strategic and other important initiatives (including Air Canada's ability to manage operating costs), other epidemic diseases, terrorist acts, war, Air Canada's dependence on key suppliers, Air Canada's ability to successfully operate its loyalty program, interruptions of service, Air Canada's ability to attract and retain required personnel, the availability of Air Canada's workforce, casualty losses, changes in laws, regulatory developments or proceedings, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), Air Canada's dependence on regional and other carriers, Air Canada's ability to preserve and grow its brand, employee and labour relations and costs, Air Canada's dependence on Star Alliance® and joint ventures, pending and future litigation and actions by third parties, currency exchange, limitations due to restrictive covenants, insurance issues and costs, pension plans, 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" in Air Canada's 2021 MD&A and section 14 "Risk Factors" of this MD&A. The forward-looking statements contained or incorporated by reference in this MD&A represent Air Canada's expectations as of the date of this MD&A (or as of the date they are otherwise stated to be made) and are subject to change after such date. However, Air Canada disclaims any intention or obligation to update or revise any forward-looking statements whether because of new information, future events or otherwise, except as required under applicable securities regulations.

Key Assumptions

Assumptions were made by Air Canada in preparing and making forward-looking statements. As part of its assumptions, Air Canada assumes moderate Canadian GDP growth for 2022. Air Canada also assumes that the Canadian dollar will trade, on average, at C\$1.26 per U.S. dollar in 2022 and that the price of jet fuel will average \$1.24 per litre in 2022.

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. STRATEGY

Air Canada is evolving its business to better prepare for the future. As part of these efforts, Air Canada has introduced "Rise Higher", its newly articulated business imperatives, intended to elevate every aspect of its business. As it embarks on this next chapter, Air Canada will:

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

In pursuit of this goal, in 2022, Air Canada will build upon and leverage its numerous competitive advantages, including:

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

Additional information on Air Canada's strategy can be found in section 5 "Strategy" of Air Canada's 2021 MD&A.

4. OVERVIEW & FIRST QUARTER 2022 HIGHLIGHTS

Air Canada and the rest of the global airline industry have faced significantly lower traffic than in 2019, and a corresponding decline in revenue and cash flows, as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world, including in Canada. Conditions have improved and travel restrictions have been lifted in many countries, but Air Canada cannot predict the timing and extent of the return to pre-pandemic levels.

Over the quarter, and until February 28, 2022, all travellers, regardless of vaccination status, were required to provide a negative pre-entry COVID-19 PCR test result taken within 72 hours of departure or a proof of a positive test result received in the previous 11 to 180 days. On February 15, 2022, the Government of Canada announced changes to certain travel restrictions for fully vaccinated travellers. These changes, which became effective on February 28, 2022, included:

- Fully vaccinated travellers arriving to Canada are subject to a random selection process for COVID-19 testing upon arrival with no need to quarantine while waiting for their result.
- Children under 12 years old travelling with fully vaccinated adults continue to be exempt from the quarantine requirement and they no longer need to avoid school, camp or daycare or other public spaces.
- Travellers had the option to present a COVID-19 rapid antigen test result (taken the day prior to their scheduled flight), or a molecular test result (taken no more than 72 hours before their scheduled flight.)
- Travel Health advisory changed from a Level 3 to a Level 2, meaning that the Government no longer recommends that Canadians avoid travel for non-essential purposes.
- International flights carrying passengers are permitted to land at all remaining Canadian airports that are designated by the Canada Border Services Agency to receive international passenger flights.

On March 17, 2022, the Government of Canada announced additional changes that came into effect on April 1, 2022, allowing for fully vaccinated travellers to no longer be required to provide a pre-entry COVID-19 test result to enter Canada by air, land or water. Foreign nationals who do not meet the requirements to be considered fully vaccinated are not able to enter Canada unless they meet an exemption set out in the Orders made under the *Quarantine Act*. Unvaccinated or partially vaccinated travellers allowed to enter Canada, remain subject to the federal requirement to quarantine and take a COVID-19 PCR test at the time of arrival and on day eight after arrival.

Route Network and Schedule

Since the onset of the pandemic, Air Canada has actively managed its ASM capacity based on prevailing market trends and travel demand. In January 2022, in response to the emergence of the Omicron variant and the associated short-term decline in demand, Air Canada suspended flights to certain Caribbean destinations from January 24 to April 30, 2022.

In February 2022, Air Canada made the following announcements:

- An expansion of its North American network for Summer 2022 that includes the launch of new service on four transborder and three domestic routes, as well as the restoration of 41 North American routes. Air Canada plans to operate to 51 Canadian and 46 U.S. airports this summer and offer customers the largest network and the most travel options of any Canadian carrier.

- An expanded Summer 2022 international schedule with 34 routes relaunching across the Atlantic and Pacific.

Information on Air Canada's schedule updates which were announced in 2021 can be found in section 4 "2021 Highlights" of Air Canada's 2021 MD&A.

First Quarter 2022 Financial Summary

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

- First quarter 2022 operating revenues of \$2,573 million compared to first quarter operating revenues of \$729 million in 2021, an increase of \$1,844 million or about 3.5 times. Compared to first quarter 2019, operating revenues decreased \$1,880 million or 42% due to the impact of the COVID-19 pandemic and travel restrictions imposed.
- First quarter 2022 operating expenses of \$3,123 million versus operating expenses of \$1,778 million in the first quarter of 2021, an increase of \$1,345 million or 76% on a capacity increase of 239.5% and the impact of a 57% increase in fuel cost.
- First quarter 2022 operating loss of \$550 million decreased by \$499 million from the first quarter of 2021.
- First quarter 2022 EBITDA (excluding special items) of negative \$143 million improved \$620 million from the first quarter of 2021.
- Net cash flows from operating activities of \$335 million in the first quarter of 2022 versus net cash used in operating activities of \$888 million in the first quarter of 2021, reflecting the significant recovery in advance ticket sales and the improvement in operating results. Refer to section 7.5 "Cash Flow Movements" of this MD&A for additional information.

5. RESULTS OF OPERATIONS – Q1 2022 VERSUS Q1 2021

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			
	2022	2021	\$ Change	% Change
Operating revenues				
Passenger	\$ 1,917	\$ 395	\$ 1,522	385
Cargo	398	281	117	42
Other	258	53	205	387
Total operating revenues	2,573	729	1,844	253
Operating expenses				
Aircraft fuel	750	200	550	275
Wages, salaries, and benefits	707	528	179	34
Regional airlines expense, excluding fuel	316	195	121	62
Depreciation and amortization	403	413	(10)	(2)
Aircraft maintenance	26	150	(124)	(83)
Airport and navigation fees	183	98	85	87
Sales and distribution costs	108	24	84	350
Ground package costs	129	5	124	2,480
Catering and onboard services	64	21	43	205
Communications and information technology	116	105	11	10
Special items	4	(127)	131	103
Other	317	166	151	91
Total operating expenses	3,123	1,778	1,345	76
Operating loss	(550)	(1,049)	499	
Non-operating income (expense)				
Foreign exchange gain	99	67	32	
Interest income	20	21	(1)	
Interest expense	(209)	(177)	(32)	
Interest capitalized	3	4	(1)	
Net interest relating to employee benefits	4	(4)	8	
Loss on financial instruments recorded at fair value	(173)	(223)	50	
Loss on debt settlements and modifications	-	(19)	19	
Other	(8)	(7)	(1)	
Total non-operating expense	(264)	(338)	74	
Loss before income taxes	(814)	(1,387)	573	
Income tax recovery (expense)	(160)	83	(243)	
Net loss	\$ (974)	\$ (1,304)	\$ 330	
Diluted loss per share	\$ (2.72)	\$ (3.90)	\$ 1.18	
EBITDA (excluding special items) ⁽¹⁾	\$ (143)	\$ (763)	\$ 620	
Adjusted pre-tax loss ⁽¹⁾	\$ (740)	\$ (1,335)	\$ 595	

(1) EBITDA (excluding special items) and adjusted pre-tax loss are non-GAAP financial measures. Refer to section 16 "Non-GAAP Financial Measures" of this MD&A for additional information.

System Passenger Revenues

In the first quarter 2022, passenger revenues of \$1,917 million increased nearly five-fold from the first quarter of 2021. At the system level, capacity increased by 239.5% while traffic increased 417.9%, which translated into a 22.8 percentage point increase in passenger load factor. The 239.5% capacity increase was generally in line with the 243% increase projected in Air Canada's news release dated February 18, 2022, mainly due to the greater impact of the Omicron variant as well as additional travel restrictions placed on some operations in Asia. Passenger revenue per ASM (PRASM) in the first quarter of 2022 increased 43.1% when compared to the first quarter of 2021. These results are largely attributable to the impact of the COVID-19 pandemic and the significant travel restrictions in the first quarter of 2021 compared to the first quarter of 2022. The airline has started re-introducing service on many U.S. and International routes that were fully suspended last year due to these restrictions.

When compared to the same period in 2021, first quarter 2022 passenger revenues for business, premium economy, and economy cabins grew about 5.5 times, 6.2 times, and 4.6 times, respectively.

When compared to the pre-pandemic first quarter of 2019, first quarter 2022 passenger revenues, operated capacity, and traffic declined 50.5%, 45.0%, and 55.5% respectively.

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

(Canadian dollars in millions)	First Quarter			
	2022	2021	\$ Change	% Change
Canada	\$ 648	\$ 237	\$ 411	173.8
U.S. transborder	425	29	396	1,379.9
Atlantic	464	87	377	434.2
Pacific	98	16	82	500.0
Other	282	26	256	981.5
System	\$ 1,917	\$ 395	\$ 1,522	385.7

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

	First Quarter 2022 versus First Quarter 2021					
	Passenger Revenue % Change	Capacity (ASMs) % Change	Traffic (RPMs) % Change	Passenger Load Factor pp Change	Yield % Change	PRASM % Change
Canada	173.8	116.8	226.3	23.0	(16.1)	26.3
U.S. transborder	1,379.9	1,146.6	1,756.2	19.7	(20.3)	18.7
Atlantic	434.2	165.3	317.2	25.5	28.1	101.3
Pacific	500.0	130.3	435.2	36.1	12.1	160.5
Other	981.5	683.2	946.3	16.5	3.4	38.1
System	385.7	239.5	417.9	22.8	(6.2)	43.1

Domestic Passenger Revenues

In the first quarter of 2022, Domestic passenger revenues of \$648 million increased \$411 million or nearly three times from the same period in 2021. Compared to the first quarter of 2021, capacity and traffic increased 116.8% and 226.3%, respectively, resulting in a passenger load factor increase of 23 percentage points. These results reflected the resumption of demand for leisure travel and greater availability of long-haul destinations in the first quarter of 2022 compared to the first quarter of 2021.

Travel demand in early 2021 was primarily for essential purposes, booked close-in to departure date and on shorter stage-length journeys due to the impact of the COVID-19 pandemic and travel restrictions in place. That environment generated higher yields compared to the current quarter which saw a 16.1% yield decline accompanying the increase in leisure and long-haul travel. However, the growth in traffic offset this yield decline and domestic PRASM improved 26.3% from the same quarter last year.

U.S. Transborder Passenger Revenues

In the first quarter of 2022, U.S. transborder passenger revenues of \$425 million increased \$396 million from the first quarter of 2021. When compared to the first quarter of 2021, first quarter 2022 capacity and traffic grew more than 10-fold. In the first quarter and until mid-year 2021, nearly all U.S. routes were suspended due to the border closures. Yield in the first quarter of 2022 declined 20.3% compared to the first quarter of 2021 as most travel in early 2021 was for essential purposes and booked close-in to departure date which generated higher yields. Traffic growth offset this yield decline resulting in an 18.7% improvement in transborder PRASM.

Atlantic Passenger Revenues

In the first quarter of 2022, Atlantic passenger revenues of \$464 million increased \$377 million from the first quarter of 2021. Compared to the first quarter of 2021, capacity, traffic, and yield increased 165.3%, 317.2%, and 28.1%, respectively, as a result of the better operating environment following the easing of certain travel restrictions in the second half of 2021. Atlantic PRASM more than doubled at 101.3% from the first quarter of 2021.

Pacific Passenger Revenues

In the first quarter of 2022, Pacific passenger revenues of \$98 million increased \$82 million compared to the same quarter in 2021. Compared to the first quarter of 2021, capacity, traffic, and yield increased 130.3%, 435.2%, and 12.1%, respectively. However, when compared to the first quarter of 2019, deployed capacity to the Pacific market remains significantly lower than that of the other markets served by Air Canada due to significant travel restrictions that remain in place for key Asian destinations.

Other Passenger Revenues

In the first quarter of 2022, other passenger revenues of \$282 million increased \$256 million or more than 10 times from the first quarter of 2021. Compared to the first quarter of 2021, capacity and traffic grew about seven times and about 10 times, respectively, while yield grew 3.4%. The Canadian Government, in cooperation with several Canadian airlines, suspended routes to leisure destinations throughout Mexico, Central America and the Caribbean beginning at the end of January 2021. Many of these routes have been re-instated for the first quarter of 2022. PRASM for this service improved 38.1% from the first quarter of 2021.

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

(millions)	First Quarter			
	2022		2021	
	RPMs	ASMs	RPMs	ASMs
Canada	2,502	3,647	767	1,683
U.S. transborder	1,793	2,992	97	240
Atlantic	2,912	4,153	698	1,565
Pacific	570	900	106	391
Other	1,704	2,605	163	332
System	9,481	14,297	1,831	4,211

Cargo Revenues

In the first quarter of 2022, cargo revenues of \$398 million increased \$117 million or 41.7% from the first quarter of 2021. Robust demand supported by increased capacity led to strong revenue performance for the quarter with yield increasing 30% year-over-year. Demand for cargo services in the Pacific market was strong during the first quarter of 2022. As a result, Pacific cargo revenues increased \$86 million from the first quarter of 2021, representing about 73% of the total cargo revenue improvement.

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

(Canadian dollars in millions)	First Quarter			
	2022	2021	\$ Change	% Change
Canada	\$ 30	\$ 24	\$ 6	27.0
U.S. transborder	13	11	2	19.9
Atlantic	124	119	5	4.8
Pacific	194	108	86	79.3
Other	37	19	18	89.5
System	\$ 398	\$ 281	\$ 117	41.7

Other Revenues

In the first quarter of 2022, other revenues of \$258 million increased \$205 million from the first quarter of 2021, representing a growth of about 4.9 times. The increase was primarily due to a higher volume of ground package sales at Air Canada Vacations, reflecting the increased demand for vacation packages and

the impact of the suspension of flights to Mexico and the Caribbean between January 31, 2021 and June 26, 2021. Increases in on-board revenues from passenger volumes and non-air revenues related to the Aeroplan program also contributed to the improvement.

Operating Expenses

In the first quarter of 2022, total operating expenses of \$3,123 million increased \$1,345 million or 76% from the first quarter of 2021. The variance was mainly the result of increases in nearly all line items largely reflecting the year-over-year growth in operating capacity of 239.5% and in traffic of 417.9%.

The more notable year-over-year variances in operating expenses in the first quarter of 2022 compared to the first quarter of 2021 are summarized below.

Aircraft Fuel

In the first quarter of 2022, fuel expense of \$750 million increased \$550 million from the first quarter of 2021. The increase was a result of a 57.2% increase in jet fuel prices, as well as more jet fuel litres used as a result of the higher volume of flying compared to the first quarter of 2021.

Wages, Salaries and Benefits

In the first quarter of 2022, wages, salaries, and benefits of \$707 million increased \$179 million or 34% from the first quarter of 2021. The variance was mainly due to an increase in wages and salaries reflecting the increase in FTEs compared to the same period in 2021 as Air Canada increased its flying volume year-over-year. The increase was partially offset by lower average salaries largely as the result of a change in active employee mix.

Regional Airlines Expense

In the first quarter of 2022, regional airlines expense (excluding fuel and ownership costs) of \$316 million increased \$121 million or 62% from the first quarter of 2021. The increase was primarily driven by higher expenses due to higher volume of flying compared to the first quarter of 2021 and was partially offset by savings from the consolidation of regional flying.

The following table provides a breakdown of regional airlines expense for the periods indicated.

(Canadian dollars in millions)	First Quarter			
	2022	2021	\$ Change	% Change
Capacity purchase fees ⁽¹⁾	\$ 167	\$ 115	\$ 52	45
Airport and navigation	45	19	26	137
Sales and distribution costs	14	5	9	180
Other operating expenses	90	56	34	61
Total regional airlines expense	\$ 316	\$ 195	\$ 121	62

(1) Capacity purchase fees exclude the component of fees related to aircraft ownership costs which are accounted for as lease liabilities in accordance with IFRS 16 – Leases.

Depreciation and Amortization

In the first quarter of 2022, depreciation and amortization expense of \$403 million decreased \$10 million or 2% compared to the first quarter of 2021. The additions of new Airbus A220-300 and Boeing 737 MAX aircraft and refurbishment of the Airbus A330 cabin were offset by the return of leased aircraft and retirement of certain older aircraft from the fleet.

Aircraft Maintenance

In the first quarter of 2022, aircraft maintenance expense of \$26 million decreased \$124 million or 83% from the first quarter of 2021. In the first quarter of 2022, Air Canada and a third-party maintenance provider completed an amended agreement. In connection with this, a favourable adjustment of \$159 million was recorded in Aircraft maintenance expense arising from the adjustment to maintenance accruals and recognition of future credits that will be available under the amended agreement. Given the significantly reduced aircraft operations and fleet reductions during the COVID-19 pandemic, this agreement was amended by the parties to convert the nature of the services from a power-by-the-hour basis to a time and materials contract and reduced the number of items covered under the agreement. The decline was partially offset by increased volume of maintenance activity resulting from the increased flying year-over-year and by an increase in maintenance provisions reflecting updated end-of-lease cost estimates in anticipation of returning aircraft to lessors upon lease expiry (over the next 12 months).

Ground package costs

In the first quarter of 2022, ground package costs of \$129 million increased \$124 million from the first quarter of 2021. The increase was due to higher volume of ground packages sales at Air Canada Vacations compared to the first quarter of 2021. Air Canada suspended its flights to Mexico and Caribbean destinations between January 31, 2021 and June 26, 2021.

Special Items

In the first quarter of 2022, Air Canada recorded special items amounting to a net operating expense of \$4 million compared to a net operating expense reduction of \$127 million recorded in the first quarter of 2021. The table below provides the breakdown of these special items.

(Canadian dollars in millions)	First Quarter	
	2022	2021
Impairments	\$ 4	\$ 20
Government wage subsidy, net	-	(163)
Workforce reduction provisions	-	2
Other	-	14
Special items	\$ 4	\$ (127)

Impairments

In the first quarter of 2021, an impairment charge of \$20 million was recorded as a result of reductions to the estimates around the expected disposal proceeds on owned aircraft, partially offset by lower-than-expected costs to meet contractual return conditions on lease returns. An impairment charge of \$4 million was recorded in the first quarter of 2022 related to the return of leased aircraft. Further changes to these estimates may result in additional adjustments to the impairment charge in future periods.

Government Wage Subsidy

No wage subsidy was recorded in the first quarter of 2022 as Air Canada no longer qualified under the amended/new programs. A net subsidy of \$163 million was recorded in the first quarter of 2021.

Other

Termination of the Transat Arrangement Agreement

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

termination fee to Transat. The termination fee was recorded as a Special item during the first quarter of 2021.

Amendments to Capacity Purchase Agreements

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

Other operating expenses

In the first quarter of 2022, other operating expenses of \$317 million increased \$151 million or 91% from the same period in 2021. The increase was mainly due to increased level of flying year-over-year.

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

(Canadian dollars in millions)	First Quarter			
	2022	2021	\$ Change	% Change
Terminal handling	\$ 61	\$ 30	\$ 31	103
Crew cycle	39	12	27	225
Building rent and maintenance	41	33	8	24
Miscellaneous fees and services	48	31	17	55
Remaining other expenses	128	60	68	113
Total other expenses	\$ 317	\$ 166	\$ 151	91

Non-operating Expense

In the first quarter of 2022, total non-operating expenses were \$264 million compared to \$338 million in the first quarter of 2021.

Gains on foreign exchange amounted to \$99 million in the first quarter of 2022 compared to gains of \$67 million in 2021. The March 31, 2022 closing exchange rate was US\$1=\$1.2505 compared to a closing exchange rate of US\$1=\$1.2637 on December 31, 2021. The gains of \$132 million on long-term debt and lease liabilities were partially offset by losses of \$39 million on foreign currency derivatives.


Interest expense of \$209 million in the first quarter of 2022 increased \$32 million from the same period in 2021. This was mainly due to higher levels of debt as a result of financing transactions concluded during 2021.

The losses on financial instruments recorded at fair value were \$173 million in the first quarter of 2022 compared to losses of \$223 million in the first quarter of 2021. The losses were primarily due to the fluctuation in the fair value of Air Canada's convertible notes cash conversion settlement option, which resulted in a \$125 million loss in the first quarter of 2022.

6. FLEET

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

The tables below include aircraft that have been grounded in response to the COVID-19 pandemic.

 AIR CANADA	Actual			Planned			
	Dec. 31, 2021	Q1 2022 Fleet Changes	Mar. 31, 2022	Remainder 2022 Fleet Changes	Dec. 31, 2022	2023 Fleet Changes	Dec. 31, 2023
Wide-body aircraft							
Boeing 777-300ER	11	6	17	1	18	-	18
Boeing 777-300ER (cargo)	7	(6)	1	(1)	-	-	-
Boeing 777-200LR	6	-	6	-	6	-	6
Boeing 787-8	8	-	8	-	8	-	8
Boeing 787-9	29	-	29	-	29	2	31
Boeing 767-300 freighters	1	-	1	3	4	3	7
Airbus A330-300	12	3	15	1	16	-	16
Airbus A330-300 (cargo)	4	(3)	1	(1)	-	-	-
Total wide-body aircraft	78	-	78	3	81	5	86
Narrow-body aircraft							
Boeing 737 MAX 8	31	3	34	6	40	-	40
Airbus A321	15	-	15	-	15	-	15
Airbus A320	18	-	18	(2)	16	-	16
Airbus A319	6	-	6	(3)	3	-	3
Airbus A220-300	27	1	28	5	33	-	33
Total narrow-body aircraft	97	4	101	6	107	-	107
Total Mainline	175	4	179	9	188	5	193



	Actual			Planned			
	Dec. 31, 2021	Q1 2022 Fleet Changes	Mar. 31, 2022	Remainder 2022 Fleet Changes	Dec. 31, 2022	2023 Fleet Changes	Dec. 31, 2023
Narrow-body aircraft							
Airbus A321	14	-	14	-	14	-	14
Airbus A320	5	-	5	-	5	-	5
Airbus A319	20	-	20	-	20	-	20
Total Air Canada Rouge	39	-	39	-	39	-	39

Total Mainline & Rouge	214	4	218	9	227	5	232
-----------------------------------	------------	----------	------------	----------	------------	----------	------------

Air Canada Express

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

The table below includes aircraft that have been grounded in response to the COVID-19 pandemic.



	Actual			Planned			
	Dec. 31, 2021	Q1 2022 Fleet Changes	Mar. 31, 2022	Remainder 2022 Fleet Changes	Dec. 31, 2022	2023 Fleet Changes	Dec. 31, 2023
Embraer 175	25	-	25	-	25	-	25
Mitsubishi CRJ-200	15	-	15	-	15	-	15
Mitsubishi CRJ-900	35	-	35	-	35	-	35
De Havilland Dash 8-300	9	(9)	-	-	-	-	-
De Havilland Dash 8-400	39	-	39	-	39	(3)	36
Total Air Canada Express	123	(9)	114	-	114	(3)	111

7. FINANCIAL AND CAPITAL MANAGEMENT

7.1 LIQUIDITY

Impact of the COVID-19 Pandemic

Air Canada and the rest of the global airline industry have faced significantly lower traffic than in 2019, and a corresponding decline in revenue and cash flows, as a result of the COVID-19 pandemic and the travel restrictions imposed in many countries around the world, including in Canada.

The expectation is for a progressive improvement in cash flows from operating activities as travel restrictions, testing mandates or travel advisories and other COVID related measures are lifted and/or when travel demand recovers. Considering the uncertainty that has characterized the COVID-19 pandemic, the duration of the recovery phase remains difficult to predict. One of Air Canada's key objectives is to return to profitability and sustain and improve cash flows from operations to manage its liquidity needs.

Liquidity Risk Management

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

Liquidity needs are primarily related to meeting obligations associated with financial liabilities, capital commitments, ongoing operations, contractual and other obligations, which are further discussed in sections 7.6 "Capital Expenditures and Related Financing Arrangements", 7.7 "Pension Funding Obligations", and 7.8 "Contractual Obligations" of this MD&A. Air Canada monitors and manages liquidity risk by preparing rolling cash flow forecasts for a minimum period of at least twelve months after each reporting period, including under various scenarios and assumptions, monitoring the condition and value of assets available to be used as well as those assets being used as security in financing arrangements, seeking flexibility in financing arrangements, and establishing programs to monitor and maintain compliance with terms of financing agreements. At March 31, 2022 unrestricted liquidity was \$10,162 million comprised of cash and cash equivalents, short-term and long-term investments of \$9,212 million, and \$950 million available under undrawn credit facilities.

Air Canada estimates that it requires a minimum unrestricted liquidity balance of \$5,000 million to support ongoing business operations, updated from the \$2,400 million amount as reported at December 31, 2021. This minimum cash estimate considers Air Canada's various financial covenants, provides adequate coverage for advance ticket sales, and supports Air Canada's liquidity needs, as described above. The increase in the minimum liquidity balance from the amount reported at December 31, 2021 reflects the increasing scale of operations as Air Canada continues to rebuild the airline and also includes a larger buffer to manage cost risk and unplanned disruptions. Minimum unrestricted liquidity includes funds available under credit facilities.

7.2 FINANCIAL POSITION

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

(Canadian dollars in millions)	March 31, 2022	December 31, 2021	\$ Change
Assets			
Cash, cash equivalents and short-term investments	\$ 8,589	\$ 8,802	\$ (213)
Other current assets	1,479	1,251	228
Current assets	\$ 10,068	\$ 10,053	\$ 15
Investments, deposits, and other assets	915	858	57
Property and equipment	11,656	11,740	(84)
Pension assets	2,698	3,571	(873)
Deferred income tax	45	39	6
Intangible assets	1,069	1,080	(11)
Goodwill	3,273	3,273	-
Total assets	\$ 29,724	\$ 30,614	\$ (890)
Liabilities			
Current liabilities	\$ 8,013	\$ 6,924	\$ 1,089
Long-term debt and lease liabilities	15,126	15,511	(385)
Aeroplan and other deferred revenues	3,497	3,656	(159)
Pension and other benefit liabilities	2,156	2,588	(432)
Maintenance provisions	1,084	1,032	52
Other long-term liabilities	934	821	113
Deferred income tax	73	73	-
Total liabilities	\$ 30,883	\$ 30,605	\$ 278
Total shareholders' equity (deficiency)	\$ (1,159)	\$ 9	\$ (1,168)
Total liabilities and shareholders' equity	\$ 29,724	\$ 30,614	\$ (890)

Movements in current assets and current liabilities are described in section 7.4 "Working Capital" of this MD&A. Long-term debt and lease liabilities are discussed in sections 7.3 "Net Debt" and 7.5 "Cash Flow Movements" of this MD&A.

At March 31, 2022, net long-term benefit assets of \$542 million (comprising pension assets of \$2,698 million net of pension and other benefit liabilities of \$2,156 million) decreased \$441 million from December 31, 2021. This decrease was mainly due to a net actuarial loss on remeasurements of employee liabilities of \$362 million (\$211 million, net of tax) recorded on Air Canada's consolidated statement of comprehensive income, as well as pension and other employee benefits expense recorded during the quarter. The actuarial loss reflects the limit on the amount of pension assets that can be recognized under the accounting rules. While the gain on the 112-basis point increase in discount rate used to value the liabilities offset a lower return on plan assets, the net asset that could be recognized was capped to the amount of surplus available to reduce future funding requirements.

The long-term portion of the Aeroplan and other deferred revenue liability decreased \$159 million from December 31, 2021. This decrease included a reclassification of \$69 million from long-term to current liabilities for Aeroplan Point redemptions expected to occur over the next 12 months, as well as Aeroplan Point redemptions exceeding the sale of points to program partners.

7.3 NET DEBT

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

(Canadian dollars in millions)	March 31, 2022	December 31, 2021	\$ Change
Total long-term debt and lease liabilities	\$ 15,126	\$ 15,511	\$ (385)
Current portion of long-term debt and lease liabilities	1,117	1,012	105
Total long-term debt and lease liabilities (including current portion)	16,243	16,523	(280)
Less cash, cash equivalents and short and long-term investments	(9,212)	(9,403)	191
Net debt ⁽¹⁾	\$ 7,031	\$ 7,120	\$ (89)

(1) Net debt is an additional GAAP financial measure and a key component of the capital managed by Air Canada and provides management with a measure of its net indebtedness. For additional information on net debt, refer to section 16 "Non-GAAP Financial Measures" of this MD&A.

As at March 31, 2022, net debt of \$7,031 million decreased \$89 million from December 31, 2021, reflecting the impact of net cash from operating and investing activities in the first quarter of 2022. The impact of a stronger Canadian dollar at March 31, 2022 compared to December 31, 2021, decreased foreign currency denominated debt (mainly U.S. dollars) by \$132 million.

7.4 WORKING CAPITAL

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

(Canadian dollars in millions)	March 31, 2022	December 31, 2021	\$ Change
Cash, cash equivalents and short-term investments	\$ 8,589	\$ 8,802	\$ (213)
Accounts receivable	819	691	128
Other current assets	660	560	100
Total current assets	\$ 10,068	\$ 10,053	\$ 15
Accounts payable and accrued liabilities	2,361	2,603	(242)
Advance ticket sales	3,483	2,326	1,157
Aeroplan and other deferred revenues	1,052	983	69
Current portion of long-term debt and lease liabilities	1,117	1,012	105
Total current liabilities	\$ 8,013	\$ 6,924	\$ 1,089
Net working capital	\$ 2,055	\$ 3,129	\$ (1,074)

Net working capital of \$2,055 million as at March 31, 2022 decreased \$1,074 million from December 31, 2021. This decrease was due to a combination of the operating loss, net cash outflows relating to capital expenditures, and debt repayments in the first quarter of 2022.

7.5 CASH FLOW MOVEMENTS

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

(Canadian dollars in millions)	First Quarter		
	2022	2021	\$ Change
Net cash flows from (used in) operating activities	\$ 335	\$ (888)	\$ 1,223
Proceeds from borrowings	38	128	(90)
Reduction of long-term debt and lease liabilities	(231)	(404)	173
Issue of shares	1	74	(73)
Financing fees	-	(3)	3
Net cash flows used in financing activities	\$ (192)	\$ (205)	\$ 13
Investments, short-term and long-term	(972)	994	(1,966)
Additions to property, equipment, and intangible assets	(276)	(280)	4
Proceeds from sale of assets	3	5	(2)
Proceeds from sale and leaseback of assets	-	6	(6)
Other	(11)	6	(17)
Net cash flows from (used in) investing activities	\$ (1,256)	\$ 731	\$ (1,987)
Effect of exchange rate changes on cash and cash equivalents	\$ 11	\$ (18)	\$ 29
Decrease in cash and cash equivalents	\$ (1,102)	\$ (380)	\$ (722)

Net Cash Flows from (used in) Operating Activities

In the first quarter of 2022, net cash flows from operating activities of \$335 million improved \$1,223 million from the same quarter in 2021 due to strong advance ticket sales and a significant increase in passengers carried.

Net Cash Flows used in Financing Activities

In the first quarter of 2022, net cash flows used in financing activities of \$192 million decreased \$13 million from the first quarter of 2021. The decrease was due to lower debt repayments, partially offset by lower proceeds from borrowings and lower net proceeds from the issuance of shares.

Net Cash Flows from (used in) Investing Activities

In the first quarter of 2022, net cash flows used in investing activities of \$1,256 million decreased \$1,987 million from the same quarter in 2021, primarily reflecting movements between cash and short- and long-term investments.

Refer to sections 7.2 "Financial Position", 7.3 "Net Debt", and 7.4 "Working Capital" of this MD&A for additional information.

Free Cash Flow

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

(Canadian dollars in millions)	First Quarter		
	2022	2021	\$ Change
Net cash flows from (used in) operating activities	\$ 335	\$ (888)	\$ 1,223
Additions to property, equipment, and intangible assets, net of proceeds from sale and leaseback transactions	(276)	(274)	(2)
Free cash flow ⁽¹⁾	\$ 59	\$ (1,162)	\$ 1,221

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

Free cash flow of \$59 million in the first quarter of 2022 improved by \$1,221 million when compared to the same period in 2021, reflecting higher net cash flows from operations as a result of an improved operating environment and strong advance ticket sales.

7.6 CAPITAL EXPENDITURES AND RELATED FINANCING ARRANGEMENTS

Airbus A321XLR Aircraft

Air Canada is acquiring 30 extra-long range (XLR) versions of the Airbus A321neo aircraft (Airbus A321XLR), an increase of 4 Airbus A321XLR aircraft announced in March 2022. Deliveries are expected to begin in the first half of 2024 with the final aircraft to arrive in 2027. Of the 30 total aircraft, 20 aircraft will be leased and ten 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's agreement with Airbus Canada for the purchase of Airbus A220-300 aircraft provides for:

- Firm orders for 45 Airbus A220-300 aircraft
- Purchase options for 30 additional Airbus A220-300 aircraft

In January 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. These 12 aircraft are those that Air Canada had previously determined it would no longer be purchasing under an amendment to the purchase agreement concluded with Airbus in November 2020. Planned deliveries for the 12 aircraft are: six in 2024, and six in 2025.

In March 2021, Air Canada concluded a committed secured facility totalling US\$475 million to finance the purchase of the next 15 Airbus A220 aircraft scheduled for delivery in 2021 and 2022. Financing remains available for an additional six Airbus A220 aircraft under this facility, one of which was financed in April 2022.

As at March 31, 2022, 28 Airbus A220-300 aircraft had been delivered.

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
- Purchase options for 10 Boeing 737 MAX aircraft

At March 31, 2022, 34 Boeing 737 MAX 8 aircraft had been delivered. The remaining six on firm order are expected to be delivered by the end of the second quarter of 2022 reaching a total of 40 Boeing 737 MAX aircraft in the narrow-body fleet.

Boeing 787-9 Aircraft

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

Boeing 767 Freighter Aircraft

Air Canada finalized an agreement for the purchase of two new Boeing 767 freighter aircraft with deliveries expected in May 2022 and which are expected to enter into service in 2023.

Capital Commitments

As outlined in the table below, the estimated aggregate cost of all aircraft expected to be delivered and other capital purchase commitments at March 31, 2022 amounted to about \$5,685 million.

(Canadian dollars in millions)	Remainder of 2022	2023	2024	2025	2026	Thereafter	Total
Committed expenditures	\$ 1,044	\$ 617	\$ 697	\$ 602	\$ 885	\$ 1,840	\$ 5,685
Projected planned but uncommitted expenditures	109	341	309	488	362	Not available	Not available
Projected planned but uncommitted capitalized maintenance ⁽¹⁾	249	386	452	270	350	Not available	Not available
Total projected expenditures ⁽²⁾	\$ 1,402	\$ 1,344	\$ 1,458	\$ 1,360	\$ 1,597	Not available	Not available

(1) Future capitalized maintenance amounts for 2025 and beyond are not yet determinable, however estimates of \$270 million and \$350 million have been made for 2025 and 2026, respectively.

(2) U.S. dollar amounts are converted using the March 31, 2022 closing exchange rate of US\$1=C\$1.2505. 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, 2022.

7.7 PENSION FUNDING OBLIGATIONS

On a preliminary basis, at January 1, 2022, the aggregate solvency surplus in Air Canada's domestic registered pension plans was estimated at \$4.7 billion. The final valuations will be completed in the first half of 2022. 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 9.7 "Pension Funding Obligations" of Air Canada's 2021 MD&A. There have been no material changes to Air Canada's pension funding obligations from what was disclosed at that time.

7.8 CONTRACTUAL OBLIGATIONS

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

(Canadian dollars in millions)	Remainder of 2022 ⁽²⁾	2023	2024	2025	2026	Thereafter	Total
Principal							
Long-term debt ⁽¹⁾	\$ 402	\$ 658	\$ 482	\$ 1,767	\$ 2,350	\$ 8,211	\$ 13,870
Lease liabilities	378	483	447	418	288	1,027	3,041
Total principal obligations	780	1,141	929	2,185	2,638	9,238	16,911
Interest							
Long-term debt	\$ 359	\$ 521	\$ 499	\$ 474	\$ 396	\$ 673	\$ 2,922
Lease liabilities	110	124	99	77	58	300	768
Total interest obligations	\$ 469	\$ 645	\$ 598	\$ 551	\$ 454	\$ 973	\$ 3,690
Total long-term debt and lease liabilities	\$ 1,249	\$ 1,786	\$ 1,527	\$ 2,736	\$ 3,092	\$ 10,211	\$ 20,601
Committed capital expenditures	\$ 1,044	\$ 617	\$ 697	\$ 602	\$ 885	\$ 1,840	\$ 5,685
Total contractual obligations ⁽²⁾	\$ 2,293	\$ 2,403	\$ 2,224	\$ 3,338	\$ 3,977	\$ 12,051	\$ 26,286

(1) Assumes the principal balance of the convertible notes, \$935 million (US\$748 million), remains unconverted and includes estimated interest payable until maturity in 2025. The full principal balance of \$1,273 million for the unsecured credit facility in connection with the Government of Canada financing to support customer refunds is included.

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

7.9 SHARE INFORMATION

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

	March 31, 2022	December 31, 2021
Issued and outstanding shares		
Class A variable voting shares	72,624,944	82,897,507
Class B voting shares	285,340,328	274,944,350
Total issued and outstanding shares	357,965,272	357,841,857
Class A variable voting and Class B voting shares potentially issuable		
Convertible notes	48,687,441	48,687,441
Warrants	-	7,288,282
Stock options	5,445,932	4,330,993
Total shares potentially issuable	54,133,373	60,306,716
Total outstanding and potentially issuable shares	412,098,645	418,148,573

Warrants

As described in section 9.9 "Share Information" of Air Canada's 2021 MD&A, Air Canada exercised its call right to purchase and cancel the 7,288,282 vested warrants at fair market value of \$82 million, with settlement completed in January 2022.

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)	2020			2021				2022
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Operating revenues	\$ 527	\$ 757	\$ 827	\$ 729	\$ 837	\$ 2,103	\$ 2,731	\$ 2,573
Operating expenses	2,082	1,542	1,830	1,778	1,970	2,467	3,234	3,123
Operating loss	(1,555)	(785)	(1,003)	(1,049)	(1,133)	(364)	(503)	(550)
Non-operating income (expense)	74	(36)	(272)	(338)	(165)	(315)	(114)	(264)
Loss before income taxes	(1,481)	(821)	(1,275)	(1,387)	(1,298)	(679)	(617)	(814)
Income tax recovery (expense)	(271)	136	114	83	133	39	124	(160)
Net loss	\$ (1,752)	\$ (685)	\$ (1,161)	\$ (1,304)	\$ (1,165)	\$ (640)	\$ (493)	\$ (974)
Diluted loss per share	\$ (6.44)	\$ (2.31)	\$ (3.91)	\$ (3.90)	\$ (3.31)	\$ (1.79)	\$ (1.38)	\$ (2.72)
Adjusted pre-tax loss⁽¹⁾	\$ (1,438)	\$ (1,141)	\$ (1,326)	\$ (1,335)	\$ (1,210)	\$ (649)	\$ (574)	\$ (740)

1. Adjusted pre-tax loss is a non-GAAP financial measure. For additional information, refer to section 16 "Non-GAAP Financial Measures" of this MD&A.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Air Canada's financial instruments and risk management practices are summarized in section 12 "Financial Instruments and Risk Management" of Air Canada's 2021 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 9 of Air Canada's interim unaudited condensed consolidated financial statements for the first quarter of 2022.

10. ACCOUNTING POLICIES

Air Canada's accounting policies are summarized in Note 2 of Air Canada's audited consolidated financial statements and notes for 2021. 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 2022.

11. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Air Canada's critical accounting estimates and judgments are summarized in section 14 "Critical Accounting Estimates and Judgments" of Air Canada's 2021 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 15 "Off-Balance Sheet Arrangements" of Air Canada's 2021 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

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

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 2021 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 17 "Enterprise Risk Management and Governance" of Air Canada's 2021 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 certain non-GAAP financial measures and ratios used by Air Canada to provide readers with additional information on its financial and operating performance. Such measures are not recognized measures for financial statement presentation under GAAP, do not have standardized meanings, may not be comparable to similar measures presented by other entities and should not be considered a substitute for or superior to GAAP results.

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. Air Canada excludes special items from EBITDA as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

EBITDA Margin

EBITDA margin (EBITDA as a percentage of operating revenue) 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 and EBITDA margin are reconciled to GAAP operating income (loss) as follows:

(Canadian dollars in millions, except where indicated)	First Quarter		
	2022	2021	\$ Change
Operating loss – GAAP	\$ (550)	\$ (1,049)	\$ 499
Add back:			
Depreciation and amortization	403	413	(10)
EBITDA (including special items)	\$ (147)	\$ (636)	\$ 489
Remove:			
Special items	4	(127)	131
EBITDA (excluding special items)	\$ (143)	\$ (763)	\$ 620
Operating margin (%)	(21)	(144)	123 pp
EBITDA margin (%)	(6)	(105)	99 pp

Adjusted CASM

Air Canada uses adjusted CASM to assess the operating and cost performance of its ongoing airline business without the effects of aircraft fuel expense, the cost of ground packages at Air Canada Vacations, freighter costs, and special items as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

In calculating adjusted CASM, aircraft fuel expense is excluded from operating expense results as it fluctuates widely depending on many factors, including international market conditions, geopolitical events, jet fuel refining costs and Canada/U.S. currency exchange rates. Air Canada also incurs expenses related to ground packages at Air Canada Vacations which some airlines, without comparable tour operator

businesses, may not incur. In addition, these costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

Air Canada also incurs expenses related to the operation of freighter aircraft which some airlines, without comparable cargo businesses, may not incur. Air Canada introduced one Boeing 767 dedicated freighter to its fleet in December 2021 and expects to have a fleet of seven Boeing 767 dedicated freighters in the next 12-18 months. Prior to 2021, Air Canada did not incur any costs related to the operation of dedicated freighter aircraft. These costs do not generate ASMs and therefore excluding these costs from operating expense results provides for a more meaningful comparison across periods when such costs may vary.

Excluding aircraft fuel expense, the cost of ground packages at Air Canada Vacations, dedicated freighter expenses and special items from operating expenses generally allows for a more meaningful analysis of Air Canada's operating expense performance and a more meaningful comparison to that of other airlines.

Adjusted CASM is reconciled to GAAP operating expense as follows:

(Canadian dollars in millions, except where indicated)	First Quarter		
	2022	2021	\$ Change
Operating expense – GAAP	\$ 3,123	\$ 1,778	\$ 1,345
Adjusted for:			
Aircraft fuel	(750)	(200)	(550)
Ground package costs	(129)	(5)	(124)
Special items	(4)	127	(131)
Freighter costs	(11)	-	(11)
Operating expense, adjusted for the above-noted items	\$ 2,229	\$ 1,700	\$ 529
ASMs (millions)	14,297	4,211	239.5%
Adjusted CASM (cents)	¢ 15.59	¢ 40.37	¢ (24.78)

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 foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on disposal of assets, gains or losses on debt settlements and modifications, and special items as these items may distort the analysis of certain business trends and render comparative analysis across periods or to other airlines less meaningful.

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

(Canadian dollars in millions)	First Quarter		
	2022	2021	\$ Change
Loss before income taxes – GAAP	\$ (814)	\$ (1,387)	\$ 573
Adjusted for:			
Special items	4	(127)	131
Foreign exchange gain	(99)	(67)	(32)
Net interest relating to employee benefits	(4)	4	(8)
Loss on financial instruments recorded at fair value	173	223	(50)
Loss on debt settlements and modifications	-	19	(19)
Adjusted pre-tax loss	\$ (740)	\$ (1,335)	\$ 595

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 7.5 "Cash Flow Movements" of this MD&A for a reconciliation of this non-GAAP financial 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, special items, 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 pre-tax income (loss) – Refers to the consolidated income (loss) of Air Canada before income taxes and adjusted to remove the effects of foreign exchange gains or losses, net interest relating to employee benefits, gains or losses on financial instruments recorded at fair value, gains or losses on sale and leaseback of assets, gains or losses on debt settlements and modifications, gains or losses on disposal of assets, and special items. 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.

EBITDA – Refers to earnings before interest, taxes, depreciation and amortization. EBITDA is a non-GAAP financial measure. Refer to section 16 “Non-GAAP Financial Measures” of this MD&A for additional information. Air Canada excludes special items from EBITDA.

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 7.5 “Cash Flow Movements” and 16 “Non-GAAP Financial Measures” of this MD&A for additional information.

Jazz – Refers to Jazz Aviation LP.

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

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

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

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

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

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

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

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

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

Special items – Refers to those items that, in management's view, are to be separately disclosed by virtue of their significance to the financial statements, to enable a fuller understanding of the Air Canada's financial performance.

Yield – Refers to average passenger revenue per RPM.