
1990 ANNUAL REPORT



Air Canada

## CORPORATE PROFILE

Air Canada is a Canadian-based international air carrier providing scheduled and charter air transportation for passengers and for cargo. The airline's passenger route network offers scheduled services to 24 North American cities.

Through its domestic Connector partners, another 57 Canadian communities and 12 cities in the United States are linked to the Air Canada network. The Corporation serves 26 cities in Europe and the Caribbean. Charter passenger services are provided to 14 international destinations.

The airline's cargo division serves 60 destinations in Canada and internationally, with representation in some 80 countries.

Air Canada's international alliance partners are: Air India, Air Jamaica, Austrian Airlines, British Midland, Cathay Pacific Airways, CSA, Finnair, LOT, Pakistan International Airways, Royal Jordanian Airlines, Singapore Airlines and VIASA.

Air Canada provides computer services, aircraft and engine maintenance, technical, flight attendant and pilot training, and ground handling services to airlines and other customers.

The Corporation holds equity interest, directly or indirectly, in five Canadian regional airlines, AirBC, NWT Air, Air Ontario, Air Alliance and Air Nova. No equity interest is held by Air Canada in its other Connector airline, Air Toronto.

The airline's diversification also includes enRoute Card Inc., the world's largest airline-operated credit card; Touram Inc. (Air Canada Vacations), a major Canadian tour operator; and other airline-related businesses.



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## YEAR AT A GLANCE

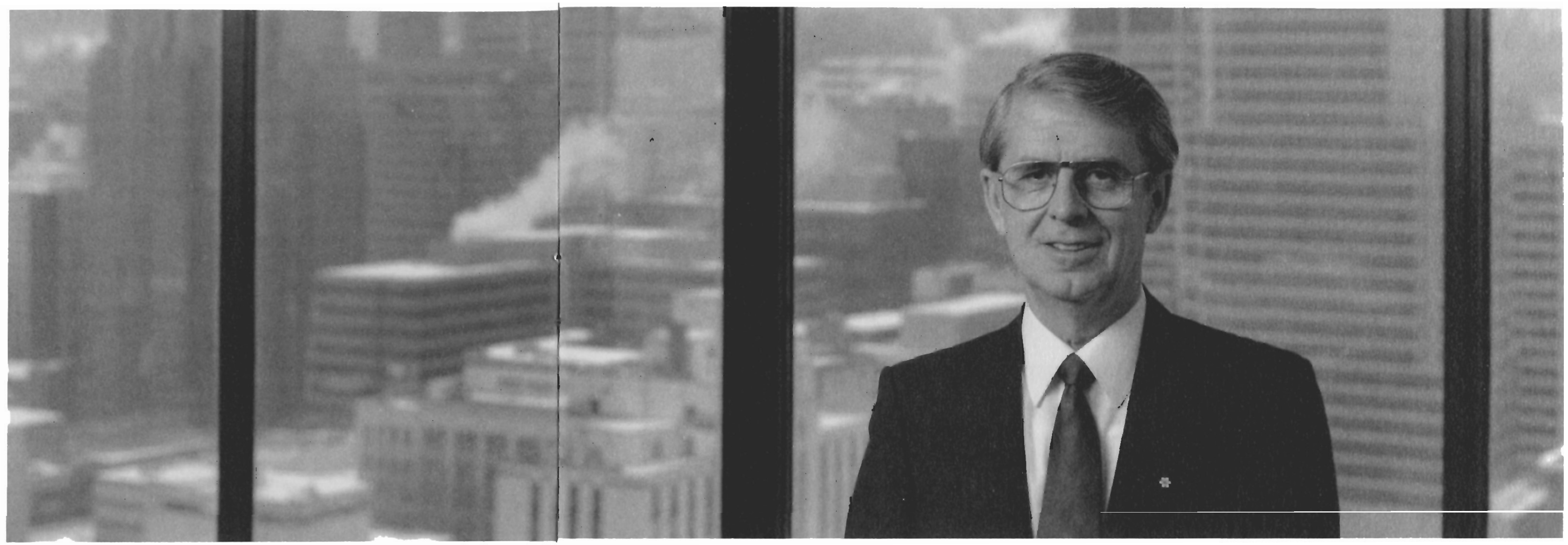
| | 1990 | 1989* | Change |
|---|---|---|---|
| **Financial** | | | |
| (Millions Except per Share Figures) | | | |
| Operating Revenues | $ 3,939 | $ 3,650 | 8% |
| Operating Income before provision for staff reduction and retirement costs | $ 50 | $ 119 | |
| Operating Income (Loss) | $ (11) | $ 103 | |
| Net Income (Loss) from continuing operations | $ (26) | $ 153 | |
| Net Income (Loss) | $ (74) | $ 149 | |
| Net Cash Flow | $ 41 | $ 139 | |
| Common Shares Outstanding (millions) | 74.0 | 73.0 | |
| Net Income (Loss) per Common Share** | $ (1.01) | $ 2.06 | |
| Net Cash Flow per Common Share** | $ 0.56 | $ 1.76 | |
| Return on Equity | (7.0)% | 15.4% | |
| **Operating Statistics** | | | |
| (Scheduled and Charter – not consolidated) | | | |
| Revenue Passengers Carried (millions) | 11.8 | 12.0 | (2)% |
| Revenue Passenger Miles (millions) | 16,577 | 16,278 | 2% |
| Available Seat Miles (millions) | 23,233 | 23,348 | 0% |
| Passenger Load Factor | 71.4% | 69.7% | |
| Yield per Revenue Passenger Mile | 16.7¢ | 16.3¢ | 2% |
| Operating Expense per Available Ton Mile | 86.0¢ | 78.9¢ | 9% |
| Average Number of Employees | 23,109 | 23,247 | (1)% |

*Reclassified. See note 12.

**Per share amounts have been calculated using the weighted average number of common shares outstanding during the year.

**Annual Meeting of Shareholders**

The Annual Meeting of Shareholders of Air Canada will be held at 10:30 a.m. on Wednesday, April 24, 1991, at the Robson Square Conference Centre, 800 Robson St., Vancouver, British Columbia.



## MESSAGE TO SHAREHOLDERS

For the airline industry in general, and Air Canada in particular, 1990 was a year of challenge and transition.

The industry-wide downturn that began in 1989 deepened with the onset of the North American recession in 1990. Air Canada was not immune either, but because of our solid competitive position and dedicated work force, we adapted to the turbulence.

Although Air Canada recorded a net loss, its financial position remained strong with more than $436 million in cash available, and committed financing facilities amounting to $1.4 billion U.S.

A success during the year was the airline's commitment to customers and our perseverance in differentiating passenger and cargo products from those of our competitors through superior customer service.

These strategies achieved important gains for Air Canada. And yet, the impact of higher fuel costs, $100 million above plan, coupled with high interest rates and a decline in market demand due to a weakened economy, resulted in Air Canada recording a net loss of $74 million.

The financial results mirrored the difficulties experienced by the industry and we expect further turbulence within the global industry throughout 1991.

Notwithstanding external factors, Air Canada's shareholders are entitled to a profit. To ensure this will happen, the Corporation took the first steps, during the month of October, towards a major restructuring program. The full impact of many of the actions will be realized in 1991 and beyond.

The Company's operating philosophy for 1991 and the future is to concentrate its resources on the basics of our passenger and cargo businesses.

The announcement to dispose of the enRoute Card operation reflects the drive to establish Air Canada's core businesses as dominant forces in the marketplace, while enabling enRoute to extend its global presence.

None of the decisions were easy, but by far the most difficult were those affecting our employees. However, with a nearly 12 per cent reduction in staff, Air Canada will achieve significant productivity improvements in the coming years.

Throughout 1991, fuel costs and the economy will determine to a large extent the need for future cost reduction measures. Nevertheless, Air Canada is committed to maintaining the right balance between operational requirements and resources needed to meet Corporate objectives.

Looking ahead, it is clear that we are moving into an age of mega-airlines and increasing globalization.

As competition intensifies, so does Air Canada's strategic thrust for the 1990's. The New Air Canada is



dedicated to excelling as the best airline of Canada by continuously striving for profitability, uncompromising customer service and superior individual performance.

The principal growth markets of the world in the 1990's will be Europe, North America and Asia, and Air Canada will compete aggressively in all of them.

We intend to remain the dominant Canadian carrier, both on our domestic and on our international routes. We will strengthen service to our four major European gateways of London, Paris, Frankfurt and Zurich.

Air Canada is prepared to take full advantage of increased access to U.S. markets when a new bilateral agreement is finalized with the United States.

Looking across the Pacific, negotiations between Air Canada and the Canadian government continue, as the Corporation seeks designation as the second Canadian carrier to serve Japan.

Tokyo is not only the gateway to Japan, it is the gateway to Asia, and if Air Canada is to grow in the Pacific Rim region, we must have the same access to Asia as our main competitor now has to Europe.

To not only survive the current domestic and international economic conditions, but to succeed in the extremely competitive environment of this decade demands a total transformation in Air Canada's corporate culture. We started on this difficult path when we moved from a Crown Corporation to a publicly-owned company, but there is still much to be done.

Throughout the transition period, Air Canada has maintained its position as the leading player in the Canadian airline industry. Our historic technical and operational excellence has enabled us to achieve considerable success in the past. The challenge now is to realize and accept that we are no longer the company we once were, and we are not yet the company we want to be.

The company we want to be is competitively aggressive, innovative, and increasingly profit-oriented, while still retaining its traditional strengths.

It is a company whose men and women are totally committed to customer service because they are proud to be a part of the New Air Canada. And with the dedication of our people we will succeed.

During the year, Pierre J. Jeanniot retired as President and Chief Executive Officer and as a member of the Board of Directors. Also retiring from the Board of Directors was Fernand Roberge, of Montreal, Quebec. Tribute was paid for their contribution and commitment.

**Claude I. Taylor, O.C.**
Chairman, President and Chief Executive Officer

## THE MISSION

To excel as the best airline of Canada.

To excel in profitability
in customer service
in individual performance.

## CORPORATE GOALS

**Customer Service**

To excel in personal service and to deliver a competitive product from the customer viewpoint.

**Market Presence**

To expand our presence profitably in the three major growth markets of North America, Europe and the Pacific.

**Market Segments**

To be the first choice of business travellers.

To secure profitable, integrated leisure and cargo opportunities.

**People**

To be a proud team with the capability and desire to outperform our competition.

**Technology**

To value technology, to lever the Company's ability to compete.

**Cost/Productivity**

To increase competitiveness by optimizing the utilization of assets and reducing unit costs.

**Investors**

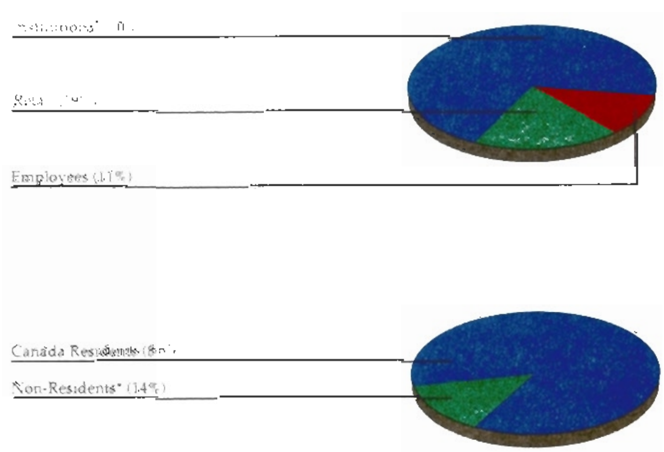
To increase shareholder value to attract investment.

**Corporate Citizenship**

To act in a responsible and ethical manner, including concern for the environment and the community.

The Corporation's performance in 1990 was fundamentally sound, yet profitability, the major objective, was elusive. Air Canada's responsibility to provide shareholder value and in turn, attract investment, has meant redefining the Corporate goals. This section of the 1990 annual report reviews the year in terms of the direction the Corporation has set for itself.

**Shareholder Base**




* As defined in the *Air Canada Public Participation Act* and Air Canada's Articles of Continuance

**The renovation of Terminal II at Toronto International Airport, coupled with Air Canada's vast schedule and superior on-time performance, translates into unparalleled convenience and customer service.**

## SERVICE – PERFORMANCE AND INNOVATION

Consistent quality service is fundamental to success and profitability in the airline industry. In 1990 we dedicated ourselves to offering highly competitive, superior products and services to our customers.

**Passenger Service**

Most travellers regard on-time departures and arrivals as a priority. Last year, we were a North American airline industry leader in on-time performance, despite some of the worst weather conditions in the world.

We extended non-smoking flights to North Atlantic routes and announced plans to become the first international smoke-free airline by January 1991.

We were the first airline to introduce "flex-meals", by serving Executive Class passengers at their convenience, during flights of four hours or more. And, we enhanced premium service with improved menus, wine selections and electronic headsets.

We added a new dimension in comfort with the introduction of the Airbus A320 into regular service. This aircraft offers a wider centre aisle, more space between seats, added leg room, and more than twice the overhead bin storage space of the Boeing 727.

Aeroplan, our frequent flyer program is the largest in Canada, with more than 750,000 members. The refinements we undertook gave the plan more strength as a primary marketing tool.

Forbes magazine praised our First Class and the World Airline Entertainment Association rated our audio programming as the best in the world. Onboard Services, the leading U.S. magazine of its type, underlined the superiority of our new business class services. And Industrie magazine of Germany rated our transatlantic flights as the best among all North American airlines.

**Ground Installations**

Air Canada and Transport Canada undertook a $100 million renovation of Terminal II at Toronto International Airport. The result is an ultra-modern facility which responds to the traveller's wish to board and leave flights with maximum convenience.

Improvements include moving sidewalks, a bright new decor with skylights and windows, spacious corridors, more check-in counters and gates, larger hold rooms, and Customer Care centres catering to unaccompanied children and passengers with special needs.

Significantly expanded domestic and international Maple Leaf Lounges are designed to offer access to Executive Class passengers and feature new, fully equipped business centres.

We modernized and enlarged Rapidair lounges in both Toronto and Montreal, installed large electronic flight information displays, more comfortable seating, and new, more efficient counters.

**Cargo**

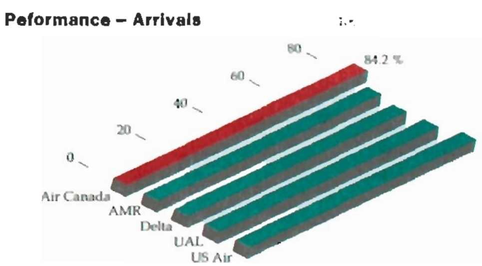
We greatly improved our facilities in London, England and at our world cargo hub in Toronto, to increase efficiency of service to our clients.

We added to our cargo product line with the introduction of Couriair International, a wholesale courier service developed with FB Onboard Inc.

In 1990 we achieved an on-time cumulative performance rating of 90 per cent in our domestic overnight courier services.

And, we received a "1990 Quality Carrier" award for outstanding and convenient cargo service, competitive rates and effective sales team, from Chilton's Distribution magazine in the U.S.

**On-Time Peformance – Arrivals**




**Air Canada Cargo is meeting the challenges of a global economy and increased trading through a growing international network and dedicated freight services.**

## THE NETWORK

An airline's schedule network is the backbone of its operations. In 1990 we strengthened and consolidated our presence in Canada and Europe, continued to prepare for an Asian thrust via the Pacific, and positioned ourselves to become a stronger force in the total U.S. market.

### The North American Passenger Network

We redesigned our domestic schedule to dramatically reduce connection times between flights. Arrivals and departures are spaced evenly throughout the day at major airports, improving linkages with our Connector carriers.

We further reinforced our Connector network through route rationalization and control. In Eastern Canada, we transferred services in and out of Val d'Or and Rouyn to Air Alliance. Air Ontario now serves North Bay, Timmins, Windsor and Sudbury. In Western Canada, AirBC assumed responsibility for operations in Victoria.

We also improved services between Canada and the United States. We reached agreement with Trump Shuttle at La Guardia Airport in New York, to improve connections from Toronto and Montreal to Washington, D.C. We offered more flights per week between Canada and the New York Metropolitan area than any other airline.

Finally, we signed a code-sharing agreement with Air Jamaica, whereby Air Canada operates all flights between Canada and Jamaica.

### The European Passenger Network

We expanded our presence in the established markets of London, Paris, Frankfurt and Zurich, while suspending service to points which did not produce an acceptable level of profitability, including Geneva, Lisbon, Madrid and Athens.

We consolidated our position in Scotland by moving our passenger operations from Prestwick to Glasgow airport, in line with a decision by the British government to transform Glasgow into a transatlantic gateway.

We created links with the emerging Eastern European market through commercial arrangements with the national carriers of Poland (LOT) and Czechoslovakia (CSA). The agreements enabled us to offer seats to Warsaw and Prague through these airlines.

### The Asian Passenger Network

The extension of Atlantic routes out of London to Bombay and Singapore was discontinued because of lack of profitability in this highly competitive market. Air Canada continues to direct its attention to pursuing opportunities in the Pacific Rim, particularly Japan, Korea and Singapore, as market and economic conditions permit.

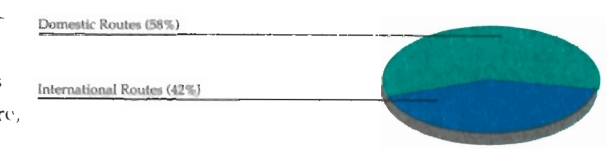
We devoted efforts to developing alliances with carriers in the region, to augment existing commercial agreements.

### The Cargo Network

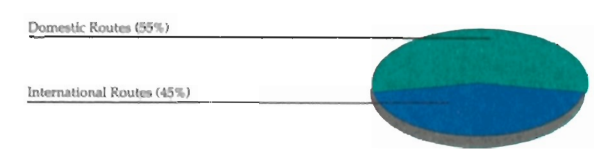
In North America, arrangements were finalized for Air Cargo Inc. of Annapolis, Maryland to provide transborder services out of our Toronto hub. And we designated Dynamex, a wholly-owned subsidiary, as our national pick-up and delivery contractor within Canada.

In Europe, we established a new hub system in Maastricht, Holland. Our London and Paris operations feed cargo into Maastricht to serve points in Belgium, Luxembourg, the Netherlands, and Northern Germany. The system also supplements our next day service from Canada to Europe and a year-round service to France from both Toronto and Halifax.

**Passenger Revenues**




**Cargo Revenues**




**Total Revenues**


**Air Canada's people are dedicated to meeting customer expectations in today's demanding and competitive marketplace.**

## OUR PEOPLE

In the airline industry, success hinges on the delivery of superior service, by qualified people, for a fair return. In 1990 we intensified our focus on equipping our people to meet the future by combining training programs, employee relations, and efforts to foster service-oriented values among all employees, everywhere in the airline.

### Training

We announced the construction of a state of the art aviation training centre at our Technical Centre adjacent to Montreal's Dorval Airport.

It will be the largest facility of its kind in Canada and one of the largest in North America. Maintenance technicians, flight attendants and management personnel will train at the centre, and it will generate additional revenue as we make it available on a contract basis to other domestic and foreign airlines.

Our Flight Operations group began Cockpit Resource Management training for its pilots in 1990. The CRM course is designed to improve communications and teamwork of flight crews flying modern jet aircraft.

We also extended to all areas of the airline our Customer Care activities begun in 1989 and which included training programs, workshops, and awards for outstanding service.

These innovations enriched an existing training and support system which has long been recognized as one of the finest in the industry.

### Employee Share Ownership

In just over two years from the time Air Canada was first listed on exchanges in Canada, 67 per cent of employees held shares in the Company.

This gave the airline one of the highest rates of employee participation in the country and demonstrated the confidence and commitment of our people to the future of Air Canada.

### Employee Recognition

Last year, employees chose 49 of their peers across the Company for the annual Award of Excellence, a tribute to exceptional performance on the job and in their communities.

The Employee Suggestion Program was a major success. Those who participated saved Air Canada more than $2.6 million in the annual cost of our operations, an impressive 30 per cent increase over 1989.

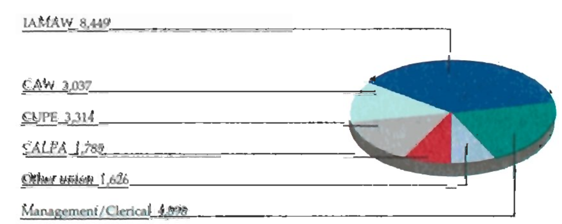


### Labour Relations

We successfully negotiated labour agreements with three of our major employee groups: the International Association of Machinists and Aerospace Workers (IAMAW); the Canadian Auto Workers (CAW); and the Canadian Union of Public Employees (CUPE). These were in line with settlements reached in other sectors of the economy and those of our major Canadian competitor. And in 1990, our pilots, members of the Canadian Airline Pilots' Association, ratified an agreement reached in 1989.

Following the staff reductions announced in the third quarter, discussions took place between the Company and union groups in an effort to minimize the impact to our employees through separation packages, work sharing and leaves of absence.

### The Work Force




Expiry dates of collective agreements:

| | |
|---|---|
| CALPA | April 1, 1992 |
| IAMAW | June 20, 1992 |
| CAW | September 26, 1992 |
| CUPE | October 31, 1992 |

**Air Canada's long standing reputation in maintenance operations is a pledge of safety and dependability for approximately 12 million passengers each year.**

## TECHNOLOGY

An airline's ability to compete is tied to its technical excellence. In 1990 we made significant improvements to our technological infrastructure in areas ranging from the age and status of our fleet, to information systems.

### Aircraft Maintenance

The quality of an airline's maintenance operation can be assessed by its consistency in providing aircraft, on time, to an airport gate for a flight's scheduled departure. By that measure, we recorded our best performance in more than 20 years.

Our reputation for excellence has helped us attract many contracts from foreign carriers to maintain their aircraft. Revenue from this activity rose 28 per cent over 1989, to $100.2 million.

The ability to meet demanding safety and operational standards is a reflection of our strong points: teamwork, advanced computer systems, and investments in high technology, such as Automatic Testing Equipment (ATE) for avionic components of the new Airbus A320 and other modern aircraft.

A long tradition of excellence is sustained by continuous training to maintain the most exacting levels of knowledge, skills and professionalism among our technical staff.

### Information Systems

We initiated the rationalization and modernization of our information systems to bring them in line with industry norms, reduce overall operating costs, and generate greater productivity.

Five communications networks are being integrated into one enabling us to communicate more efficiently and effectively with industry networks outside the Company and within the Company itself, while creating a base for growth in the 1990's.

Building for the future also meant testing Automated Ticket and Boarding equipment and expanding computer systems throughout operations and customer services.

### The Fleet

We launched a new phase in the modernization of our fleet with the arrival of an Airbus A320 in February, the first of 38 on order. The A320 is one of the most technologically advanced airliners in the world. It consumes 42 per cent less fuel and costs 25 per cent less to operate than the Boeing 727 it replaces.

The delivery schedule extends to 1993. As the A320's are brought into service, all of our B-727's will be phased out of operation. Most were forward sold in 1988 to Federal Express, thus ensuring a fixed value for the aircraft.

We withdrew eight Lockheed 1011-100's from service and offered them for sale. This supports the increased utilization of the more efficient Boeing 767-200, and contributes to a planned reduction in overall capacity in 1991.

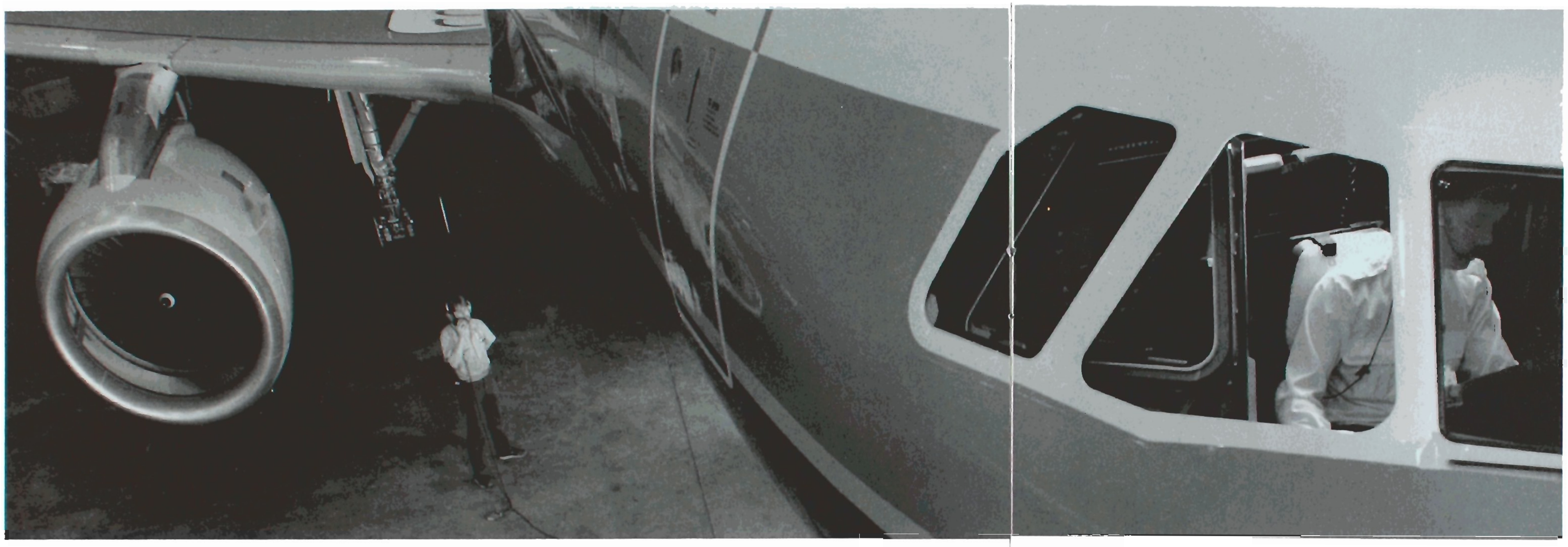
Our six L-1011-500's, the long range Lockheed, will be phased out of service over the next few years and replaced with six new Boeing 767-300ER (extended range) models, with delivery of these aircraft beginning in 1993. We re-engined three Boeing 747 combination passenger and cargo aircraft to increase payload and productivity. The DC-9 fleet continued to serve us well on short and medium haul routes in North America.

The average age of Air Canada's operational passenger fleet is 13.2 years.

**The Air Canada Fleet**

| | Owned | Op. lease | In service | Orders | Options | Sold or to be sold |
|---|---|---|---|---|---|---|
| A320 | 7 | 0 | 7 | 31 | 20 | 0 |
| B-747 | 4 | 2 | 6 | 3 | 3 | 3 |
| B-767 | 11 | 10 | 21 | 6 | 12 | 0 |
| B-727 | 23 | 4 | 26** | 0 | 0 | 27 |
| DC-9 | 11 | 24 | 35 | 0 | 0 | 0 |
| DC-8F | 5 | 0 | 5 | 0 | 0 | [illegible] |
| L-1011 | 14* | 0 | 6 | 0 | 0 | 10 |

* Eight L-1011's are in storage pending disposal
** One B-727 is out of service pending disposal



Teamwork among different functions ensures a maximum degree of efficiency and productivity in all of Air Canada's operations.

## COST AND PRODUCTIVITY

An airline's profitability is rooted in its ability to deliver and maintain service excellence while responding quickly and effectively to change. For Air Canada, 1990 was a year of unprecedented challenges.

### The Operating Environment

By mid-1990, it was obvious that the airline industry was headed toward a zone of severe disruptions.

The signs were clear: slowdown in the Canadian and world economies, rising fuel prices, shrinking markets, projected record losses for major carriers, the looming crisis in the Persian Gulf, high interest rates and the impending introduction of Canada's Goods and Services Tax.

Our industry, and our airline, faced a set of unique circumstances which demanded immediate and dramatic remedial action.

### The Action Plan

We adopted a wide-ranging, long-term strategy to reduce costs, improve profitability, strengthen our core passenger and cargo businesses, and position ourselves for eventual recovery.

In order to achieve these objectives, we announced a restructuring program that took into account our major strengths: technical excellence; competitiveness; professionalism; strong domestic market share, also a prerequisite for international growth; high yields; the highest load factor in North America; and a strong balance sheet with debt at competitive rates.

The action plan contained the following measures:

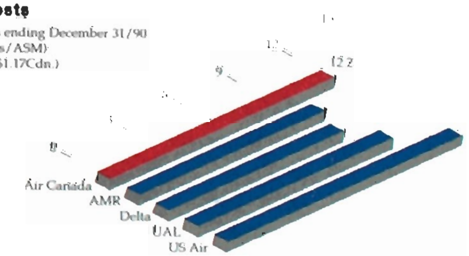
- Reduction of our total labour force by approximately 2,900 people, in conjunction with flight reductions, productivity improvements and reduced overhead costs, to generate savings in salaries, wages and benefits.
- Sale of the airline's ten floors of Place Air Canada and the subsequent relocation of Corporate headquarters to our Technical Centre at Dorval airport.
- Consolidation of pilot training in Toronto.
- Rationalization of facilities, equipment and people, such as the transfer of aircraft check work from Halifax to Montreal.
- Sale of three Boeing 747-400's ordered in 1989 and one backup DC-8 freighter aircraft.
- Suspension of services to Bombay, Singapore, Athens, Geneva, Lisbon and Madrid, and the redeployment of assets to core international routes with better returns, such as London, Paris, Frankfurt and Zurich.

Other steps were taken during the year to align capacity, schedules, people and networks with market demand in order to deliver the best possible return on investment.

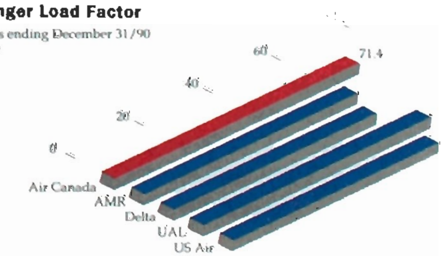
This included removing aircraft from service and putting them up for sale, redesigning our schedule for increased efficiency, the transfer of some services to Connector carriers in Canada, and the consolidation of functions such as weight and balance control, city ticket offices and reservation centres to contribute to long-term reductions in overhead and administrative costs.

The combination of all these measures, when fully implemented, will result in an on-going improvement in operating income of $100 million annually, resulting in a stronger, more focused network with a more efficient cost structure.

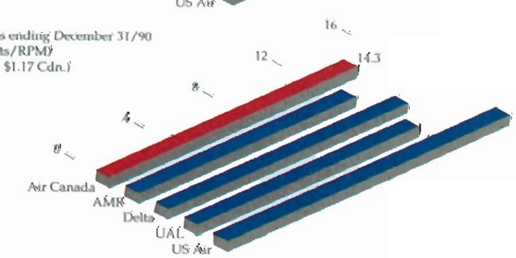
**Unit Costs**
12 months ending December 31/90
(U.S. Cents/ASM)
($1 U.S. = $1.17Cdn.)



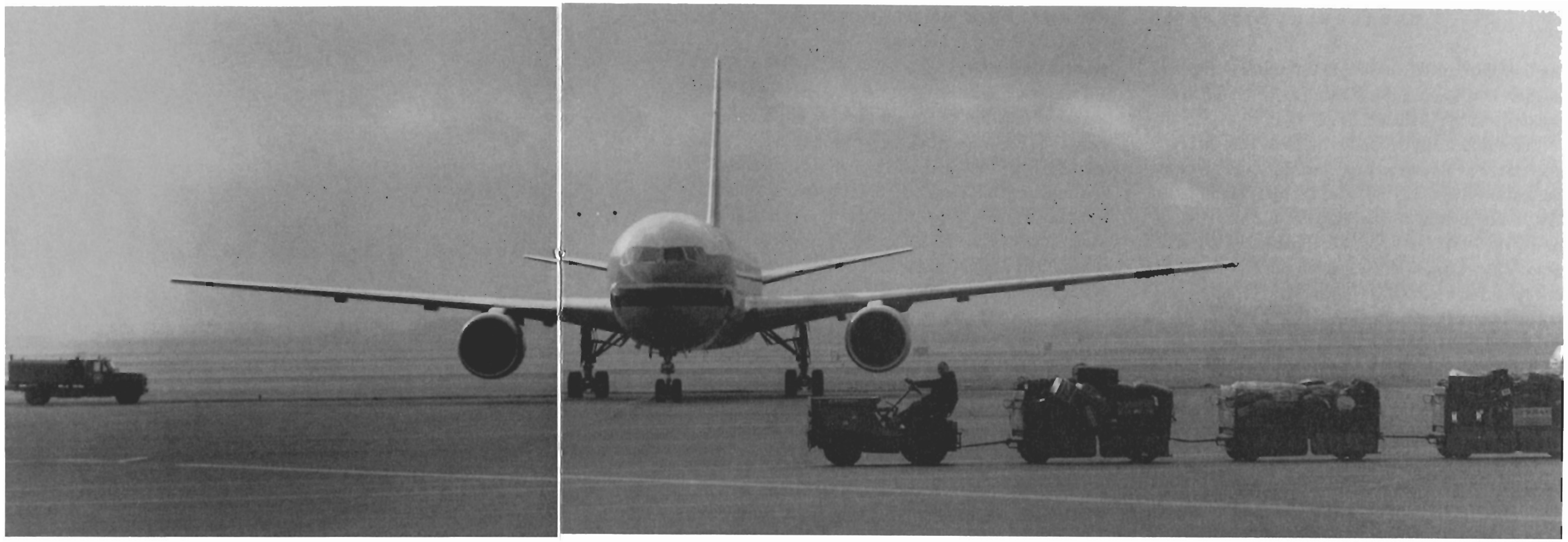

**Passenger Load Factor**
12 months ending December 31/90
(per cent)




**Yield**
12 months ending December 31/90
(U.S. Cents/RPM)
($1 U.S. = $1.17 Cdn.)



**Air Canada's new A320 is an environment friendly aircraft. It burns 42 per cent less fuel than the B-727 it replaces and is one of the quietest of its class.**



## CORPORATE CITIZENSHIP

Air Canada is an airline with a unique attachment to the country, and to the people and communities within it. In 1990 our Company and our people supported local and national organizations involved in health and education, humanitarian causes, culture and the arts, sports and community activities.

**Sponsorships and Donations**

We realigned our sponsorship program to better focus resources on activities that support Company objectives, while contributing to the quality of life in areas we serve.

Among our many contributions, our donations policy now includes our participation in the IMAGINE formula of the Canadian Centre for Philanthropy. We have joined the group of Caring Companies under the IMAGINE campaign, designed to stimulate personal and corporate giving.

Our people have donated time and money to causes and communities all over the world. As just one example, employees contributed a record $1,146,431 to the in-house, Company-sponsored Campaign For Funds.

**The Environment**

We have incorporated an environmental mandate into our long-term mission and objectives. We began an in-depth review of our operations and their impact on the environment. This will result in the development, in early 1991, of a Corporate policy with corresponding standards and objectives.

This policy will reinforce the steps we have already taken in that direction. For example, all food service trays, utensils and most dishes used in Hospitality Service are now made of durable and reusable plastic.

Collecting recyclable materials is common practice in most offices, maintenance operations and in flight. Flight attendants on flights into Toronto, Vancouver, Winnipeg and Ottawa collect aluminum and steel cans, and give the proceeds to charity. Our central printing bureau recycles paper products. All paper napkins used on board aircraft are made from recycled paper. Information regularly sent to shareholders is now printed on recycled paper as is this Annual Report.



## ACKNOWLEDGEMENT

The Board of Directors wishes to commend Air Canada's men and women for their dedication and renewed commitment to providing the highest level of customer service, both on the ground and in flight, during this very challenging year for the Corporation and the airline industry worldwide. It does so in full confidence that, in the coming months, this group of professionals will strive to attain new heights in the fulfillment of the Company's new mission and the pursuit of its goals.

**Claude I. Taylor, O.C.**

Chairman, President and Chief Executive Officer

Air Canada incurred a net loss of $74 million or $1.01 per share in 1990. This compares with a net income of $149 million or $2.06 per share in 1989.

The results for 1990 included the impact of two key steps taken in the year to improve future cash flow and profitability. First, was the initiative, commencing in late 1990, to reduce staff by the equivalent of 2,900, or 12 per cent of the workforce. The annual financial benefit of this action is estimated to be $75 million, while the associated one-time cost, recorded in the year, was $61 million ($36.5 million after tax).

Second, was a December decision to sell the enRoute Card operations to release working capital required to fund enRoute receivables. This action, along with the 1990 losses for enRoute, resulted in a $48 million after-tax charge to 1990 income.

The operating income, before staff reduction and retirement costs, was $50 million, a decline of $69 million from the 1989 level.

This reflected a failing domestic economy and intense industry competition. These factors prevented the Corporation from sufficiently raising average fares and tariffs to offset the impact of wage settlements, higher fuel prices, increased pension costs and general inflation. Total unconsolidated operating revenue per revenue ton mile rose only two per cent in comparison to a unit cost increase per available ton mile of nine per cent.

The systemwide passenger load factor, a measure of asset productivity through capacity utilization, rose 1.7 percentage points to 71.4 per cent.

**Quarterly Commentary**

The weakened situation of the fourth quarter 1989 continued into 1990, with declining operating income in each of the first three quarters compared with 1989. This was highlighted by an extremely poor fourth quarter.

The price of fuel rose dramatically in the last quarter, up 54 per cent over the same period last year. The impact was a $60 million increase in fuel expense over fourth quarter 1989. A series of fuel related passenger and cargo tariff increases were introduced to offset the higher costs. However, these measures were implemented in a recessionary period and revenues remained weak.

Other major factors contributing to fourth quarter results were a $35 million charge incurred for staff reduction, and a $37 million after-tax charge resulting from enRoute Card operations. Without these two items, the Corporation would have incurred a loss of $66 million for the quarter, reflective of losses reported elsewhere in the industry.

**1990 Income Results**

**Operating Revenues**

Consolidated operating revenues rose $289 million, or eight per cent to $3,939 million. Close to $85 million of this increase was generated by Air Canada's subsidiary airlines from existing and newly initiated routes.

**Operating Revenues**

| Year Ended December 31 (in millions) | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|
| Domestic Routes | | | | | |
| Passenger | $1,812 | $1,696 | $1,509 | $1,360 | $1,256 |
| Cargo | 229 | 231 | 317 | 241 | 176 |
| Total | 2,041 | 1,927 | 1,826 | 1,601 | 1,432 |
| International Routes | | | | | |
| Passenger | 1,314 | 1,213 | 1,087 | 1,023 | 962 |
| Cargo | 184 | 167 | 186 | 171 | 178 |
| Total | 1,498 | 1,380 | 1,273 | 1,194 | 1,140 |
| Other | 400 | 343 | 305 | 319 | 300 |
| Total | $3,939 | $3,650 | $3,404 | $3,114 | $2,872 |

*Passenger Revenue*

Passenger revenue rose $217 million, or seven per cent. This was primarily the result of expansion in Air Canada's subsidiary airlines, strong transatlantic and Southern services, and major yield gains on the domestic transcontinental routes.

The domestic Canadian travel market for the industry weakened dramatically in 1990. Total tickets sold for travel within Canada declined 2.4 per cent from last year. Air Canada's domestic market share over 1989, however, rose 1.5 percentage points to 52.5 per cent.

Much of the excess industry capacity, prevalent last year in the transcontinental market, was removed. As a result, the airline's yields rose nine per cent reflecting both this reduction and fare increases.

Air Canada's commuter service, including intra-Ontario/Quebec and the Rapidair routes on the Montreal, Toronto and Ottawa corridor, continued the decline in traffic reported in 1989. Primary factors included intense competition from Intair, and increased pressure from Montreal's St. Hubert airport, and the Toronto satellite airports at Hamilton and Buttonville. Yields were consequently under pressure and capacity was trimmed to better match demand.

In Atlantic Canada, the Corporation redesigned services, including improved departure times, increased frequencies and a closer integration with its connector airline, Air Nova. Air Canada's market share rose as its major competitors reduced services out of both New Brunswick and Prince Edward Island.

Apart from its Florida service, the Corporation experienced a difficult year on its U.S. routes. A two per cent decline was recorded in traffic. A soft economy, and predatory pricing by Eastern Airlines adversely affected New York operations. Massachusetts and California operations both suffered from a downturn in the high technology sector.

Routes to Southern destinations, including Florida, recorded an overall revenue increase of 16 per cent, due primarily to higher passenger volumes. Jamaica was particularly strong, resulting from an April 1990 commercial agreement with Air Jamaica. Through this accord Air Canada provides Canada-Jamaica service on behalf of both airlines. Southern yields, under continuous competitive pressure, rose marginally over last year. Competitive activity on the Southern routes was particularly intense and contributed to the failure of several Canadian charter airlines and tour operators.

Revenue on the Atlantic routes rose 10 per cent on traffic growth of six per cent and a yield increase of four per cent. The Corporation redirected capacity to the strong United Kingdom market and away from Continental Europe. Traffic to the United Kingdom rose 15 per cent but declined five per cent on the Continental European service, which includes travel within Europe.

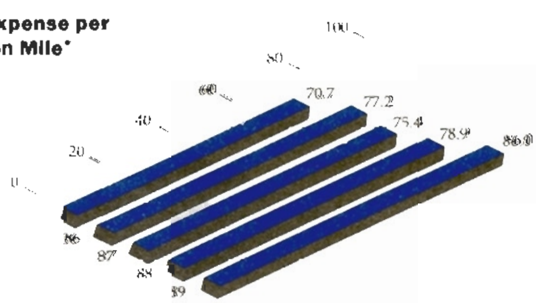
*Cargo Revenue*

In 1990, cargo revenue rose $15 million or four per cent on higher traffic levels, although the 1989 results contained $17 million in revenues from the overnight business of Gelco Express Limited. This product was sold to PCL Courier Holdings Inc. by the Corporation in March 1989. The Freight Express product was the major contributor in 1990, reflecting a more aggressive sales effort directed to international traffic.

*Other Revenue*

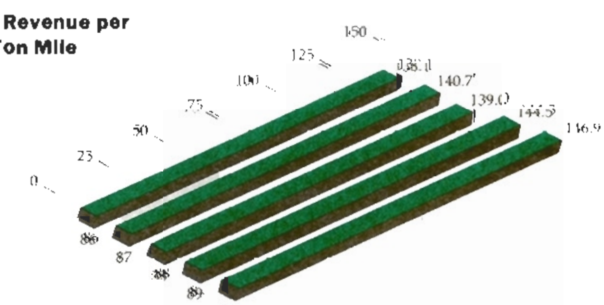
Other revenue, which includes maintenance, ground packages, ground handling and other contract services, increased $57 million or 17 per cent over 1989. Approximately $22 million of this increase came from additional aircraft maintenance work performed for other airlines. The sale of ground packages, by Air Canada's subsidiary Touram, was the other significant factor in revenue growth.

**Operating Expense per Available Ton Mile***
(cents)




*Before staff reduction and retirement costs.

**Operating Revenue per Revenue Ton Mile**
(cents)



### Operating Expenses

Consolidated operating expenses, before provision for staff reduction and retirement costs, increased $358 million or 10 per cent. Major items included inflation, higher fuel costs, subsidiary carrier expansion and pension changes.

Expense for salaries, wages and benefits rose $101 million or nine per cent from 1989. Average unconsolidated manpower levels for the year declined by 138 employees. Productivity remained essentially unchanged. An average wage increase of six per cent reflected contractual increases in the range of five to six per cent for most unionized groups. Additionally, employees progressed through the pay scales to higher levels of remuneration.

Benefits expense increased by almost $50 million from last year. The major factor was a $28 million change in the pension category caused mainly by the decision in 1989 to value the fund assets on a four-year moving average market value basis. In 1991, a further estimated $30 million increase is expected to occur due to negotiated retirement benefits and the impact of the financial market's performance on the pension fund investments. Mandated government social benefits such as unemployment insurance, together with higher group disability costs, accounted for most of the remaining rise in 1990 benefits expense. Under new Ontario Health Insurance Plan (OHIP) regulations, the Corporation rather than the employee is now required to pay the premiums. In 1990, this increase amounted to more than $7 million in the group health category.

Fuel expense, led primarily by price increases, rose $96 million or 18 per cent over last year. The sharp fuel price rise in the latter half of 1989 continued into the early part of 1990. Prices began to ease in April, levelling out in July with a price per litre of 23 cents. After the start of the Middle East crisis, prices surged in September, and peaked at 43 cents in November; 65 per cent over the 1989 level for that month.

Depreciation charges, due primarily to the addition of seven Airbus A320's, increased $20 million.

In the "Other" expense category, the cost of food and beverage rose sharply reflecting upgraded in-flight service. This included enhanced meal selection in business class, "flex" meals, expanded "nutri-cuisine" availability, the new "Chicago-class" service and the introduction of fully recyclable trays.

### Non-operating Expense

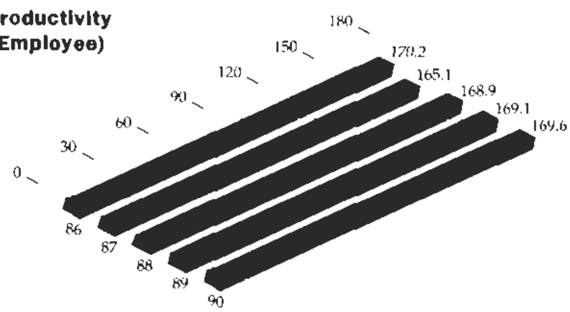
Consolidated non-operating expense was $32 million. This was a $167 million deterioration from the $135 million non-operating income of last year. Results for 1989 included a $193 million gain from the sale of approximately one-third of Air Canada's interest in GPA Group plc.

Interest expense for the year, net of capitalized interest, rose $34 million to $113 million. This was due to the higher average 1990 level of debt associated with upcoming aircraft deliveries. The increased debt added cash reserves which earned investment income. Recorded in the "Other" category, this offset the higher interest expense.

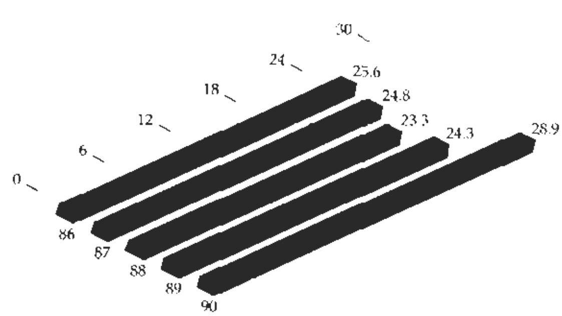
The major component in this year's $16 million gain on asset disposal was a $14 million profit on the sale of a DC-8 freighter. The $7 million gain on the reduction of interest in GPA Group plc was a result of the sale of approximately two per cent of Air Canada's holding.

Other non-operating income rose $18 million. Within this category, interest income increased $44 million attributable to the higher cash balances referred to previously. The 1989 results contained a $13 million favourable impact arising from the extinguishment of certain long-term debt obligations, using alternate debt arrangements. No similar gain was recorded in 1990.

**Employee Productivity (ATM's per Employee)**
(thousands)




**Fuel Price**
(cents per litre)



In late 1990, and following an on-going review of airline activities, the Corporation decided to sell the enRoute Card operations. The Canadian Card operations continued to grow and are profitable. The expansion into the U.S. has demonstrated that the Card has the potential to achieve a leading position in the North American travel and entertainment market. The decision to seek new owners for the enRoute Card operations results from the significant working capital requirements necessary to fund enRoute receivables, enRoute Card start-up costs in the U.S., and the large capital requirements of the core airline operations.

Worldwide billings for enRoute Card were $1,550 million in 1990. The loss recorded of $48 million in 1990 resulted from the following: $17 million of 1990 actual, $26 million of estimated full-year 1991 U.S. start-up losses, and $5 million in write-off of deferred tax recoveries applicable to prior periods.

At year-end 1990, the Corporation's cash position stood at $436 million, down $121 million from the 1989 level. Cash provided by operations was $49 million and reflected the year's weak operating results.

Net cash provided by financing totalled $402 million, with the key component a U.S. $300 million drawdown on a U.S. dollar denominated Japanese private placement.

The $12 million deferred foreign exchange item for 1990 represented the cash outflow arising from the use of short and long-term forward and option contracts to hedge the principal sum of the Corporation's foreign currency debt. In the "Other" category, the prime component was a $23 million deferred payment for spare A320 engines, payable in 1992.

Proceeds from the disposal of assets totalled $94 million. This included the sale of one DC-8 freighter, four B-727's, the disposal of L-1011 engines, and $8 million from the sale of GPA shares.

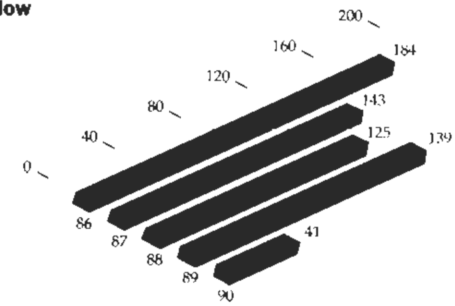
The $674 million in addition to fixed assets was mostly related to A320 aircraft purchases and included simulators and ground equipment. Ten De Havilland Dash8 aircraft were purchased by the subsidiaries. Over $20 million was spent in the first phase of the expansion and renovation of Terminal II at Pearson International Airport, Toronto.

Planned capital expenditures total $2.3 billion for the 1991 to 1993 period and include $1.9 billion in aircraft payments with $900 million allocated for 1991, $500 million for 1992 and $500 million for 1993. These amounts primarily represent the acquisition of 27 Airbus A320 aircraft for 1991-1993 delivery. Also included are three B74M-400 aircraft, 1991 delivery, progress payments for six B767-300 aircraft, 1993 and 1994 delivery and eight Dash8's. As part of capacity cutbacks, the three B74M-400 aircraft to be received in 1991 will not be introduced into service but sold after delivery. Approximately $145 million is to be spent on facilities over the next three years with the redevelopment of Terminal II in Toronto, a major component.

At year-end 1990, Air Canada had the following financing facilities in place on an unsecured basis and had received commitments for financing as follows:

- up to U.S. $400 million or the Canadian dollar equivalent from a group of financial institutions in Canada.
- up to U.S. $400 million from a Euro Note Issuance Facility.
- up to U.S. $300 million from a German financial institution.
- up to U.S. $200 million (committed financing) related to the acquisition of Airbus A320 aircraft.
- up to U.S. $100 million (committed financing) related to the acquisition of Boeing 747 aircraft.

**Net Cash Flow**
($ millions)



Total established and committed financing facilities amount to U.S.$1.4 billion. Additional sources of funds include proceeds from the forward sale of the 23 remaining owned Boeing 727 aircraft to be completed in 1991 to 1993/4 and the expected sale of the three B74M-400's and the L-1011-100 fleet. The current market for large aircraft is weak, however, the Corporation expects that aircraft prices will regain historical levels within the next two years.

These financing facilities and the year-end cash balance of $436 million will provide an adequate reserve enabling the Corporation to finance its planned aircraft purchases and facilities expansion and to withstand the difficult near term industry conditions.

Despite the unsatisfactory operating results, the financial position of the Corporation remained strong at year end. The percentage of debt to debt plus fixed capital had been lowered from 47 per cent in 1988 to 34 per cent in 1989 and rose nine percentage points to 43 per cent in 1990. While the level of debt will undoubtedly rise in 1991, the existing Deutsche mark debt will be converted to subordinated perpetual debt in both 1992 and 1993, limiting the increase in the debt to debt plus fixed capital ratio. Fixed capital is defined as the aggregate of shareholders' equity and subordinated perpetual debt.

Fair market value of the Corporation's fleet and its investment in GPA Group plc is estimated to be significantly in excess of current net book value at year-end 1990. The Corporation's investment holding of 10,862,460 shares in GPA Group plc was recorded on the statement of financial position at $7.40 a share. The February 1990 sale of GPA shares by Air Canada attracted an equivalent price of $39.05 per share.

**Outlook**

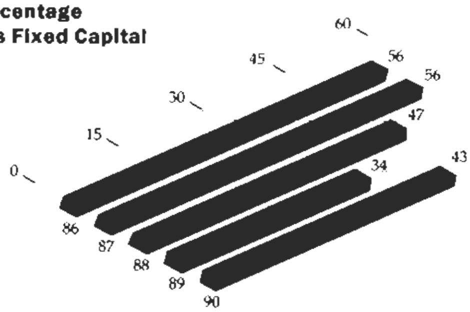
With the continuing economic recession, the volatility associated with the Middle East war and the GST introduction, the economic outlook for 1991 is bleak and industry performance is expected to be poor. In anticipation of declining traffic volumes, the Corporation has removed eight L-1011's from its active fleet and is planning to cut capacity by 11 per cent in 1991. Staff levels will be decreased by approximately 12 per cent in comparison to 1990 average levels, with the cost of this program recorded in 1990.

The Corporation is anticipating adverse effects from the February 1991 opening of Terminal III in Toronto. Among the actions to counter the impact, Air Canada has undertaken extensive enhancements to Terminal II, which will be in place by late fall 1991.

The price of fuel could remain unstable well into 1991, dependent on the resolution of the Middle East conflict. For 1990, Air Canada faced an average crude price per barrel of U.S.$23.92, finishing the year at U.S.$32.17 per barrel. Any change in the price of crude oil would have a major effect on operating expense with a one U.S. dollar per barrel movement resulting in approximately Cdn. $13 million change in annual operating expense.

As discussed previously, Canada-U.S. bilateral negotiations will be commencing early in 1991 with all aspects of the bilateral air relationship between Canada and the U.S. under review. While Air Canada is confident that the new agreement will provide both parties with fair and equal opportunity for new and expanded air services, the potential value to the Corporation of the new bilateral agreement cannot, at this time, be determined.

**Debt as Percentage of Debt Plus Fixed Capital**



**Financing Strategy**

A key component of the Corporation's financing strategy is to maintain adequate cash and credit balances as a protection for unanticipated business downturns and to have funding arranged in advance when terms and conditions are most favourable.

Beginning in mid 1990, credit markets underwent major changes which have tightened access to both short and long-term funding, required more stringent terms and conditions, and increased financing costs.

Air Canada is in the advantageous position of having arranged a major portion of its funding in advance, at favourable terms and conditions. Future borrowing requirements may however be subject to these tightening credit markets, which are expected to persist for at least a one-year period. As a result, the major objective for 1991 is to maintain access to debt markets and increase credit reserves on terms and conditions which are favourable to the Corporation.

During the past several years, Air Canada, through new financings, prefundings, debt extensions, conversions and perpetual financings, has extended the life of a major portion of the debt past the years of high capital expenditure. As a result, Air Canada's debt repayment schedule for the coming two to three years is low.

A large portion of Air Canada's existing debt and capital expenditures for aircraft is denominated in U.S. dollars. The Corporation has hedged all of its U.S. dollar long-term debt exposure and a major portion of its 1991 U.S. dollar capital expenditures as at year end.

Air Canada has also borrowed in a number of low interest rate currencies such as the Swiss Franc, Deutsche mark, French Franc and Japanese Yen. With the conversion of the Deutsche mark debt to perpetual funding in 1992 and 1993, and the earlier swapping of Sterling debt, only the Japanese Yen, the Swiss Franc and the French Franc have an exposure to foreign exchange fluctuations. As at year end, long-term debt in these currencies was hedged so that no exposure existed on the principal amount.

For the Japanese Yen, Swiss Franc and Deutsche mark subordinated perpetual debt, there is no provision for foreign exchange fluctuations on the principal because there is no requirement to repay the principal.

Based upon the cyclical and capital intensive nature of the airline industry, the financing strategy followed by the Corporation over the past several years has been a prudent one. It has positioned Air Canada with a strong balance sheet, access to substantial credit reserves (on an unsecured basis) and attractive funding costs.

The actions that have been and are being taken to profitably position Air Canada for the future are an essential element in the program to access new sources of attractive financing.

| | 1990 | 1989* | 1988* | 1987* | 1986* |
|---|---|---|---|---|---|
| **Financial Data** – consolidated ($ millions) | | | | | |
| **Operating revenues:** | | | | | |
| Passenger | 3,126 | 2,909 | 2,596 | 2,383 | 2,218 |
| Cargo | 413 | 398 | 503 | 412 | 354 |
| Other | 400 | 343 | 305 | 319 | 300 |
| **Total operating revenues** | 3,939 | 3,650 | 3,404 | 3,114 | 2,872 |
| **Operating expenses:** | | | | | |
| Salaries, wages and benefits | 1,232 | 1,131 | 1,096 | 949 | 870 |
| Aircraft fuel | 622 | 526 | 481 | 467 | 481 |
| Depreciation, amortization and obsolescence | 170 | 150 | 148 | 192 | 189 |
| Other | 1,865 | 1,724 | 1,565 | 1,403 | 1,219 |
| | 3,889 | 3,531 | 3,290 | 3,011 | 2,759 |
| **Operating income before the undernoted item** | 50 | 119 | 114 | 103 | 113 |
| **Staff reduction and retirement costs** | (61) | (16) | (6) | – | – |
| **Operating income** | (11) | 103 | 108 | 103 | 113 |
| **Non-operating income (expense):** | | | | | |
| Interest net of amounts capitalized | (113) | (79) | (98) | (115) | (113) |
| Provision for investments and writedown of goodwill | (11) | (57) | – | – | – |
| Gain on disposal of assets | 16 | 27 | 64 | 30 | 24 |
| Gain on reduction of interest in GPA Group plc | 7 | 193 | 15 | – | – |
| Other | 69 | 51 | 36 | 41 | 29 |
| **Total non-operating income (expense)** | (32) | 135 | 17 | (44) | (60) |
| **Income (loss) before income taxes and minority interest** | (43) | 238 | 125 | 59 | 53 |
| **(Provision for) recovery of income taxes** | 18 | (85) | (29) | (6) | (20) |
| **Minority interest** | (1) | – | 1 | – | – |
| **Net income (loss) from continuing operations** | (26) | 153 | 97 | 53 | 33 |
| **enRoute operations** | (48) | (4) | (8) | (10) | 4 |
| **Net income (loss)** | (74) | 149 | 89 | 43 | 37 |

*Reclassified. See note 12.

**Before staff reduction and retirement costs.

**Price Range and Trading Volume of Air Canada Common Shares**

| 1990 | High | Low | Volume |
|---|---|---|---|
| 1st Quarter | $13.00 | $9.50 | 24,124,614 |
| 2nd Quarter | 10.88 | 9.25 | 10,551,655 |
| 3rd Quarter | 10.38 | 7.75 | 7,574,069 |
| 4th Quarter | 8.88 | 7.25 | 7,352,800 |

Price ranges and combined trading volumes on the Montreal, Toronto, Winnipeg, Alberta and Vancouver Stock Exchanges.

| | 1990 | 1989* | 1988* | 1987* | 1986* |
|---|---|---|---|---|---|
| **Financial Data** (cont'd) | | | | | |
| Operating margin | (0.3)% | 2.8% | 3.3% | 3.3% | 3.9% |
| Cash generation margin | 5.6% | 12.9% | 15.2% | 12.9% | 17.3% |
| Net cash flow | 41 | 139 | 125 | 143 | 184 |
| Total assets | 4,579 | 4,121 | 3,437 | 3,084 | 2,923 |
| Long-term debt and capital leases (including current portion) | 1,384 | 973 | 1,100 | 1,164 | 1,138 |
| Subordinated perpetual debt | 834 | 834 | 336 | 336 | 336 |
| Shareholders' equity | 988 | 1,062 | 913 | 590 | 548 |
| Percentage of debt to debt plus fixed capital | 43% | 34% | 47% | 56% | 56% |
| Book value per share (dollars) | 13.35 | 14.55 | 12.70 | 14.35 | 13.31 |
| Return on equity | (7.0)% | 15.4% | 13.5% | 7.0% | 7.2% |
| **Operating statistics** – not consolidated | | | | | |
| **All operations:** | | | | | |
| Revenue ton miles (millions) | 2,302 | 2,223 | 2,160 | 2,021 | 2,023 |
| Available ton miles (millions) | 3,920 | 3,930 | 3,823 | 3,556 | 3,785 |
| Weight load factor | 58.7% | 56.6% | 56.5% | 56.8% | 53.5% |
| Operating revenue per revenue ton mile | 146.9¢ | 144.5¢ | 139.0¢ | 140.7¢ | 138.1¢ |
| Operating expense per available ton mile** | 86.0¢ | 78.9¢ | 75.4¢ | 77.2¢ | 70.7¢ |
| Average number of employees (000) | 23.1 | 23.2 | 22.6 | 22.2 | 22.2 |
| Available ton miles per employee (000) | 169.6 | 169.1 | 168.9 | 165.1 | 170.2 |
| **Passenger – scheduled and charter:** | | | | | |
| Revenue passengers carried (millions) | 11.8 | 12.0 | 11.9 | 11.0 | 11.3 |
| Revenue passenger miles (millions) | 16,577 | 16,278 | 15,553 | 14,358 | 14,425 |
| Available seat miles (millions) | 23,233 | 23,348 | 21,778 | 20,205 | 21,320 |
| Passenger load factor | 71.4% | 69.7% | 71.4% | 71.1% | 67.7% |
| Yield per revenue passenger mile | 16.7¢ | 16.3¢ | 15.7¢ | 15.9¢ | 15.4¢ |
| **Cargo – scheduled and charter:** | | | | | |
| Revenue ton miles (millions) | 645 | 595 | 605 | 585 | 581 |
| Yield per revenue ton mile | 53.2¢ | 53.5¢ | 56.6¢ | 57.9¢ | 61.0¢ |

## MANAGEMENT REPORT

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and the integrity and objectivity of the data in these financial statements are management's responsibility. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information and data contained in the financial statements.

In support of its responsibility, management maintains a system of internal control to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The Corporation has an internal audit department whose functions include reviewing internal controls and their application, on an ongoing basis.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed primarily of directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the external auditors at least four times each year.

The external auditors, Price Waterhouse, conduct an independent audit, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their audit includes a review and evaluation of the Corporation's system of internal control and appropriate tests and procedures to provide reasonable assurance that, in all material respects, the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board and meet with it on a regular basis.

J. F. Ricketts
Executive Vice President,
Finance & Planning and Chief Financial Officer

Claude I. Taylor, O.C.
Chairman, President and Chief Executive Officer

## AUDITORS' REPORT

*To the Shareholders of Air Canada:*

We have audited the consolidated statement of financial position of Air Canada as at December 31, 1990 and the consolidated statements of income and retained earnings and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The consolidated financial statements as at December 31, 1989 and for the year then ended were reported upon by other auditors who expressed an opinion without reservation on those statements in their report dated February 9, 1990.

Price Waterhouse
Chartered Accountants
Montreal, Quebec
February 14, 1991

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

| Year ended December 31 (in millions) | 1990 | 1989* |
|---|---|---|
| **Operating revenues** | | |
| Passenger | $3,126 | $2,909 |
| Cargo | 413 | 398 |
| Other | 400 | 343 |
| | 3,939 | 3,650 |
| **Operating expenses** | | |
| Salaries, wages and benefits | 1,232 | 1,131 |
| Aircraft fuel | 622 | 526 |
| Depreciation, amortization and obsolescence | 170 | 150 |
| Other | 1,865 | 1,724 |
| | 3,889 | 3,531 |
| **Operating income before the undernoted item** | 50 | 119 |
| **Staff reduction and retirement costs** | (61) | (16) |
| **Operating income (loss)** | (11) | 103 |
| **Non-operating income (expense)** | | |
| Interest, net of amounts capitalized (note 2) | (113) | (79) |
| Provision for investments and writedown of goodwill (note 4d) | (11) | (57) |
| Gain on disposal of assets | 16 | 27 |
| Gain on reduction of interest in GPA (note 4c) | 7 | 193 |
| Other | 69 | 51 |
| | (32) | 135 |
| **Income (loss) before income taxes and minority interest** | (43) | 238 |
| **Recovery of (provision for) income taxes** (note 10) | 18 | (85) |
| **Minority interest** | (1) | - |
| **Net income (loss) from continuing operations** | (26) | 153 |
| **enRoute Card operations** (note 12) | (48) | (4) |
| **Net income (loss)** | (74) | 149 |
| **Retained earnings, beginning of year** | 499 | 350 |
| **Retained earnings, and of year** | $ 425 | $ 499 |
| **Earnings per share** (note 11) | | |
| Fully diluted | | |
| Net income (loss) from continuing operations | $(0.35) | $2.05 |
| Net income (loss) | $(1.01) | $1.99 |

*Reclassified. See note 12.

See accompanying notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| December 31 (in millions) | 1990 | 1989 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and short-term investments | $ 436 | $ 557 |
| Accounts receivable | 627 | 598 |
| Spare parts, materials and supplies | 204 | 156 |
| Prepaid expenses | 16 | 17 |
| Deferred income taxes | 28 | 34 |
| | 1,311 | 1,362 |
| **Property and equipment** (note 2) | 2,557 | 2,087 |
| **Deferred charges** (note 3) | 479 | 420 |
| **Investments and other assets** (note 4) | 232 | 252 |
| | $4,579 | $4,121 |

On behalf of the Board:

Claude I. Taylor, O.C.
Chairman, President &
Chief Executive Officer

John F. Fraser, O.C.
Chairman, Audit Committee

| | 1990 | 1989 |
|---|---|---|
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 629 | $ 512 |
| Advance ticket sales | 227 | 212 |
| Current portion of long-term debt and capital lease obligations | 34 | 36 |
| | 890 | 760 |
| **Long-term debt and capital lease obligations** (note 5) | 1,350 | 937 |
| **Other long-term liabilities** | 89 | 62 |
| **Deferred credits** (note 7) | 418 | 457 |
| | 2,747 | 2,216 |
| **Minority interest** | 10 | 9 |
| **Subordinated perpetual debt** (note 8) | 834 | 834 |
| **Shareholders' equity** | | |
| **Share capital** (note 9) | | |
| Authorized: unlimited number of common shares, Class A preferred shares, and Class B preferred shares | | |
| Issued and fully paid: Common shares | 563 | 563 |
| **Retained earnings** | 425 | 499 |
| | 988 | 1,062 |
| | $4,579 | $4,121 |

See accompanying notes.

## CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

| Year ended December 31 (in millions) | 1990 | 1989* |
|---|---|---|
| **Cash provided by (used for)** | | |
| **Operations** | | |
| Net income (loss) from continuing operations including in 1989 a major non-recurring gain | $(26) | $153 |
| enRoute operations | (48) | (4) |
| Net income (loss) | (74) | 149 |
| Non-cash items included in net income (loss) | | |
| Depreciation, amortization and obsolescence | 170 | 150 |
| Deferred income taxes | (16) | 82 |
| Gain on disposal of assets | (16) | (176) |
| Other | (23) | (66) |
| Income results | 41 | 139 |
| Change in net trade balances | 87 | 28 |
| Change in spare parts, materials and supplies | (65) | (36) |
| Increase in advance ticket sales | 15 | 23 |
| Other | (29) | (16) |
| | 49 | 138 |
| **Financing** | | |
| Long-term borrowings | 419 | 355 |
| Subordinated perpetual debt | – | 498 |
| Repayment of long-term debt and capital lease obligations | (38) | (107) |
| Debt extinguishment | – | (334) |
| Deferred foreign exchange | (12) | (4) |
| Gain on aircraft financing transactions | 10 | 11 |
| Other | 23 | 8 |
| | 402 | 427 |
| **Investments** | | |
| Proceeds from disposal of assets | 94 | 304 |
| Additions to property and equipment | (674) | (593) |
| Investment in subsidiaries and other companies | – | (85) |
| Dividends received | 8 | 10 |
| | (572) | (364) |
| **Increase (decrease) in cash position** | (121) | 201 |
| **Cash position, beginning of year** | 557 | 356 |
| **Cash position, end of year** | $436 | $557 |

Cash position consists of cash and short-term investments.

*Reclassified. See note 12.

See accompanying notes.

## 1. Significant Accounting Policies

### a) Consolidation and Investment in Other Companies

The consolidated financial statements of the Corporation include the accounts of Air Canada and its subsidiaries, Touram Inc., enRoute Card Inc., enRoute Card International Inc., Maple Leaf Holdings Inc., Air Ontario Inc., AirBC Limited, Express Messenger Systems Inc., Northern Express Messenger Systems Ltd., Air Alliance Inc., Northwest Territorial Airways Ltd., Wingco Leasing Inc., and Dynamex Express Inc.(formerly Gelco Same Day Ltd.).

Investments in other companies are accounted for on the equity basis, except that of GPA Group plc, which is accounted for on the cost basis.

The excess of the acquisition cost of investment in subsidiaries and other companies accounted for on the equity basis over the Corporation's proportionate share of the underlying value of the net assets at the dates of acquisition represents goodwill, and is amortized over periods not exceeding 25 years.

### b) Foreign Currency Translation

Monetary assets and liabilities in foreign currencies, with the exception of subordinated perpetual debt, are translated at month-end exchange rates. Gains or losses are included in income of the year, except gains or losses relating to long-term debt and capital lease obligations which are deferred and amortized over the remaining life of the debt or obligation. In 1988 the Corporation acquired zero coupon bond investments to fund the foreign currency exchange loss on certain Swiss franc and Japanese yen debt. Accordingly, deferred foreign exchange losses equalling the amount of future interest on these investments have been segregated and will be amortized to income at amounts equal to the interest earned on the bonds. The maturity dates of the investments closely match the repayment dates of the related debt.

Other assets and liabilities, subordinated perpetual debt and items affecting income are converted at rates of exchange in effect at the date of the transaction.

### c) Spare Parts, Materials and Supplies

Spare parts, materials and supplies are valued at average cost. A provision for the obsolescence of flight equipment spare parts is accumulated over the estimated service lives of the related flight equipment.

### d) Gains on Sale and Leaseback of Assets

Gains on sale and leaseback of assets are deferred and amortized to income over the terms of the leases as a reduction in rental expense.

### e) Airline Revenue

Airline passenger and cargo sales are recognized as operating revenues when the transportation is provided. The value of unused transportation is included in current liabilities.

### f) Pension Expense

Pension expense consists of the actuarially computed costs using management's assumptions of the pension benefits in respect of current year's service; imputed interest on plan assets and pension obligations; and straight-line amortization of experience gains or losses, assumption changes and plan amendments over the average remaining service life of the employee group.

### g) Maintenance

Maintenance and repairs are charged to operating expenses as incurred, except for significant modification costs which are capitalized.

### h) Depreciation and Amortization

Operating property and equipment, including assets under capital lease, are depreciated or amortized to estimated residual value based on the straight-line method over their estimated service lives. Estimated service lives for flight equipment range from 12 to 20 years, except when extended by significant modifications. Estimated service lives for other property and equipment range from three to 40 years.

**Aircraft Depreciation Summary**

| | Depreciation Period | Residual Value |
|---|---|---|
| **Air Canada** | | |
| DC-8-73F | Ending Dec. 31, 1999 | 15% of asset value |
| DC-9-32 | Depreciated to residual value | 15% of asset value |
| B747-133/233B | 16 years | 15% of asset value |
| L-1011-100 | Ending Dec. 31, 1995 | 15% of asset value |
| L-1011-500 | 16 years | 15% of asset value |
| B727-233 | (See note 2) | |
| B767-233 | 20 years | 15% of asset value |
| A320 | 20 years | 15% of asset value |
| **Subsidiaries** | | |
| Various | 12-20 years | 15% to 20% of asset value |

**i) Interest Capitalized**

Interest on funds used to finance the acquisition of new flight equipment and other property and equipment is capitalized for periods preceding the dates the assets are put into service.

**j) Aeroplan**

The incremental cost of providing travel awards under the Corporation's frequent flyer program is charged to expense when entitlements to such awards are earned.

**2. Property and Equipment**

| December 31 | 1990 | 1989 |
|---|---|---|
| Cost: | | |
| Flight equipment | $2,815 | $2,398 |
| Flight equipment under capital lease | – | 126 |
| | 2,815 | 2,524 |
| Other property and equipment | 799 | 780 |
| | 3,614 | 3,304 |
| Accumulated depreciation and amortization: | | |
| Flight equipment | 1,085 | 959 |
| Flight equipment under capital lease | - | 97 |
| | 1,085 | 1,056 |
| Other property and equipment | 493 | 523 |
| | 1,578 | 1,579 |
| | 2,036 | 1,725 |
| Progress payments | 521 | 362 |
| Property and equipment at net book value | $2,557 | $2,087 |

Interest capitalized during the year amounted to $32 (1989 $19).

The Corporation has sold 27 B727 aircraft on a forward basis with delivery commencing in 1990 and extending over three years. This sale fixed the residual values of the fleet upward, with a consequent reduction in annual depreciation expense. Due to similar economics, the income effect of this sale was treated in a manner similar to sale/leaseback transactions. Accordingly, the difference between the net book value and the proceeds on sale of approximately $18 at December 31, 1990 (1989 $35) is being amortized to income as a reduction of depreciation expense which would otherwise be recorded. As a result, no gain or loss will arise on actual delivery of the aircraft.

Flight equipment includes aircraft and spare engines retired from active service with a net book value of $72. The estimated aggregate market value of this flight equipment exceeds its net book value.

**3. Deferred Charges**

| December 31 | 1990 | 1989 |
|---|---|---|
| Foreign currency exchange on long-term debt | $110 | $ 71 |
| Employer pension plan amount in excess of that included in income | 236 | 213 |
| Bond issue costs | 43 | 50 |
| Goodwill (note 4d) | 21 | 23 |
| Other | 69 | 63 |
| Deferred charges | $479 | $420 |

Amortization of deferred charges for the year amounted to $18 (1989 $17).

**4. Investments and Other Assets**

a) Investments include GPA Group plc (undiluted/fully diluted: 1990 - 10.51%/9.08%; 1989 - 12.41%/9.28%), The Gemini Group Limited Partnership (1990 - 33.3%; 1989 - 33.3%), Purolator Courier Ltd., indirectly held through PCL Courier Holdings Inc. ( 1990 - 22%; 1989 - 22% ), and other companies (30.3% to 50%).

b) Dividend income included in other non-operating income from companies accounted for on the cost basis was $8 in 1990 (1989 $10). Additionally, other non-operating income includes the Corporation's share of the earnings of companies accounted for on the equity basis totalling $1 in 1990 (1989 $1).

c) In 1990, the Corporation sold 2% of its interest in GPA Group plc for $8, resulting in a gain of $7 ($4 after tax ). In 1989 the Corporation recorded a $193 gain ($131 after tax ) resulting from the sale of 37% of its interest in GPA Group plc.

d) In 1990, a provision for investments in other companies was made for $11 ($8 after tax). In 1989, a similar provision was made for $40 ($28 after tax). Additionally in 1989, goodwill was written down by $17 resulting in a total reduction to net income of $45 after tax.

e) Other assets include a specific amount that is supported by the original purchase agreement with Gelco Corporation. This amount is part of a claim against Gelco Corporation, International Couriers Corporation and others. Legal counsel for the Corporation has expressed the opinion that the Corporation's legal actions in this matter are well founded.

**5. Long-Term Debt and Capital Lease Obligations**

| Long-term debt | Final Maturity | Interest Rate (%) | December 31 1990 | 1989 |
|---|---|---|---|---|
| U.S. dollar (a) | 1991-2005 | Various | $ 469 | $ 129 |
| Canadian dollar | | | | |
| Government of Canada | 1993 | 7.2 | 77 | 105 |
| Other (b) | 1991-2000 | Various | 315 | 270 |
| Swiss franc debt (c) | 1996-2002 | 5.125-5.625 | 252 | 220 |
| Deutsche mark bonds (d) | 1992/1993 | 7.38/9.0 | 155 | 137 |
| Japanese yen notes (e) | 2007 | 5.8 | 128 | 121 |
| U.K. sterling bonds (f) | 1994 | 11.25 | 70 | 70 |
| French franc notes | 1993 | 9.25 | 9 | 13 |
| | | | 1,475 | 1,065 |
| Deferred foreign exchange (d) | | | (58) | (40) |
| In-substance defeasance (note 6) | | | (79) | (106) |
| Net long-term debt | | | 1,338 | 919 |
| Net present value of capital lease obligations net of amounts defeased | | | – | 3 |
| Net long-term debt and capital lease obligations (g) | | | 1,338 | 922 |
| Current portion | | | (34) | (36) |
| Net value of related long-term forward exchange contracts | | | 46 | 51 |
| Long-term debt and capital lease obligations | | | $1,350 | $ 937 |

At December 31, 1990, Air Canada had the following financing facilities established on an unsecured basis, against which there were no drawings:

- up to U.S. $400 or the Canadian dollar equivalent from a group of financial institutions in Canada with a remaining term of six and one-half years, including a two and one-half year fully revolving availability period, followed by a four-year reducing revolving availability period, extendible for up to two years by mutual agreement.
- up to U.S. $300 from a German financial institution, for a total term of 15 years commencing with availability in 1991.
- up to U.S. $400 from a Euro Note Issuance Facility with a remaining term of six years, including a one-year fully revolving availability period, extendible yearly beginning in 1991 by mutual agreement.

In addition, Air Canada had received commitments for the following financing facilities:

- up to U.S. $200 related to the acquisition of Airbus A320 aircraft, for a term of 15 years from drawdown, available on the delivery of certain of the Airbus A320 aircraft.
- up to U.S. $100 related to the acquisition of Boeing B-747 aircraft, for a term of up to 20 years from drawdown, available on delivery of the aircraft.

Subsidiaries have financing arrangements totalling $18 (1989 $99) of which $11 was drawn down as at December 31, 1990 (1989 $64).

a) In March 1989, the Corporation concluded an agreement with a substantial U.S. financial institution where, upon payment of $329, the financial institution assumed liability for scheduled principal and interest payment requirements on principal of $334. This obligation is considered extinguished for financial reporting purposes and has been removed from the Corporation's statement of financial position. Until the assumed liability has been fully discharged by the financial institution, the Corporation remains contingently liable for such obligation.

Of the total U.S. dollar debt, U.S. $300 has a final maturity in the year 2005 and may be called by the Corporation with an indemnity until the year 2000 and at par thereafter.

Essentially all the U.S. debt is covered by long-term U.S. currency forward exchange and option contracts.

b) In 1990 and 1989, the Corporation concluded agreements with a substantial U.S. financial institution where, upon payment by the Corporation, the financial institution assumed liability for scheduled payments relating to certain long-term obligations in amounts of $97 in 1990 and $107 in 1989 and interest thereon. These obligations are considered extinguished for financial reporting purposes and have been removed from the Corporation's statement of financial position. Until the assumed liabilities have been fully discharged by the financial institution, the Corporation remains contingently liable for such obligations.

c) Swiss franc debt is comprised of 100 million Swiss francs maturing in the year 1996 and 200 million Swiss francs maturing in the year 2002.

The 100 million Swiss franc debt may be called by the Corporation at a premium beginning in the year 1993, declining to par by the year 1996. The Corporation has entered into a currency swap agreement with a financial institution which has the effect of extinguishing future exchange fluctuations on this debt and interest thereon.

The 200 million Swiss franc debt may be called by the Corporation at a premium until 1997 and at par thereafter.

d) In February 1987, the Corporation concluded an agreement with a German bank pursuant to which it issued to the bank Deutsche mark 200 million of 6 3/8% interest adjustable subordinated perpetual bonds in consideration for which the bank will convert the existing Deutsche mark 200 million long-term debt into these subordinated perpetual bonds and fund the interest payment requirements on these perpetual bonds until conversion in 1992 and 1993. The principal component of the subordinated perpetual bonds will be recorded in the accounts upon actual conversion and until such time, the Corporation will be contingently liable for such obligations. The perpetual bonds are unsecured. The interest rate will be 6 3/8% until 1994 and reset for each subsequent three-year period based on an interest rate index. The perpetual bonds may be called by the Corporation on each interest rate reset date at par. As a result of this transaction, the deferred foreign exchange loss of $58 at December 31, 1990 (1989 $40) in respect of the Deutsche mark 200 million of existing long-term debt is no longer amortized to income. Upon conversion, any then existing deferred foreign exchange gain or loss will be applied against the value of the perpetual bonds.

e) The interest rate on these notes will be reset in 2002 based on an interest rate index. These notes are unsecured and may be called by the Corporation at a premium until 1997 and at par thereafter.

f) The Corporation has a currency swap agreement with a Canadian bank which has the effect of extinguishing future exchange fluctuations of the Sterling debt and interest.

g) All debt is unsecured by the assets of the Corporation with the exception of the subsidiaries' debt totalling $314 (1989 $269) which is secured by certain of their assets.

Principal repayment requirements for the next five years, net of defeasance and incorporating the above noted debt extensions, are as follows:

Long-term debt

| 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|
| $ 34 | $ 28 | $ 22 | $212 | $ 21 |

### 6. In-Substance Defeasance

In 1986 and 1987, the Corporation deposited government securities in irrevocable trusts, solely to satisfy the scheduled interest and principal repayment requirements of certain long-term debt and capital lease obligations. These obligations, which at December 31, 1990 amounted to $79 (1989 $106) in long-term debt and in 1989, $9 in capital lease obligations, are considered extinguished for financial reporting purposes and, together with the related securities, have been removed from the Corporation's statement of financial position.

### 7. Deferred Credits

| December 31 | 1990 | 1989 |
|---|---|---|
| Gain on sale and leaseback of assets | $183 | $213 |
| Income taxes | 180 | 205 |
| Other | 55 | 39 |
| Deferred credits | $418 | $457 |

### 8. Subordinated Perpetual Debt

In November 1989, the Corporation concluded a Japanese yen subordinated perpetual debt financing. The interest rate is 6.55% until 1994 and it will be reset for each subsequent five-year reset period based upon a capped spread over the Japanese long-term prime lending rate.

The Corporation has entered into currency swap agreements with certain financial institutions which have the effect of extinguishing future exchange fluctuations of the Japanese yen interest for the five-year period until November 1994.

| December 31 | 1990 | 1989 |
|---|---|---|
| 60 billion Japanese yen at 6.55% until 1994 | | |
| Callable in year 1994 and every fifth year thereafter at par | $498 | $498 |
| 300 million Swiss francs at 6.25% | | |
| Callable in year 2001 and every fifth year thereafter at 102% of par | 202 | 202 |
| 200 million Swiss francs at 5.75% | | |
| Callable at 101.5% of par in year 1999 and every fifth year thereafter at 102% of par | 134 | 134 |
| Subordinated perpetual debt | $834 | $834 |

The maturity of this subordinated perpetual debt is only upon the liquidation, if ever, of the Corporation. Principal and interest payments on the debt are unsecured and are subordinated to the prior payment in full of all indebtedness for borrowed money. Since it is not probable that circumstances will arise requiring redemption of the debt and since, under present circumstances, it is not probable that the Corporation will call the debt, it is valued at the historical exchange rate and no provision is made for foreign exchange fluctuations. Based on the Canadian dollar/Swiss franc and Canadian dollar/Japanese yen exchange rates as at December 31, 1990, the Canadian dollar equivalent of 500 million Swiss francs is $455 (1989 $376) and 60 billion Japanese yen is $513 (1989 $483).

**9. Share Capital**

The authorized capital of the Corporation consists of an unlimited number of common shares, Class A preferred shares issuable in series and Class B preferred shares issuable in series. Issued capital consists of common shares and changes in the outstanding number of shares and their aggregate stated value during 1989 and 1990 are as follows:

| | Number of Shares | Amount |
|---|---|---|
| Share capital, January 1, 1989 | 71,895,594 | $563 |
| Matched shares issued to employees, October 1989 | 1,064,618 | – |
| Share purchase options exercised in 1989 | 29,378 | – |
| Share capital, December 31, 1989 | 72,989,590 | 563 |
| Matched shares issued to employees, October 1990 | 1,035,492 | – |
| Share purchase options exercised in 1990 | 1,865 | – |
| Share capital, December 31, 1990 | 74,026,947 | $563 |

In 1988, the Corporation adopted a stock option plan under which eligible executives of Air Canada received common share purchase options at a price not less than the market value of the shares at the date of granting. Options to acquire 723,272 common shares at $8.00 per share were granted in 1988 of which 688,300 remain available at December 31, 1990. These options are exercisable in the amount of 33 1/3% of the shares per year on a cumulative basis. In 1990, options to acquire 170,720 common shares were granted at values ranging from $8.25 to $10.00, of which 170,720 remain available as at December 31, 1990. These options are exercisable in the amount of 25% of the shares per year on a cumulative basis, beginning after one year and expiring after 10 years.

**10. Income Taxes**

Income tax expense (recovery) differs from the amount which would be obtained based on the combined basic Canadian federal and provincial income tax rate. The difference results from the following items:

| | 1990 | 1989 |
|---|---|---|
| Provision (recovery) based on combined rate | $(18) | $95 |
| Tax exempt income from related companies | (3) | (4) |
| Lower effective income tax rate on capital (gains) losses | (2) | (19) |
| Non-deductible expenses | 9 | 13 |
| Large corporations tax | 4 | – |
| Other | (8) | – |
| Provision for (recovery of) income taxes | $(18) | $85 |

**11. Earnings (Loss) per Share**

| Year ended December 31 | 1990 | 1989 |
|---|---|---|
| Basic | | |
| Net income (loss) from continuing operations | $(0.35) | $2.12 |
| Net income (loss) | $(1.01) | $2.06 |
| Fully diluted | | |
| Net income (loss) from continuing operations | $(0.35) | $2.05 |
| Net income (loss) | $(1.01) | $1.99 |

Earnings per share has been calculated using the weighted average number of common shares outstanding during the year. The calculation of fully diluted earnings per share was based on the assumed exercise of outstanding share options relating to the Corporation's share capital (note 9) together with the effect on consolidated income of similar dilutive factors in subsidiaries and other companies accounted for on the equity basis.

**12. Planned Disposition of enRoute Group of Companies**

The Corporation announced on December 27, 1990 a plan to sell the enRoute Group of Companies in 1991 in order to concentrate on core airline business. The enRoute Group of Companies includes the Canadian Card operations – an unincorporated Division of Air Canada, enRoute Card Inc., enRoute Card International Inc. which owns the worldwide enRoute Card franchise rights outside of Canada, and enRoute Holdings USA Inc. which owns the Card operations in the U.S.A.

The consolidated financial statements of the Corporation reflect the following operating results, assets and liabilities arising from the enRoute Group of Companies:

| | 1990 | 1989 |
|---|---|---|
| Card Billings | $1,550 | $1,275 |
| Operating Revenues | $ 51 | $ 40 |
| Current Assets | $ 329 | $ 258 |
| Current Liabilities | $ 27 | $ 21 |

The amount of $48 of net loss from the enRoute Group of Companies includes, in 1990, $17, after tax recovery of $1, of net losses attributable in the year to start-up activities in the U.S.A., $5 write-off of deferred tax recoveries applicable to prior periods, and $26 estimated losses from continuing start-up activities in 1991 in the U.S.A. assuming a full year of operation.

The comparable amount of enRoute Group net losses for 1989 is $4 after tax recovery of $3.

Any gains from the sale of the enRoute Group of Companies in excess of estimated net realizeable value will be recorded only when realized.

**13. Commitments**

The Corporation has commitments to purchase aircraft and spare engines for U.S. $1,752 and CDN. $80 which are payable as follows:

| | U.S. | CDN. |
|---|---|---|
| 1991 | $643 | $ 80 |
| 1992 | 439 | - |
| 1993 | 420 | - |
| 1994 | 157 | - |
| 1995 | 93 | - |

Other commitments for property, ground equipment and spare parts, amount to approximately CDN. $92.

Future minimum lease payments under operating leases of aircraft and other property total $1,761 and are payable as follows:

| | Operating Leases of Aircraft | Operating Leases of Other Property |
|---|---|---|
| 1991 | $ 132 | $ 37 |
| 1992 | 124 | 32 |
| 1993 | 111 | 29 |
| 1994 | 106 | 21 |
| 1995 | 95 | 18 |
| Remaining years | 862 | 194 |
| | $1,430 | $331 |

**14. Pension Plans**

Air Canada and its subsidiaries maintain several defined benefit pension plans. Based on the latest actuarial reports prepared as at December 31, 1989 using management's assumptions, the estimated present value of the accrued pension benefits as at December 31, 1990 amounted to $2,457 and the net assets available to provide these benefits were $2,730, calculated on a four-year moving average market value basis.

**15. Contingencies**

Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management supported by counsel that final determination of these claims will not have a material adverse effect on the financial position or the results of the Corporation.

Under aircraft sale and leaseback agreements, the Corporation may be required to provide residual value support not exceeding $216. Independent appraisals have indicated it is unlikely the Corporation will be required to provide this support. The Corporation retains a residual value interest in these leased aircraft through purchase options.

**16. Segmented Information**

The Corporation's primary business is the transportation of passengers and cargo on scheduled airline services over routes authorized by the National Transportation Agency of Canada. Principal assets are located in Canada with substantially all of the operations involving flights within, to or from Canada.

**17. Act of Incorporation and Legislative Provisions**

On August 25, 1988 the Corporation ceased operating under the Air Canada Act, 1977 as amended, and was continued pursuant to Articles of Continuance under the provisions of the Canada Business Corporations Act. On October 13, 1988 the Corporation issued common shares to the public and at that time, ceased to be a Crown Corporation.

The foregoing was authorized by the Public Participation Act which came into force on August 18, 1988. Under provisions of this Act, the Corporation's Articles of Continuance include limits on individual and aggregate non-resident public ownership of voting shares of 10 percent and 25 percent respectively, which includes associates of such shareholders.

**18. Subsequent Events**

On January 25, 1991, the Corporation purchased the remaining 51% interest in Air Nova for cash consideration of $12.

## BOARD OF DIRECTORS

W. David Angus, Q.C.
Partner
Stikeman, Elliott
Montreal, Quebec

C. David Clark
Chairman of the Board,
Chief Executive Officer
& President
Campbell Soup Company Ltd.
Don Mills, Ontario

J.V. Raymond Cyr, O.C.
Chairman & Chief Executive
Officer
BCE Inc.
Montreal, Quebec

John F. Fraser, O.C.
President & Chief Executive
Officer
Federal Industries Ltd.
Winnipeg, Manitoba

Rowland C. Frazee, O.C.
Retired Chairman & Chief
Executive Officer
The Royal Bank of Canada
Town of Mount Royal,
Quebec

David A. Ganong
President
Ganong Bros. Limited
St. Stephen,
New Brunswick

William James
President & Chief Executive
Officer
Denison Mines Limited
Toronto, Ontario

Pierre J. Jeanniot, O.C.*
President & Chief Executive
Officer
Air Canada
Town of Mount Royal, Quebec

Fernand Lalonde, Q.C.
Partner
Ahern, Lalonde, Nuss,
Drymer
Westmount, Quebec

Gordon F. MacFarlane
Chairman
British Columbia Telephone
Company
Vancouver, British Columbia

David E. Mitchell, O.C.
President & Chief Executive
Officer
Alberta Energy Company Ltd.
Calgary, Alberta

Paul D. Mitchell
President & Chief Executive
Officer
McNeil Consumer Products
Company
Waterloo, Ontario

Fernand Roberge**
President & Chief Executive
Officer
Ritz-Carlton Inc.
Montreal, Quebec

Claude I. Taylor, O.C.
Chairman, President & Chief
Executive Officer
Air Canada
Montreal, Quebec

Louise Brais Vaillancourt, C.M.
Corporate Director
Outremont, Quebec

Jean Wadds, O.C.
Corporate Director
Prescott, Ontario

*retired on August 2, 1990
**retired on April 26, 1990.

## OFFICERS OF THE COMPANY

Claude I. Taylor, O.C.
Chairman, President &
Chief Executive Officer

L. Desrochers
Executive Vice President,
Marketing Sales & Service

J. F. Ricketts
Executive Vice President,
Finance & Planning and
Chief Financial Officer

B. R. Aubin
Senior Vice President,
Technical Operations

W. J. A. Rowe
Senior Vice President,
Passenger Sales & Service,
Western Canada &
Pacific Rim

C. H. Simpson
Senior Vice President,
Flight Operations

J. C. Tennant
Senior Vice President,
Operations & Services

J. Whitelaw
Senior Vice President,
Corporate & Human
Resources

J.-J. Bourgeault
Vice President,
Passenger Sales & Service,
Eastern Canada,
United States & South

G. C. T. Bridges
Vice President,
Cargo

W. J. Brooks
Vice President & Controller

Z. Clark
Vice President,
Passenger Sales & Service,
Europe & Asia

L. Cameron DesBois, Q.C.
Vice President & General
Counsel

M. E. Fournier
Vice President,
Marketing Services

P. R. Garratt
Vice President,
Corporate & Financial
Planning

P. L. Kelley
Vice President,
Information Services

P. Létourneau, Q.C.
Secretary of the Company

R. H. Lindsay
Vice President,
Corporate Development &
Commercial Holdings

T. D. Little
Vice President,
Personnel

G.R. MacCormack
Vice President,
Passenger Marketing

B. F. Miller
Vice President,
In-Flight

M. R. Peterson
Treasurer

V. S. Slivitzky
Vice President,
Government & Industry
Affairs

H. A. Thompson
Vice President,
Sales & Service, Ontario

Francine Vallée
Vice President,
Public Affairs

V. K. Wozniuk
Vice President,
Airline Operational
Services

## GLOSSARY OF TERMS

**Operating Margin**
Operating income as a percentage of total operating revenues.

**Cash Generation Margin**
Funds provided from operations, including proceeds on disposal of property and equipment, as a percentage of total operating revenues.

**Return on Equity**
The average rate of return on shareholders' equity.

**Net Cash Flow**
Net income (loss) plus non-cash items included in net income (loss).

**Fixed Capital**
The aggregate of shareholders' equity and subordinated perpetual debt.

**Revenue Passenger Miles**
Total number of revenue passengers carried multiplied by the miles they are carried.

**Available Seat Miles**
A measure of passenger capacity calculated by multiplying the total number of seats available for revenue traffic by the miles flown.

**Passenger Load Factor**
A measure of passenger capacity utilization derived by expressing revenue passenger miles as a percentage of available seat miles.

**Revenue Ton Miles**
An overall measure of passenger and cargo traffic calculated by multiplying total tons of all revenue traffic carried by the miles they are carried.

**Available Ton Miles**
An overall measure of passenger and cargo capacity calculated by multiplying total tons of capacity available for revenue traffic by the miles flown.

**Weight Load Factor**
An overall measure of passenger and cargo capacity utilization derived by expressing revenue ton miles as a percentage of available ton miles.

**Yield**
Average revenue per revenue passenger mile or revenue ton mile.

## INVESTOR AND SHAREHOLDER INFORMATION

**Head Office**
Place Air Canada
500 René Lévesque Blvd. W.
Montreal, Quebec
Canada H2Z 1X5
(514) 879-7000

**Stock Exchange Listings**
Montreal, Toronto, Winnipeg, Alberta and Vancouver Stock Exchanges.

**Transfer Agent and Registrar**
The Royal Trust Company: Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

**Duplicate Communication**
Some registered holders of Air Canada shares might receive more than one copy of shareholder information mailings such as this Annual Report. While every effort is made to avoid duplication, if securities are registered in different names and/or addresses, multiple copies are forwarded. Shareholders receiving more than one copy are requested to write to the Assistant Secretary and Manager, Shareholders Relations.

**Restraints on Air Canada Shares**
The Air Canada Public Participation Act and Air Canada's Articles of Continuance limit ownership of the airline's voting shares by all non-residents of Canada to a maximum of 25 per cent. The National Transportation Act, 1987 (NTA, 1987) requires *inter alia* that at least 75 percent of the voting shares of Air Canada be owned or controlled by Canadians, as defined in section 67 of the NTA, 1987. In addition, no person or group of associated persons may own more than ten per cent of the airline's voting shares.

**For Further Information**
Shareholders Relations:
Assistant Secretary and Manager, Shareholders Relations
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