1992 ANNUAL REPORT

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 service to 25 North American cities.

Through its domestic Connector carriers, another 62 Canadian communities and 6 cities in the United States are linked to the Air Canada network. The Corporation serves 25 cities in Europe and the Caribbean. Charter passenger services are provided to more than 15 international destinations.

The airline's Cargo division serves 47 destinations in Canada and internationally. It offers guaranteed, same-day and overnight, airport-to-airport service to major centres across Canada and to most countries worldwide through interline agreements.

Air Canada has alliance agreements with Air France, All Nippon Airways, Cathay Pacific Airways, Continental Airlines, and United Airlines. The Corporation has commercial agreements with Air India, Air Jamaica, Austrian Airlines, British Midland, Czechoslovak Airlines (CSA), Finnair, LIAT (1974) Ltd., LOT Polish Airlines, Pakistan International Airlines, Royal Jordanian, Swissair, 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 majority interest, directly or indirectly, in five Canadian regional airlines, AirBC, NWT Air, Air Ontario, Air Alliance, and Air Nova; and in a major Canadian tour operator, Air Canada Vacations (Touram Inc.).

Its diversification also includes other airline-related businesses.

Shareholder Base

Air Canada's Shareholder Base is comprised of the following: Institutional, 70 per cent; Retail, 20 per cent; and Employees, 10 per cent. Approximately 93 per cent of the shares are held by Canadian residents, and seven per cent by non-residents (as defined in the Air Canada Public Participation Act and Air Canada's Articles of Continuance).

The Annual Meeting of Shareholders of Air Canada will be held at 10:30 a.m. on Thursday, April 29, 1993, at the Sheraton Halifax Hotel, 1919 Upper Water Street, Halifax, Nova Scotia.

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Financial (Millions Except per Share Figures)	1992	1991	Change
Operating Revenues	**$3,501**	$3,485	0%
Operating Loss before provision for staff reduction and retirement costs	**$ 145**	$ 164	
Operating Loss	**$ 197**	$ 200	
Loss from continuing operations	**$ 454**	$ 211	
Loss for the year	**$ 454**	$ 218	
Operating Cash Flow	**$ (203)**	$ (141)	
Common Shares Outstanding (millions)	**74.0**	74.0	
Loss for the year per Common Share*	**$ 6.13**	$ 2.94	
Operating Cash Flow per Common Share*	**$ (2.75)**	$ (1.91)	
Return on Equity	**(86.2)%**	(25.0)%	

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

Operating Statistics (Scheduled and Charter – not consolidated)			
Revenue Passengers Carried (millions)	**9.9**	9.9	0%
Revenue Passenger Miles (millions)	**14,391**	13,658	5%
Available Seat Miles (millions)	**21,628**	19,953	8%
Passenger Load Factor	**66.5%**	68.4%	
Yield per Revenue Passenger Mile	**16.3¢**	17.4¢	(6)%
Operating Expense per Available Ton Mile	**84.2¢**	90.5¢	(7)%
Average Number of Employees	**19,448**	20,593	(6)%

For the international and the Canadian aviation industries the year was dominated by financial uncertainty. Globally, the industry will lose upwards of $3 billion, and the Canadian commercial airline sector will report losses of more than $700 million in 1992.

Air Canada recorded a net loss of $454 million. Within the airline's two core businesses, Passenger revenues were virtually unchanged at $2,813 million, compared to $2,815 million for last year. Cargo revenue declined by three per cent to $342 million.

A prevailing characteristic of the domestic passenger market was continuing over-capacity. As a result, marketing of the airline's products became increasingly focused on fare levels and capacity offered; and the year saw heavy pressure on yields as Air Canada sought to fill the seats available and maintain market presence.

Part of our response to the competitive forces was a decision to maintain profitability on a route by route basis while ensuring that market share was protected. In some instances this meant matching fare cuts to maintain sufficient traffic share in the light of competitive action; in others it meant instituting lower fares to stimulate the market. It also meant more closely matching service standards and the corresponding fare levels to market demand.

Within Cargo, Air Canada continued its drive to achieve greater profitability. The increased operational time of the passenger fleet, coupled with the introduction of new cargo containers added capacity equivalent to four DC-8 freighters to its cargo business. Additionally, the Corporation is making available for sale its fleet of five DC-8-73 freighters.

The airline recognizes that revenue from its core operations must be strengthened. With the operational decisions taken during the year, Air Canada's management is confident that this is an achievable goal.

Air Canada's 1992 financial results mirror, to a large extent, those of the Canadian industry and highlight the uncertain future faced by its participants. Traffic and yield figures continue their decline, reflecting the country's

changing economy. The industry's cost structure is being brought under control, but it cannot be done quickly enough to offset the decrease in revenues. And, there is bitter competition within the international marketplace.

The situation will not change unless some dramatic rationalization occurs. Airlines around the world have been struggling to survive against the competitive forces of an economically free marketplace. In Canada, this has meant confronting the harsh fact that under government regulation, Canada's airline industry grew too large and inefficient for the current economic environment.

Air Canada believes a major part of any solution begins from the basis that a country with the population the size of Canada's can no longer support two flag carriers. Among the G-7 nations, experience has shown that a country needs a population of more than 100 million to achieve the economies of scale necessary to support more than one international flag carrier; outside of Canada only the U.S. and Japan, with populations six to ten times Canada's size, have a multi flag carrier policy.

As a result, there are two courses open to the domestic industry. The first would see a short-term continuation of the status quo. Air Canada believes this will soon lead to international dominance of Canada's aviation industry as both Air Canada and PWA Corporation will be forced to seek international partners, possibly on less than favourable terms.

The second is for a merger between Air Canada and PWA on terms that ensure only one international flag carrier, and the continuation of competition provided by the industry's growing niche carriers.

An integration of Air Canada and PWA would create a new Canadian airline with more than $6 billion in annual revenues and competitive, declining costs. The airline would undoubtedly be a key partner in any global alliance network. The combined strength of Air Canada, PWA, and a new Continental, for example, would create an airline system with the scale of U.S. majors and an operation that is significantly larger than any major, non-U.S. foreign carrier.

The advantages would be substantial, including creation of a strong Canadian-owned airline industry that can compete effectively in the global aviation market; medium and long-term employment growth; a more rational domestic route and fare structure; and the establishment of a strong Canadian player in a high-tech value service sector worldwide.

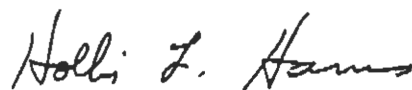
If Air Canada cannot achieve a merger with PWA, our emphasis will shift to our international alliances with Continental, United Airlines, Air France and others, similar to what is described in this Report.

Regardless of what happens, though, Air Canada will remain a world class carrier. In this year's Report we have defined and reviewed our results in the categories we believe provide us with competitive advantage.

No look at the future can be completed without focusing on our people. Within the current social and economic environment, it is imperative that there is continuing development of a partnership between all Air Canada team members. Open and direct communication, individual empowerment, team building, and shared responsibility and authority are values that I consider a fundamental part of my mandate to instill and to strengthen.

For Air Canada the future holds many challenges, including the harsh economic realities of our industry. At the same time, our foundation is strong, with more than $400 million in cash available, and committed financing facilities amounting to U.S. $400 million.

The airline's strategic, innovative and financial capabilities will continue to be tested. However, I believe that regardless of what the coming year may hold, the Air Canada team will successfully position itself for a future that will be to the positive benefit of our customers, our shareholders, and our employees.



Hollis L. Harris
Chairman, President and Chief Executive Officer

The changing global order is having a dramatic impact on most industrialized countries and their business enterprises. The creation of massive trading blocs, whether within Europe, Asia, or North America is emphasizing the new structure for international competitiveness. And, for industries that compete beyond their borders, the encouragement of national governments is becoming increasingly important.

Throughout the expected slow recovery from the recession, one of the challenges Canadian industry must confront is the on-going restructuring of our economy to compete within this new global marketplace.

Some Canadian companies, including Air Canada, have developed an aggressive international presence, especially over the past three to five years. Led by productivity gains resulting from advanced technology, a slowing of the growth in labour costs, and a renewed commitment to quality, Canadian businesses are beginning to carve out competitive niches for themselves in the worldwide arena.

One of the major difficulties, however, confronting Canadian companies that seek to compete internationally is the issue of size, or critical mass. Regardless of the industry, size is a necessary reality because of the accompanying ability to lower costs. And, this is a basic requirement when competing against foreign companies that in many cases are extensions of government policy.

Nowhere is this more evident than in the airline industry. When the profile of this country's aviation sector is set against the international airline community, it shows that drastic changes are needed in Canada if we are to preserve a globally competitive industry.

The deregulation initiatives prevalent in the international arena are creating a new order in the world airline community that has four major characteristics: a general rationalization of European airlines within the context of a single market for Europe; the continuing formation of international alliances; a powerful domestic industry in the United States; and the highly quality-conscious, but low-cost Asian carriers benefitting from the exponential growth of their own domestic manufacturing sectors.

What we are seeing as a result of this tremendous concentration of power is the emergence of mega-carriers. Through their market dominance, route structures, and balance sheet strength these carriers are better able to survive on the basis of their own operations. The drive to merge, to dominate, or to form alliances is now relentless as carriers seek to use the new forces of the marketplace to their best possible advantage.

To address this reality, governments around the world are re-examining the structure of their airline industries. Countries such as Britain, France, Germany and Australia have moved to secure a leadership role for their national carriers in world aviation; even to the extent of supporting mergers between home-based airlines.

Governments in these countries have been willing to allow industries to re-structure as the foundation for creating nationally-based globally competitive companies, which are important contributors to that country's international economic positioning.

Such decisions are now facing Canada. Is this country's airline industry to be considered one of those integral components of the economy that should be encouraged to remain strongly Canadian-based so this nation can retain and even strengthen its international competitiveness?

Governments have also had to approach the definition of domestic competition in terms of what will enable an industry to internationally compete. Increasingly for Canada, the true definition of competition, its impact on Canadians, and the country's ability as a world player will rest in the global marketplace.

For Canada's aviation industry the choice now is not so much whether this country's airlines will be part of one mega-system, or even in which system they will be members. Rather, the question is whether or not Canada's airline industry will be allowed to position itself to ensure that national interests are protected.

The industry's backdrop is that both major airlines are of insufficient size and scale to attain the economies necessary to compete in the global environment on their own. When placed alongside the need for an ever-increasing international trade presence for Canada, the continuing independence and future viability of a resident airline industry in this country becomes critical.

The importance of air transportation to this nation is both a historical fact and a future reality. The air transportation system bound the regions of this country together and linked Canada with the world. Aviation will be one of the sectors contributing to the global success of Canadian industry, and the strengthening of Canada's abilities on the world stage.

The Economic Council of Canada has identified the transportation industry, including air transportation, as a "dynamic sector". It was characterized by the Council as being a high value-added sector that, for the most part, has become more involved in internationally competitive markets and which is becoming increasingly critical to the production and distribution of goods. Just as important, the airline industry offers a mix of medium and high skilled job opportunities.

Air Canada and its predecessor Trans-Canada Air Lines have been pivotal in the development of the Canadian airline industry. Air Canada, since it was privatized, has been positioning itself to play a strong leadership role in the restructuring of Canada's aviation sector in order for the carrier to better extend its reach within North America and through alliances, in the global arena.

The industry is now at the most critical point in its evolution. And, decisions taken within the next few months will have fundamental and long-lasting implications for the aviation sector, for the country, and for Canadians.

Claude I. Taylor, O.C.
Chairman Emeritus

Competitive Advantage

Competitive Advantage is defined as a company's ability to deliver its products at a lower cost, or being able to offer unique benefits to the buyer that differentiate the service from its competition. Air Canada's strategy is to produce and deliver distinctive products and services at competitive cost.

Within the emerging global marketplace, future viability for Air Canada will depend on being able to meet the evolving needs and expectations of a broad consumer base. This report reviews the airline's continuing drive to achieve competitive advantage.

Far-Reaching and Balanced Route Structure

An airline's scheduled network is fundamental to its continuing survival and prosperity. As a world class air carrier, Air Canada must possess the capability of expanding its international reach through its own system or with mergers, acquisitions or alliances.

Alliances

Air Canada's alliance strategy is focused on the need to develop a critical mass – or size – in order to compete in the global marketplace. The concept is that a customer who wishes to travel anywhere in the world will consistently travel with Air Canada, and not the competition.

The airline requires alliances with major U.S. carriers because of the dominant position they hold in the world marketplace. Through the ability to co-operate in such areas as schedules, maintenance, and fare structures there are opportunities for reducing costs, while increasing revenues.

In Europe, alliances and other interline agreements provide passenger feed and create an expanded network intra-Europe and beyond. The changes taking place within the European Common Market make the requirement for this positioning increasingly important to Air Canada's aspirations. And in Asia, alliances and agreements enable Air Canada to gain a solid position in the world's fastest growing marketplace.

Canada

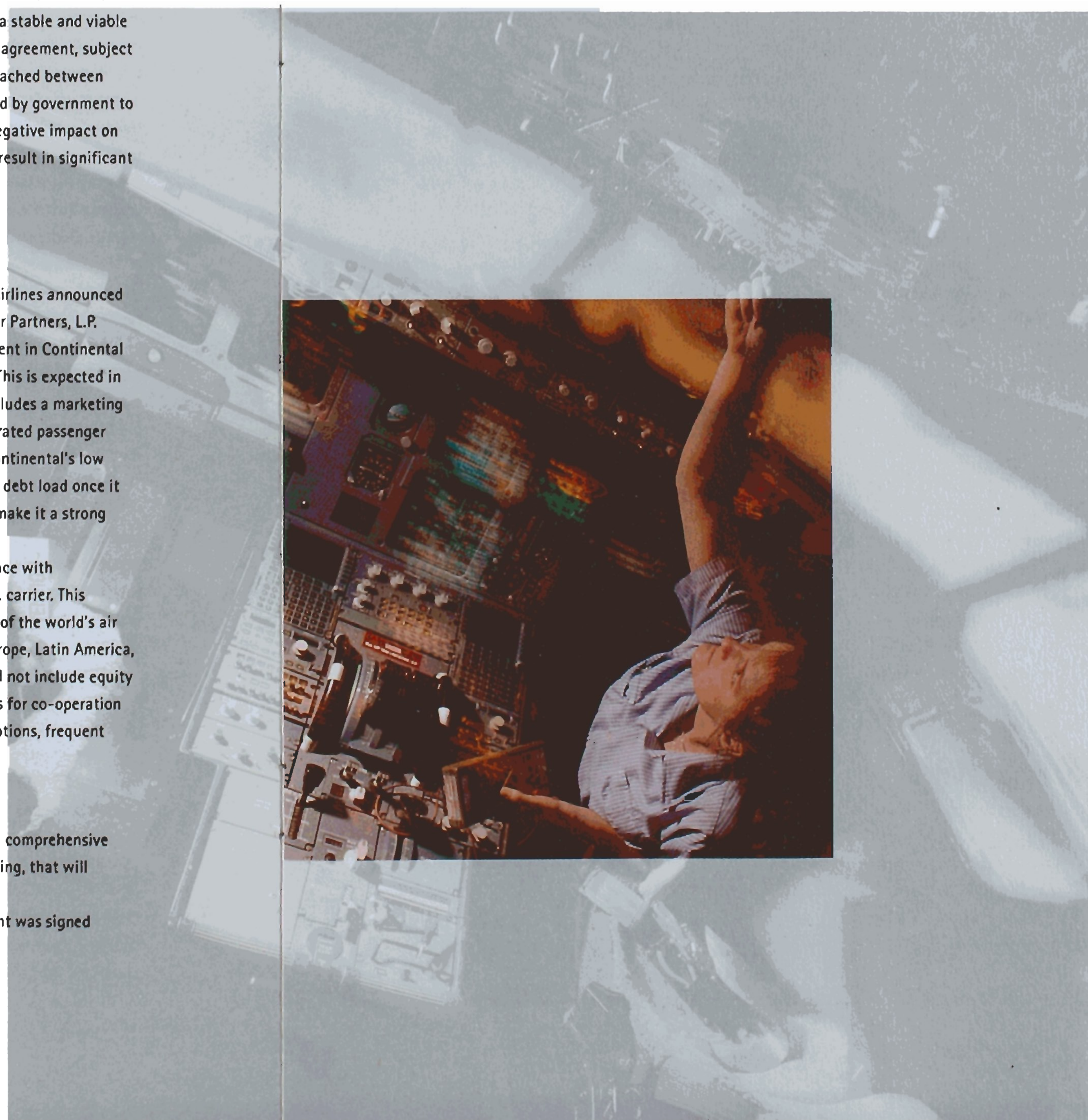
- At the close of the year, the debate on a re-structured domestic airline industry was continuing. Air Canada has attempted to achieve an equitable and fair merger agreement with PWA. It believes this would be in the best interests of the consumer by ensuring a stable and viable domestic airline industry. However, an agreement, subject to a number of conditions, has been reached between American Airlines and PWA. If permitted by government to proceed, there will be an immediate negative impact on employment, which will continue and result in significant long-term job loss for Canadians.

The United States

- During the final quarter, Continental Airlines announced that it had accepted the Air Canada/Air Partners, L.P. Investors' Group $450 million investment in Continental upon its emergence from bankruptcy. This is expected in the spring of 1993. The accord also includes a marketing alliance, network co-ordination, integrated passenger processes, and other joint ventures. Continental's low operating costs, and its vastly reduced debt load once it emerges from bankruptcy protection, make it a strong force in the U.S. marketplace.
- A commercial alliance was put into place with United Airlines, the second largest U.S. carrier. This gave Air Canada access to 40 per cent of the world's air services market, including the U.S., Europe, Latin America, and the Pacific. The alliance, which did not include equity participation by either carrier, provides for co-operation on schedules, fares, advertising, promotions, frequent flyer programs, and code-sharing.

Europe

- Air Canada and Air France concluded a comprehensive strategic alliance, including code-sharing, that will become operational in early 1993.
- A commercial and marketing agreement was signed with Swissair of Switzerland.



Canada
- Connector Carriers:
  AirBC
  NWT Air
  Air Ontario
  Air Alliance
  Air Nova

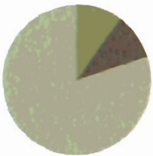
The United States
- Alliance Agreement:
  Continental Airlines
  United Airlines

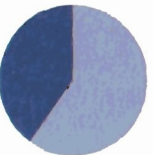
Europe
- Alliance Agreement:
  Air France
- Commercial Agreement:
  Austrian Airlines
  British Midland
  Czechoslovak Airlines (CSA)
  Finnair
  LOT Polish Airlines
  Swissair
  VIASA

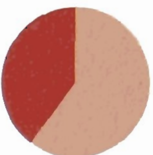
Asia
- Alliance Agreement:
  All Nippon Airways
  Cathay Pacific Airways
- Commercial Agreement:
  Air India
  Pakistan International Airlines

Middle East
- Commercial Agreement:
  Royal Jordanian

The Caribbean
- Commercial Agreement:
  Air Jamaica
  LIAT (1974) Ltd.







Asia

- Discussions are on-going with a number of Asian airlines to determine the feasibility of Air Canada's access to the Pacific Rim over the Pacific. The marketing agreement with Cathay Pacific Airways continues to provide the airline with an initial presence in this region.

The Caribbean

- A marketing alliance was concluded with LIAT (1974) Ltd. that governs fares, co-ordinated schedules and charter handling. It expanded Air Canada's service to 20 destinations in the Eastern Caribbean.

Connector Carriers

Air Canada's five regional airlines carried more than 3.6 million passengers in 1992, and accounted for 17 per cent of the airline's passenger revenues.

The commuter network, an integral part of Air Canada's passenger strategy, serves 69 communities in Canada and eight in the U.S.

A program to re-align selected services and establish more cohesive schedules with Air Canada's regional carriers was completed. This improved service by giving passengers more flights and better connection opportunities throughout the extensive networks of all carriers.

New Routes

Scheduled service was inaugurated to Berlin, Germany, and to Lyon, France, bringing to 11 the number of major European destinations served by Air Canada.

Brand-Name Quality and Value

The airline's objective is to give customers every reason to use Air Canada rather than the competition. Its strategy is to consistently deliver innovative products, provide excellent customer service, and evolve to meet the changing needs of travellers.

Marketing Programs

Initiatives included such programs as Air Canada's Europe, featuring premium accommodation and entertainment packages throughout the United Kingdom and countries in continental Europe. There were targeted discounts on specific routes, special fares to Florida, seat sales, a unique fare promotion with Greyhound Lines of Canada, and an enhanced Freedom Flyer program for travellers 60 years of age and over.

The airline introduced the Winning Ticket promotion which offered passengers prizes totalling more than $8 million; and there was the return of its Winning Seat promotion with more than 55 thousand travel prizes. As part of the emphasis on value-added services, two popular business products were expanded – Park'N Fly and Chauffeur Drive.

Domestic Passenger Marketing

With its summer schedule, the airline offered passengers ten per cent more capacity, nine per cent more flights, and 20 per cent more connection opportunities than the previous year. The moves resulted in improved ease of travel for customers and greater market presence for Air Canada.

International Passenger Marketing

Service to the United States, the Caribbean, Europe, and international charters accounted for 40 per cent of the airline's passenger revenues. Three Boeing 747-400's were introduced into service linking Toronto and Montréal with the airline's European gateways of Paris, London, and Frankfurt.

Air Canada maintained its position as the leading carrier from Canada to Europe. With an average of 68 scheduled flights a week across the Atlantic, a growth of nine flights over last year, Air Canada increased its number of passengers carried by 22 per cent.

In the Caribbean, fare structures were modified, and schedules improved to reflect the company's drive for competitive advantage.

Cargo Marketing

In an on-going program to increase the profitability of the Cargo operation, further rationalization took place. Initiatives included network adjustments, product re-alignments, and overhauling rate structures for wholesale customers. The Corporation also made available for sale its fleet of five DC-8-73 freighters.

Contract Services

The investment in technical facilities and equipment has resulted in the world-class capability for the repair, overhaul, and engineering support of modern jet aircraft, engines, and components.

At a time when many carriers are confronted with massive investments to modernize their maintenance and engineering facilities, Air Canada can provide a contractual alternative, as it did with the government of Saudi Arabia. The contract, for major engine overhauls, is for three years, represents nearly 200 thousand person/hours of work, and an annual revenue in excess of $20 million.

In 1992, $73 million in revenues from third party maintenance was generated.

The airline is actively marketing all of its technical expertise for outside contracts, including the newest addition – an Air Canada invented in-flight evacuation simulator, built at a cost of $1.6 million. The first in the industry, it can be configured as an Airbus A320, a Boeing 747, a Boeing 767, or a DC-9.

The Network

A major emphasis was the continuing improvement to the airline's schedule. The "hub" concept, first introduced in 1991, was strengthened with the addition of new flights, and upgraded connections particularly at airports in Toronto, Winnipeg, Calgary, and Vancouver.

The summer schedule marked the implementation of a fully integrated network between the airline and its Connector carriers. Within this system, departures and arrivals are synchronized to create flight banks that allow for faster connections and a wider selection of departure times. For example, connecting times on some flights were reduced from 47 to 35 minutes. The schedule permits time-effective and consistent travel between urban centres and smaller communities.

Customer Service

Two mandates governed the airline's customer service initiatives. First, an over-riding focus on better meeting customer requirements. Second, combining this objective with a reduction in unit cost.

For passengers, a new domestic fare structure was introduced, making it easier for travel agents to sell the airline's products and services. Among the changes, rules and regulations for all discounted fares were standardized and information presentation was simplified.

Passenger cabins of B-767 aircraft operating on North American routes were modified to a two-class configuration, providing enhanced service to both business and leisure travellers. Installation of Seatfones was completed, making Air Canada the only Canadian airline to feature the product. And, in late October, Advance Boarding Passes were introduced for all passengers holding advance seat selection.

The airline also introduced DataCare, a new baggage service which advises passengers in flight of mishandled or misplaced luggage. An industry first, the product is in direct response to surveys which indicate passengers want to be advised as soon as possible of any delay to their luggage.

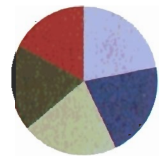
The ability of the company's workforce to serve all Canadians in the official language of their choice, continues to be ensured with the on-going availability of language training for all employees.

Expansion of the Customer Care Training program continued with tools such as bench marking and result-measuring. One extremely successful program titled Delivering Quality Service (DQS), was completed by almost all of the airline's customer service agents.

Directly responding to the need expressed by travel agents for greater support in selling airline-related products and services, Air Canada developed a comprehensive Travel Agency Training Program. An on-going project, the first phase focused on domestic, North American and international fares, with particular emphasis on selection and calculation.

Within Cargo, innovations continued to TOTEM, the computerized tracking and tracing system that links Cargo directly with customers, post offices, and freight forwarders. It also interfaces directly with the cargo systems of British Airways, Singapore Airlines, KLM, Swissair, and Aer Lingus. In addition, Air Canada and nine of the world's leading cargo carriers have joined together to develop an integrated cargo distribution system.

Other Revenues



- Other 22%
- Tours 21%
- Maintenance 21%
- Airport services 19%
- Passenger sales and services 17%

A major competitive advantage to Air Canada is that it will benefit from advances in technology at low cost, have access to many new markets, and be able to further improve customer service standards.

Air Canada Vacations

A wholly-owned subsidiary of Air Canada, the company is a major Canadian tour operator offering leisure and vacation packages to more than 40 destinations in North and South America, the Caribbean, and Europe. More than 398 thousand customers, including approximately 315 thousand tour clients travelled with the company in 1992. The company's operating revenues increased by 32 per cent over 1991, to $264 million, as it simplified fare structures, reduced travel restrictions, and developed more flexible packages.

Competitive Productivity and Cost

Within today's global economy, the ability to ensure internationally competitive productivity and cost structures, must be an overriding objective of a world class carrier.

Cost Reduction

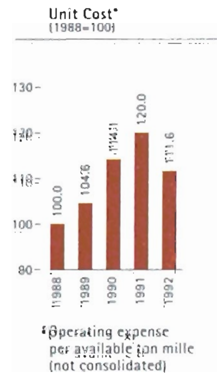
Some of the major productivity and cost cutting measures in 1992 included:

Administration

- A corporate re-organization that strengthened company administration through increased hands-on accountability by executives, and also reduced executive management by six positions.
- Further "right sizing" with a ten per cent reduction in management positions, and a five per cent decrease in administrative and technical support positions. The moves resulted in annual savings of $20 million.
- In November, Air Canada reduced its workforce by nine per cent, with reductions in flight attendants, customer service agents, mechanics, and cargo and ramp employees.
- Relocation of corporate headquarters from central Montréal to the airline's Technical Centre at Dorval; annual savings of $4 to $5 million.
- All worldwide passenger advertising was centralized with the agency Marketel/McCann-Erickson, located in Montréal.
- Idea ACtion, a one-year unique employee suggestion program, generated more than $36 million in cost savings. The airline is designing a revised program for introduction in 1993.
- The completion of the sale for $282 million of the enRoute Card and business to Citibank Canada.
- The introduction of a "cash bar" in North American Hospitality Service for annual savings of $15 million.
- As part of ensuring employee safety, while at the same time focusing on costs, the airline maintained its Safety Training Observation Program (STOP) that trains management and supervisors to recognize, report, and prevent unsafe work habits. On a company-wide basis, safety related disabling accidents decreased by approximately 25 per cent. Just as important, has been the emphasis on accident prevention the program has brought to the workplace.

Operations

- Integration of Airport Services and Cargo operations at Vancouver, Calgary, Edmonton, Winnipeg, Québec, Ottawa, Halifax and Heathrow.
- The completion of a four-year project to centralize worldwide weight and balance functions in Canada. Annual savings of $6 million will be realized by reducing to one operation from 25.
- On the ramp, savings were achieved through competitive bench marking analysis against industry standards. The result was reduced crew sizes and a reduction in time allocated to some ramp services.
- A three-year rationalization of Station Operations Centres (STOC) in Canada was completed, reducing the number of Centres from 18 to 8.
- In redefining the Cargo mandate, Air Canada's emphasis has moved to increasing the cargo efficiency of its passenger aircraft. It added capacity equivalent to four DC-8 freighters by introducing new cargo containers, and by increasing the operational time of the passenger fleet.



The Air Canada Fleet

	A320	B-747	B-767	B-727	DC-9	DC-8F	L-1011
Owned	23	6	11	6	11	5	7*
Op. lease	8	3	10	1	24	0	0
In service	31	9	21	1**	35	5	0
Orders	9	0	6***	0	0	0	0
Options	9	3	12	0	0	0	0
Sold or to be sold	0	0	0	6	0	5	7

* Seven L-1011's are in storage pending disposal.
** Six B-727's are out of service pending disposal.
*** Six B-767-300's are available for sale.

The Connector Airline Fleets

	Twin Otter	BAe 146	DHC-8-100	DHC-8-300	B-737 Combi	BAe J-31	Hercules Cargo
Air Nova	0	5	10	0	0	0	0
Air Alliance	0	0	14	0	0	0	0
Air Ontario	0	0	15	6	0	0	0
NWT Air	0	0	0	0	3	0	1
AirBC	4	5	12	6	0	6	0

The Fleet

- The company retired its last Boeing 727, to be replaced by the Airbus A320. Its fleet of five DC-8-73 freighters was made available for sale. The action continued the airline's program of reducing aircraft types within its fleet. The moves, in part, contribute to lower maintenance, inventory, and training costs.
- The delivery of four of the Corporation's six Boeing 767-300ER aircraft was delayed by approximately 30 months. Air Canada will receive its first two Boeing 767-300ERs as planned in 1993, and will put them up for sale. The airline is not currently planning to operate these two aircraft.
- Fleet capacity was expanded by 10 per cent and flights by nine per cent with the introduction of three Boeing 747-400's, and the more productive redeployment of the fleet this move allowed.

Employee Relations

The successful partnership between labour and management, and the understanding it entails, is the cornerstone upon which a world class airline is built.

Training

The year saw many adjustments in the workplace resulting from intensified domestic and international competition, continuing technological advances, and evolving consumer expectations. The airline's focus was on working jointly with unions and employees in confronting these challenges.

Air Canada's success with its cost-reduction and revenue generating programs rests with the ability of its workforce to respond and adapt to changing conditions. Training is an important part of this process.

While extensive skills training is on-going for such branches as Flight Operations, Maintenance, and In-Flight Service, more than 2,500 employees took part in company sponsored programs that included sales effectiveness techniques; employee communication and participation methods; management development; and computer instruction.

The company's leadership training is part of an extensive total quality management project (TQM). Education and training programs were launched for executive, senior and middle management, and branch supervisors that focused on the changes that must now be made to problem solving, to system procedures, to attitudes, and to modes of behaviour.

Labour Agreements

Approximately 83 per cent of Air Canada's employees are covered by labour agreements.

Agreement was reached with three of the airline's four major unions to extend, for one year, their current contract terms and conditions. The three are the Canadian Auto Workers (CAW), representing customer service agents; the Canadian Union of Public Employees (CUPE), representing flight attendants; and the Canadian Airline Pilots' Association (CALPA). Negotiations for new collective agreements are scheduled to take place in 1993.

The International Association of Machinists and Aerospace Workers (IAMAW) and the company were, at year end, in conciliation following expiry of the current labour contract on June 20, 1992.

Information Technology

A characteristic of today's world class airline is the ability to continually renew its information technology.

Information Systems

Substantial work was carried out on four major information systems. These included:

- The Aircraft Reliability and Technical Operations Support (ARTOS) will replace the current Technical Operations support system. It manages inventory material and maintenance labour processes, giving reduced inventory levels and increased production capacity. Implementation from 1994 to late 1996.

- The Passenger Automated Network for Daily Accounting (PANDA) is a new passenger revenue accounting system, set for implementation in 1993.
- The Totally Integrated Personnel Payroll System (TIPPS), a new Human Resource system that will provide many personnel services direct to employees. Implementation in 1994.
- RESIII will replace the Reservations and Departure Control System, the central control system of the airline. It will enable the airline to more effectively manage the distribution of its inventory; and at the airport will allow for improved customer service procedures. Implementation in 1994.

The Gemini Group

The Gemini Group, equally owned by Air Canada, PWA Corporation, and Covia Partnership, operates the largest airline passenger reservations system in Canada. Gemini, which has more than 700 employees, provides Air Canada with strategic control of its domestic distribution channel and enables it to negotiate equitable product display arrangements with other international computer reservations systems.

The year produced mixed results for the company. On the positive side, it continued its successful introduction of the advanced travel agency selling system, Apollo by Gemini (ApG). However, competition from other reservations systems, particularly the American Airlines owned Sabre, eroded market share.

There were also pressures within its ownership group, including several legal actions. PWA is currently attempting to sever its association with Gemini.

Air Canada and the Community

The airline believes fundamentally that sustainable development is the essence of preserving a quality of life to which people have a right to expect.

The Community

Through the office of the Director, Employee Safety and Environment the Corporation is taking a direct approach at reconciling Air Canada's needs as a bottom line business, and its needs as an environmentally-conscious corporate citizen. Collecting recyclable materials, recycling paper products, a computer program that monitors corporate waste reduction, and a fleet of fuel efficient aircraft, such as the A320, the B-747-400, and the B-767 are some of the airline's specific initiatives.

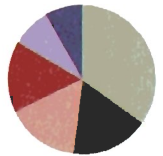
The airline is addressing the concern over glycol, the fluid used in de-icing aircraft. Aircraft are being de-iced at special areas where the glycol can be recovered. Additionally, Air Canada is a leading participant in a project to develop a $20 million de-icing facility to be used by all airlines operating into Toronto's Lester B. Pearson International Airport. A similar facility has been approved for Montréal and other Canadian airports, including Vancouver, are being examined.

Of equal importance to the environment is the airline's social responsibility. It responded, consistent with the resource limitations imposed by the airline's financial performance, to requests for donations and sponsorships from a broad range of national and local organizations.

In partnership with the Secretary of State, it assisted the air travel of 37 thousand young Canadians in a cross-Canada exchange program called Voyageurs Canada 92. The company was one of ten major corporations sponsoring National Awareness Week for persons with special needs.

And, the airline's people donated time and money to causes and communities throughout the world. As just one example, employees contributed close to $500 thousand to the in-house, company-sponsored Campaign For Funds.

The Work Force



Air Canada had a net loss of $454 million or $6.13 a share in 1992. This compares with a net loss of $218 million or $2.94 per share in 1991.

Operating results improved in 1992. The loss from operations, before staff reduction and retirement costs, was $145 million, an improvement of $19 million from last year.

The two factors accounting for most of the deterioration in the year's net income were the non-recognition of the potential benefit from the recovery of income taxes on losses, and higher net interest costs. In 1991, Air Canada was able to recognize the benefit from the recovery of income taxes on losses. This year, the Corporation could not. The potential benefit from the recovery of income taxes on losses, which have not been recognized for 1992, amounts to $176 million.

Non-operating expense rose $97 million, as higher net interest expense reflected increased borrowing over the last two years for aircraft purchases, a reduction of capitalized interest, and lower interest income due to decreased 1992 cash balances.

The Corporation recorded a provision of $52 million for staff reduction and retirement costs, $16 million over the 1991 amount.

1992 Income Results

Operating Revenues

Consolidated operating revenues of $3,501 million rose $16 million or less than one half of one per cent.

Passenger Revenue

Consolidated passenger revenues were essentially unchanged at $2,813 million. The Corporation's 1992 plan was based on a forecast of a stronger Canadian and world economy. In anticipation of growth, Air Canada added flights and introduced into service three new Boeing B747-400 combination passenger/freighter aircraft. Passenger capacity, measured as available seat miles, rose eight per cent overall. A 19 per cent increase in available seat miles across the Atlantic was the major component. This reflected an expectation that there was significant pent-up demand for travel to and from Europe following the poor Gulf War-related results of 1991.

However, global economic growth did not meet forecasts and remained sluggish. Continued concern over jobs and high debt levels prevented a rebound in consumer spending. When anticipated traffic growth failed to materialize, Air Canada responded with lower fares and an increased proportion of discounted seats to stimulate the market. These actions generated strong traffic growth, particularly on Atlantic routes, however, at lower yields. Further downward pressure on yields also occurred when some business travellers chose to change traditional buying patterns to purchase discount fares with more restrictive travel conditions.

Total traffic rose six per cent while yields declined by a similar amount. The passenger load factor (a measure of capacity utilization) declined by 1.5 percentage points to 65 per cent.

The Corporation's passenger revenue on domestic routes fell two per cent on a three per cent decline in yield. The company's share of this market, measured as sales by Canadian travel agents for travel within Canada, rose to 53.7 per cent, up 1.1 per cent from 1991.

Revenue on the Canadian transcontinental routes, which accounted for more than a third of total domestic revenues, declined four per cent with lower yields the underlying factor. To stimulate demand, Air Canada along with PWA Corporation and other Canadian carriers, used price incentives throughout the year. Low fares also spilled over into Canada from the United States. The U.S. industry was severely disrupted by the introduction of American Airlines' "Value Pricing" concept, its collapse and subsequent massive price war. Value Pricing in the U.S. reduced full fares by approximately 38 per cent.

Operating revenues –

Year ended December 31 (in millions)	1992	1991	1990	1989	1988
Domestic Routes					
Passenger	$1,677	$1,711	$1,793	$1,699	$1,512
Cargo	205	216	229	231	317
Total	1,882	1,927	2,022	1,930	1,829
International Routes					
Passenger	1,136	1,104	1,310	1,185	1,090
Cargo	137	138	184	167	186
Total	1,273	1,242	1,494	1,352	1,276
Other	346	316	383	336	299
Total	$3,501	$3,485	$3,899	$3,618	$3,404

Representing about a quarter of domestic revenues, Air Canada's Commuter service, including flights within Ontario and Québec, and the Rapidair routes on the Montréal, Toronto and Ottawa corridor achieved a two per cent increase in revenue. This was a significant improvement from the four per cent decline of 1991 from 1990. Passenger yield rose four per cent as a greater proportion of Rapidair customers were in the higher yielding categories. A four per cent fare increase in July was an additional positive factor. Traffic for 1992 fell one per cent below last year's level.

Nationair, a major Canadian charter carrier, introduced scheduled service in October between Montréal and Toronto. Some traffic loss from this action has occurred and further losses are expected in 1993.

The regional routes, which include service within Western Canada and flights to the Maritimes and Newfoundland, recorded a four per cent revenue decline on lower yields.

Air Canada gradually attempted to raise average domestic fares in the latter part of 1992, in particular by reducing the discount levels. While the average domestic yield for the second quarter was 11 per cent under the level for the same period in 1991, by the fourth quarter it had exceeded last year by more than five per cent. A five per cent domestic fare increase effective December 1, 1992, will be a positive factor for revenue improvement in 1993.

The international routes recorded a three per cent growth in revenue. Passenger traffic on these routes rose 11 per cent while yields declined eight per cent. The results reflected both buoyant demand, particularly on the Atlantic routes, as well as intense international price competition.

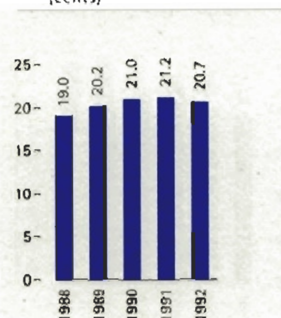
Within the Atlantic service, routes to Germany were considered a highlight of 1992. Air Canada returned to offering daily service to Germany. The customer responded and provided a traffic growth of 39 per cent on a capacity increase of 27 per cent.

The market to France remained highly competitive with intense charter competition from Canada. Air Canada strengthened its market position with B747-400 service. Traffic growth was 25 per cent on higher capacity of 28 per cent.

Air Canada expanded capacity by 18 per cent to the United Kingdom, an area the company felt had significant potential. Traffic rose 17 per cent while yield declined 15 per cent reflecting heavy charter competition on the routes and a higher proportion of low-fare tour packages.

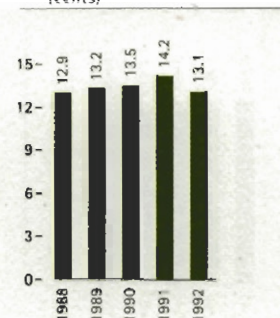
Revenue on the U.S. service rose three per cent with a twelve per cent traffic growth partially offset by an eight per cent yield decline. The July abandonment by Alaska Airlines of its Toronto-Los Angeles service, helped boost Air Canada's traffic growth on the U.S. transcontinental routes by 13 per cent. Unfortunately, yields declined 12 per cent reflecting the American Airlines-led fare war.

Domestic Yield
per Revenue Passenger Mile*
(cents)



* Not consolidated

International Yield
per Revenue Passenger Mile*
(cents)



* Not consolidated

Cargo Revenue

Total cargo revenue of $342 million declined $12 million or three per cent from 1991. While lower traffic essentially accounted for the variance, there was mixed performance within the cargo product lines.

Mail revenues rose, reflecting the impact of a new contract which included service improvements.

Revenue declines in both the Premium Express and Freight Express products were the outcome of lower traffic and yields. The recessionary economy contributed to their weak performance. The market for domestic Premium Express was also characterized by aggressive price cutting by U.S. competitors intent on expanding their share of the Canadian market.

Increased competition from expedited trucking services in Canada was the major factor in the unsatisfactory performance in the Freight Express product line. A 25 per cent decline in Air Canada's domestic Freight Express revenue reflected a movement to surface of less time-sensitive shipments.

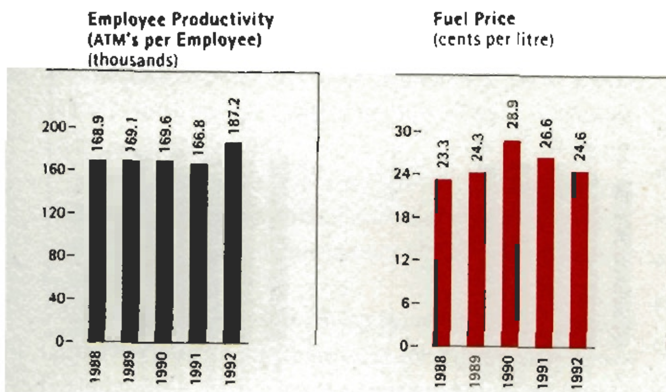
Other Revenue

Other revenue of $346 million, which includes maintenance, ground packages, ground handling and other contract services, rose $30 million or nine per cent. Expanded tour sales from Air Canada Vacations and a significant increase in revenue from Air Canada's Aeroplan partners were the main items.

Operating Expenses

Consolidated operating expenses of $3,646 million, before provision for staff reduction and retirement costs, declined $3 million. Lower operating expenses were achieved in spite of an unconsolidated capacity increase of six per cent, measured as available ton miles.

Expenses for salaries and wages fell $31 million or three per cent. Average employee levels (not consolidated) declined by 1,145 persons or six per cent and lifted employee productivity 12 per cent over 1991. In this



instance, employee productivity is measured as available ton miles per employee. In 1992, management employment fell a further 12 per cent in addition to the 11 per cent decline in 1991. Clerical and contract employee levels were both lowered by five per cent in 1992.

The number of employees (full-time equivalents) at year end was 18,238, which was 5,492 or 23 per cent below the peak level of December, 1989.

Average wages for unionized personnel increased by less than one per cent while, for the second consecutive year, a pay raise was foregone by management. Overtime expense was specifically targeted in 1992, and a 14 per cent reduction was achieved.

Benefits expense rose $20 million or 16 per cent. The main factor was an increase in pension expense of $15 million. This resulted partly from major employment reduction programs in 1990 and 1991, which had the impact of lowering contributions to the pension plan in addition to providing pensions earlier than planned. The actuarial liability of the pension plan also rose as the interest rate used to discount the future liability to a present liability was lowered from 8.5 per cent to 8.0 per cent.

Other elements contributing to the increase in benefits expense were higher unemployment insurance rates paid by Canadian corporations and a rise in charges for employee health and dental care.

Fuel expense declined $43 million or eight per cent reflecting a seven per cent fall in the fuel price resulting primarily from continued lower post Gulf War oil prices. Although aircraft hours flown rose five per cent, the total amount of fuel consumed declined one per cent. The superior fuel efficiency of the Airbus A320 aircraft, which comprised a higher proportion of Air Canada's fleet in 1992, was the primary reason.

The expansion of the A320 fleet and the introduction of three B747- 400's in the Spring of 1992, were the key elements of a $16 million or eight per cent increase in depreciation expense.

Commission expense rose $6 million or two per cent, primarily due to commissions paid by Air Canada Vacations on its expanded tour sales.

Despite the six per cent passenger traffic growth, food, beverages and supplies expense remained five per cent below last year's level. A simpler meal service on short duration flights, negotiated supplier price reductions and the elimination of complimentary bar service on North American routes were important factors in the cost containment.

Aircraft maintenance, materials and supplies expense was lowered by $20 million or 13 per cent partly through the development of technical advances leading to a lower usage of certain engine components, such as turbine vanes. The improved overall reliability of aircraft engines and the replacement of older Boeing B-727 aircraft with new A320's were also important elements.

The eight per cent growth in seat capacity and a weaker Canadian dollar accounted for most of the 11 per cent increase in airport user fees.

The addition of eight A320 aircraft and one B747-200 under operating leases was responsible for the $8 million increase in aircraft rental expense.

Other operating expense of $893 million rose $36 million or four per cent. This reflected the increased volume-related costs in Air Canada Vacations and other subsidiaries. Expense reductions were achieved in building expenses and ground equipment maintenance costs. Increases were recorded in communications, insurance, equipment rentals, and airport terminal services expense. In addition, the Corporation received in 1991 a $9.8 million refund in Provincial Corporation Tax. There was no similar refund in 1992.

The six per cent unconsolidated capacity increase, measured as available ton miles, and the reduction in operating expense combined for a seven per cent improvement in unit cost, measured as total operating expense divided by available ton miles.

Non-operating Expense

Consolidated non-operating expense was $251 million, an increase of $97 million from 1991. The largest component, net interest expense, rose $64 million over last year in part due to lower interest-earning average cash balances and falling interest rates on these deposits. Another factor was the higher average debt level associated with purchase of the three B747-400's in 1991, and the expansion of the A320 fleet over the last three years. Capitalization of interest associated with future aircraft deliveries declined to $8 million from $30 million. The airline is approaching the end of its fleet renewal program.

The loss on sale of assets of $29 million reflected provisions toward losses on future sales of surplus aircraft. These provisions offset gains recorded on the sale of three Lockheed L1011-500's and one L1011-100. No gain or loss was recorded in the year on the sale of the enRoute business.

A $15 million provision against the carrying value of investments was recorded in the year.

Other non-operating expense rose $11 million with the largest element being the amortization of deferred foreign exchange losses on long-term debt. There was also an increase in the cost of forward exchange contracts purchased to hedge debt.

Income Taxes

Generally accepted accounting principles restrict recording tax recoveries to circumstances in which there is virtual certainty that future profitability will absorb accumulated losses. Management considered it inappropriate to record potential tax recoveries given continuing uncertainties in the Canadian airline industry.

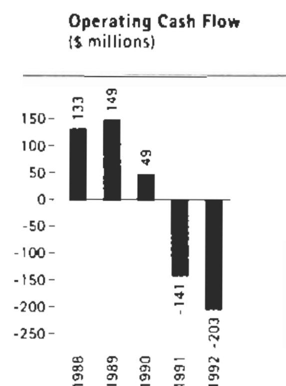
Cash Position

The year-end cash position of $418 million was $290 million above the 1991 level. Additional borrowings of $265 million, cash proceeds of $282 million from the sale of the enRoute Card operations and $605 million in proceeds from the sale of assets more than offset the $243 million used to support operations and the $598 million investment in property and equipment.

Cash provided by long-term borrowings totalled $265 million which included a drawdown of U.S. $200 million on a U.S. $400 million financing facility from a group of financial institutions in Canada. The $49 million of subordinated perpetual bond financing reflected a conversion of part of existing Deutsche mark long-term debt, resulting in a reduction of long-term debt. The $24 million deferred foreign exchange in 1992 represented the net cash inflow arising from the use of short and long-term forward and option contracts to hedge debt denominated in foreign currencies.

Additions to property and equipment of $598 million included $394 million in aircraft expenditures related to deliveries in 1992 of twelve A320's, and two Dash 8-100's for AirBC. Progress payments for six Boeing B767-300's to be delivered in 1993 and 1996, and expenditures for spare engines, ground equipment, facilities and computer equipment accounted for most of the remainder.

Included in the $605 million in proceeds from disposal of assets were proceeds totalling $419 million from the sale and leaseback of eight of the twelve 1992 deliveries of A320 aircraft and one B747-200. The remaining $186 million in proceeds represented the sale of



eleven B-727's to Federal Express and the disposal of three L1011-500's and one L1011-100. Air Canada's B-727 fleet has been forward sold and the last six owned B-727's are to be delivered in early 1993.

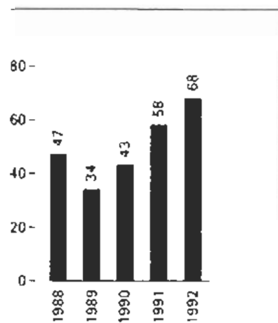
Planned Capital Expenditures and Investments

Planned capital expenditures (excluding investment in subsidiaries and other companies) for the three-year period 1993 to 1995 amount to $965 million and include $411 million in commitments for aircraft and spare engines. Another key element is $260 million in proposed expenditures for inventory, modifications and refurbishments to aircraft and the potential exercise of purchase options on certain leased aircraft. The last major component is approximately $294 million in planned spending on facilities, systems projects, and ground equipment including investments in computer equipment to improve customer service and operational capabilities. Also included in this amount is $21.3 million in capital expenditures by subsidiaries.

The committed amount of $411 million for aircraft and spare engines represents three additional A320's and two B767-300 aircraft in 1993 and progress payments on four B767-300's, the deliveries of which have been deferred until 1996 from 1993/1994. Air Canada currently has no plans to operate the B767-300's and intends to sell them. Aircraft commitments are allocated on the basis of $262 million in 1993, $66 million in 1994, with the remaining $83 million in 1995. Excluded from the planned expenditure total is $262 million in progress and final payments for the purchase of six A320's, which have been forward sold to GPA Airbus for delivery in 1994 and 1995.

Planned expenditures of $294 million on facilities, equipment and projects have been reduced by almost $200 million from earlier projections in the area of facilities. The reduction is related to a far more limited approach to the development of Terminal 2 in Toronto. Only $2 million was spent on the project in 1992 and no further significant amounts are intended for the 1993-1995 period. Of the total expenditures, $130 million will be spent in 1993, $105 million in 1994 and $59 million in 1995.

Debt as Percentage of Debt
Plus Fixed Capital



All planned, but uncommitted capital expenditures, will be committed only if, in management's opinion, expected market and financial conditions warrant.

An upcoming use of cash in 1993 relates to an investment by Air Canada in Continental Airlines. On November 9, 1992, Air Canada and Air Partners L.P., a Texas limited partnership, announced their intentions to invest U.S. $450 million in Continental Airlines upon its emergence from bankruptcy. Air Canada's share of this investment will be U.S. $235 million with U.S. $85 million in equity and U.S. $150 million in notes of Continental Airlines secured by the unencumbered assets of Continental Airlines. Subsequently, the Corporation arranged for a commitment by a third party to purchase the U.S. $150 million of Continental Airlines debt securities in exchange for a U.S. $100 million reduction to existing committed financing related to the acquistion of A320 aircraft. As a result, Air Canada's intended investment has been reduced to U.S. $85 million in equity. This investment will provide Air Canada with 24 per cent of the voting interest and 27.5 per cent of the common equity.

The proposal was accepted by the Board of Directors of Continental Airlines and tentatively approved by the U.S. Department of Transportation. Air Canada anticipates that the bankruptcy court will confirm the plan of reorganization in March. Closing is expected to be completed by Spring, 1993.

Continental, with its extensive route structure, is an important component of Air Canada's strategy to be part of a global network of airlines. The Corporation and Continental also plan to maximize the benefits from several potential areas of cooperation, such as network coordination, information systems and maintenance.

On emerging from bankruptcy, Continental will have a much reduced debt burden in addition to retaining its strong route network, highly competitive cost structure and hub facilities. It expects to operate a fleet of approximately 320 jet aircraft and 95 commuter aircraft. Continental plans a return to profitability by 1994, based essentially on upgrading its overall product and customer service, and maintaining its competitive cost levels. Air Canada is confident that Continental will succeed and anticipates synergy benefits and equity income from its investment.

The financing of Air Canada's 1993-1995 aircraft purchases and other cash requirements is expected to be undertaken primarily through proceeds from the sale/leaseback of aircraft and the sale of aircraft which are surplus to the Corporation's requirements. In 1993, Air Canada plans to complete lease transactions on five A320 aircraft and the sale/leaseback of three B747-400's for anticipated total proceeds of more than $600 million. The Corporation also anticipates the sale of the two B767's to be delivered in 1993. A significant financing source is the year-end 1992 cash position of $418 million.

Additional funds will be made available in 1993 from the previously discussed sale of six B-727's to Federal Express.

Other sources of funds remain accessible to the Corporation. At year-end 1992, Air Canada had the following financing facility established on an unsecured basis, against which there were drawings in the amount of U.S. $200 million:

- up to U.S. $400 million or the Canadian dollar equivalent from a group of financial institutions in Canada. After the above-noted drawings, the net amount available was U.S. $200 million. Drawn amounts may be repaid and redrawn subject to a reducing revolving availability period.

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

- up to U.S. $100 million related to the acquisition of A320 aircraft. This commitment, which was U.S. $200 million at December 31,1992, has been reduced to U.S. $100 million as part of a financing arrangement related to Continental Airlines, as discussed earlier.
- up to U.S. $100 million related to the acquisition of B747-400 aircraft.

Subsidiaries have committed financing arrangements totalling $21 million against which there were no drawings as at year-end 1992.

The sale and leaseback of existing owned and unencumbered aircraft also remains a potential financing opportunity. At year-end 1992, 55 per cent of the operating fleet by number or 66 per cent by fair-market value was owned and unencumbered.

Air Canada's investment in GPA Group plc at December 31, 1992, was $80.1 million. It consisted of 10.9 million shares for an interest of 9.05 per cent, fully diluted.

Discussions regarding the restructuring of GPA are currently underway between GPA and its key stakeholders-aircraft manufacturers, bankers and shareholders. Talks are proceeding satisfactorily on rescheduling aircraft deliveries and on revising the financing terms. A proposal for additional investment has also been made to existing shareholders. Air Canada is considering the investment proposal.

Financing Strategy

The 1992 financial performance of the entire North American airline industry can be characterized as extremely poor. Credit markets are tight. Air Canada has arranged a major portion of its funding in advance, at favourable terms and conditions. In addition, the Corporation's debt repayment schedule for the next three years is low. The repayment schedule is: $45 million in 1993, $117 million in 1994 and $50 million in 1995.

Since 1990, most of Air Canada's debt financing facilities have been drawn on a floating rate basis. As a result, the company has benefited from the falling interest rates in 1991 and 1992. Depending upon market conditions, and the company's view of interest rate movements, a portion or all of the floating rate debt could be fixed in the short term or swapped to fixed rate for terms up to maturity. As at December 31, 1992, approximately three quarters of the interest rate exposure on the floating rate U.S. dollar debt was hedged by short-term forward interest rate agreements. The weighted average cost of Air Canada's long-term debt and subordinated perpetual debt was 7.4 per cent in 1992.

Air Canada has borrowed in a number of low interest rate currencies such as the Swiss Franc, Deutsche mark and Japanese Yen currencies. As at December 31, 1992, of the non-U.S. dollar denominated debt, only the Japanese Yen notes and the Swiss Franc debt have exposure to foreign exchange fluctuations.

The subordinated perpetual debt of $883 million is not considered to be subject to foreign exchange risk since there is no requirement to repay the principal.

The largest part of Air Canada's existing debt and capital expenditures for aircraft is denominated in U.S. dollars. As at year end, approximately three quarters of its U.S. long-term debt exposure and 1993 U.S. dollar expenditures for aircraft was hedged primarily by short-term U.S. currency forward exchange and option contracts. On an ongoing basis, the company manages its U.S. dollar and foreign currency exposure through hedging, which may be adjusted from time to time depending on its view of the foreign currency markets.

Outlook

A new Canada-U.S. air services agreement was not concluded in 1992. These key issues have not been settled: the phase-in timetable for entry of U.S. carriers; access by Canadian carriers to facilities and services at constricted airports in the U.S.; aircraft arrival and departure slots; facilitation including preclearance; and a mechanism for dispute resolution. The new U.S. administration will additionally require a period of familiarization. It appears unlikely that a new agreement will be concluded during 1993. While the increased opportunities for new air services between the two countries will not be made available in the coming year, Air Canada will, however, expand its transborder services on existing dormant route authorities.

Air Canada does not expect its average unit cost to increase in 1993. The full impact of the 1992 cost reduction initiatives, combined with new programs, will offset general inflation.

With continued stable demand and high levels of crude and finished fuel stocks, minimal fuel price increases, if any, are anticipated for 1993. However, any change in the price of crude oil could have a major effect on operating expense. A one U.S. dollar per barrel movement, up or down, would result in an approximate Cdn. $10.5 million change in annual operating expense.

The structure of the Canadian airline industry remains unsettled with Air Canada's chief competitor currently in default to lendors and lessors. PWA Corporation has received a proposal from AMR Corporation, parent of American Airlines, for a major investment in PWA. As closing terms include significant conditions such as major creditor concessions and the withdrawal of Canadian Airlines from the Gemini reservations system, it is difficult to predict the outcome.

Air Canada expects the industry to remain highly competitive in 1993. Domestic and international passenger yields will continue to be under pressure, as carriers fight for market share within a slowly growing world economy. In this environment, Air Canada will be hard pressed to make a net profit in the near future. However, the Corporation is committed to returning to profitability by 1994. It completed major structural changes in 1992 and will continue to review all aspects of its business including its labour policies, fleet, network and products.

Financial Data – consolidated ($ millions)	**1992**	1991	1990	1989	1988
Operating revenues:					
Passenger	**2,813**	2,815	3,103	2,884	2,602
Cargo	**342**	354	413	398	503
Other	**346**	316	383	336	299
Total operating revenues	**3,501**	3,485	3,899	3,618	3,404
Operating expenses:					
Salaries, wages and benefits	**1,188**	1,199	1,230	1,131	1,096
Aircraft fuel	**472**	515	637	539	494
Depreciation, amortization and obsolescence	**206**	190	170	150	148
Other	**1,780**	1,745	1,812	1,679	1,562
	3,646	3,649	3,849	3,499	3,300
Operating income (loss) before the undernoted item	**(145)**	(164)	50	119	104
Staff reduction and retirement costs	**(52)**	(36)	(61)	(16)	(6)
Operating income (loss)	**(197)**	(200)	(11)	103	98
Non-operating income (expense):					
Interest expense net of amounts capitalized	**(213)**	(170)	(114)	(79)	(98)
Gain (loss) on sale of assets	**(29)**	(5)	15	27	64
Provision for investments and writedown of goodwill	**(15)**	(17)	(11)	(57)	-
Gain on reduction of interest in GPA Group plc	**-**	-	7	193	15
Other	**6**	38	71	51	36
Total non-operating income (expense)	**(251)**	(154)	(32)	135	17
Income (loss) before income taxes and minority interest	**(448)**	(354)	(43)	238	115
(Provision for) recovery of income taxes	**(4)**	142	18	(85)	(29)
Minority interest	**(2)**	1	(1)	-	1
Net income (loss) from continuing operations	**(454)**	(211)	(26)	153	87
enRoute Card operations	**-**	(7)	(48)	(4)	2
Net income (loss)	**(454)**	(218)	(74)	149	89

Price Range and Trading Volume of Air Canada Common Shares

1992	High	Low	Volume
1st Quarter	$8.50	$6.13	8,351,929
2nd Quarter	$6.63	$4.65	8,015,871
3rd Quarter	$5.75	$3.20	9,792,179
4th Quarter	$3.35	$2.20	10,913,081

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

Financial Data (cont'd)	1992	1991	1990	1989	1988
Operating margin	**(5.6)%**	(5.7)%	(0.3)%	2.8%	2.9%
Cash generation margin	**11.5%**	0.1%	5.9%	13.3%	15.9%
Operating cash flow	**(203)**	(141)	49	149	133
Total assets	**4,810**	4,921	4,579	4,121	3,437
Long-term debt and capital leases (including current portion)	**2,492**	2,183	1,384	973	1,100
Subordinated perpetual debt	**883**	834	834	834	336
Shareholders' equity	**316**	770	988	1,062	913
Percentage of debt to debt plus fixed capital	**68%**	58%	43%	34%	47%
Book value per share (dollars)	**4.27**	10.40	13.35	14.55	12.70
Current ratio	1.09	1.15	1.47	1.79	1.56
Return on equity	**(86.2)%**	(25.0)%	(7.0)%	15.4%	13.5%

Operating statistics – not consolidated					
All operations:					
Revenue ton miles (millions)	**1,971**	1,914	2,302	2,223	2,160
Available ton miles (millions)	**3,640**	3,435	3,920	3,930	3,823
Weight load factor	**54.1%**	55.7%	58.7%	56.6%	56.5%
Operating revenue per revenue ton mile	**146.4¢**	151.7¢	146.9¢	144.5¢	139.0¢
Operating expense per available ton mile*	**84.2¢**	90.5¢	86.0¢	78.9¢	75.4¢
Average number of employees (000)	**19.4**	20.6	23.1	23.2	22.6
Available ton miles per employee (000)	**187.2**	166.8	169.6	169.1	168.9
Passenger – scheduled and charter:					
Revenue passengers carried (millions)	**9.9**	9.9	11.8	12.0	11.9
Revenue passenger miles (millions)**	**14,391**	13,658	16,577	16,278	15,553
Available seat miles (millions)***	**21,628**	19,953	23,233	23,348	21,778
Passenger load factor	**66.5%**	68.4%	71.4%	69.7%	71.4%
Yield per revenue passenger mile	**16.3¢**	17.4¢	16.8¢	16.3¢	15.7¢
Cargo – scheduled and charter:					
Revenue ton miles (millions)	**532**	549	645	595	605
Yield per revenue ton mile	**53.1¢**	53.1¢	53.2¢	53.5¢	56.6¢

*Before staff reduction and retirement costs.
**Consolidated revenue passenger miles: 1992 – 15,519; 1991 – 14,642; 1990 – 17,271.
***Consolidated available seat miles: 1992 – 23,886; 1991 – 22,031; 1990 – 24,630.

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 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
and Chief Financial Officer

Hollis L. Harris
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, 1992 and 1991 and the consolidated statements of operations and retained earnings and changes in cash position for the years 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 audits.

We conducted our audits 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, 1992 and 1991 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Chartered Accountants
Montréal, Québec
February 12, 1993

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

Year ended December 31 (in millions)	1992	1991
Operating revenues		
Passenger	**$2,813**	$2,815
Cargo	**342**	354
Other	**346**	316
	3,501	3,485
Operating expenses		
Salaries and wages	**1,042**	1,073
Benefits	**146**	126
Aircraft fuel	**472**	515
Depreciation, amortization and obsolescence	**206**	190
Commissions	**273**	267
Food, beverages and supplies	**179**	188
Aircraft maintenance, materials and supplies	**129**	149
Airport user fees	**142**	128
Aircraft rent	**164**	156
Other (note 1h)	**893**	857
	3,646	3,649
Operating loss before the undernoted item	**(145)**	(164)
Staff reduction and retirement costs	**(52)**	(36)
Operating loss	**(197)**	(200)
Non-operating income (expense)		
Interest income	**23**	44
Interest expense	**(221)**	(200)
Interest capitalized (note 2)	**8**	30
Loss on sale of assets	**(29)**	(5)
Provision for investments	**(15)**	(17)
Other (note 4)	**(17)**	(6)
	(251)	(154)
Loss before income taxes and minority interest	**(448)**	(354)
Income tax (provision) recovery (note 9)	**(4)**	142
Minority interest	**(2)**	1
Loss from continuing operations	**(454)**	(211)
enRoute Card operations (note 15)	**–**	(7)
Loss for the year	**(454)**	(218)
Retained earnings, beginning of year	**207**	425
Retained earnings (deficit), end of year	**$ (247)**	$ 207
Loss per share		
From continuing operations	**$ (6.13)**	$ (2.85)
For the year	**$ (6.13)**	$ (2.94)

See accompanying notes.

December 31 (in millions)	1992	1991
Assets		
Current		
Cash and short-term investments	**$ 418**	$ 128
Accounts receivable (note 15)	**312**	630
Spare parts, materials and supplies	**171**	172
Prepaid expenses	**24**	14
Deferred income taxes	**–**	34
	925	**978**
Property and equipment (note2)	**3,068**	3,243
Deferred charges (note 3)	**591**	475
Investments and other assets (note 4)	**226**	225
	$4,810	$4,921

On behalf of the Board:

Hollis L. Harris
Chairman, President and Chief Executive Officer

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

	1992	1991
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 614**	$ 611
Advance ticket sales	**192**	192
Current portion of long-term debt	**45**	47
	851	850
Long-term debt (note 5)	**2,447**	2,136
Other long-term liabilities	**71**	75
Deferred credits (note 6)	**235**	251
	3,604	3,312
Minority interest	**7**	5
Subordinated perpetual debt (note 7)	**883**	834
Shareholders' equity		
Share capital – common (note 8)	**563**	563
Retained earnings (deficit)	**(247)**	207
	316	770
	$4,810	$4,921

See accompanying notes.

Year ended December 31 (in millions)	1992	1991
Cash provided by (used for)		
Operating		
Loss from continuing operations	$ (454)	$(211)
enRoute Card operations	–	(7)
Loss for the year	(454)	(218)
Non-cash items included in loss for the year		
Depreciation, amortization and obsolescence	206	190
Deferred income taxes	(2)	(148)
Loss on sale of assets	29	5
Other	18	30
*Operating cash flow	(203)	(141)
Change in net trade balances	(1)	(29)
Change in spare parts, materials and supplies	(3)	23
Change in advance ticket sales	–	(36)
Other	(36)	(38)
	(243)	(221)
Financing		
Subordinated perpetual debt	49	–
Long-term borrowings	265	892
Reduction of long-term debt	(92)	(116)
Deferred foreign exchange	24	(17)
Other	–	(17)
	246	742
Investing		
Proceeds from sale of assets	605	173
Additions to property and equipment	(598)	(993)
Investment in subsidiaries and other companies	(2)	(9)
Proceeds from disposal of enRoute (note 15)	282	–
	287	(829)
Increase (decrease) in cash position	290	(308)
Cash position, beginning of year	128	436
Cash position, end of year	$ 418	$ 128
***Operating cash flow per share**	$ (2.75)	$(1.91)

See accompanying notes.

1. Significant Accounting Policies

a) Consolidated Subsidiaries and Investments in Other Companies

(i) The consolidated financial statements of the Corporation include the accounts of Air Canada and its subsidiaries, as follows:

	Level of Ownership	
December 31	1992	1991
Consolidated Subsidiaries		
Air Canada Vacations (Touram Inc.)	100%	100%
enRoute Card Inc. (note 15)	100%	100%
enRoute Card International Inc. (note 15)	–	100%
Maple Leaf Holdings Inc.	100%	100%
Northwest Territorial Airways Ltd.	100%	100%
Dynamex Express Inc.	100%	100%
Air Nova Inc.	100%	100%
AirBC Ltd. (undiluted)	85%	85%
(fully diluted)	80%	80%
Air Ontario Inc.	75%	75%
Air Alliance Inc.	75%	75%
Wingco Leasing Inc.	75%	75%

The Corporation's investments in other companies are recorded using the following bases of accounting:

Companies Accounted for on the Equity Basis		
Express Messenger Systems Inc.	38%	38%
Matac Cargo Ltd.	50%	50%
Global Travel Computer Holdings Ltd.	35%	35%
The Gemini Group Limited Partnership	33%	33%
Companies Accounted For on the Cost Basis		
GPA Group plc (undiluted)	10.32%	10.38%
(fully diluted)	9.05%	9.16%
PCL Courier Holdings Inc.	< 0.1%	< 0.1%

(ii) 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 20 years.

b) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies, with the exception of subordinated perpetual debt, are translated into Canadian dollars at rates of exchange in effect at the date of the consolidated statement of financial position. Gains or losses are included in income of the year, except gains or losses relating to long-term debt which are deferred and amortized over the remaining term of the debt. 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 are being 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 to a 30% residual value.

d) 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.

e) Post Retirement Benefits

Pension expense, based on management's assumptions, consists of the actuarially computed costs 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 expected average remaining service life of the employee group.

Costs associated with post retirement health care and life insurance benefits are recognized as incurred.

f) Depreciation and Amortization

Operating property and equipment are depreciated or amortized to estimated residual values 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 3 to 40 years.

	Estimated Residual Values		Estimated Service Lives
	Aircraft	Engines/Rotable Inventory	
Air Canada			
B747-433	15%	15%	20 years
B747-133/233B	15%	10%	16 years
B767-233	15%	15%	20 years
A320-211	15%	15%	20 years
DC-9-32	15%	10%	Depreciated to residual value
DC-8-73F	15%	10%	Ending Dec 31, 1999
Subsidiaries			
Various	15-20%	15-20%	12-20 years

g) Maintenance and Repairs

Maintenance and repair costs are charged to operating expenses as incurred. Significant modification costs are capitalized and amortized over the remaining service lives of the assets.

h) Other Operating Expenses

Included in other operating expenses are expenses related to building rent and maintenance, advertising and promotion, computer reservation service charges, professional fees and services, terminal handling, crew meals and hotels, insurance costs, and other expenses.

i) 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.

j) 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 available for service.

k) 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.

l) Comparative Figures

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

2. Property and Equipment

December 31	1992	1991
Cost:		
Flight equipment	$3,404	$3,638
Other property and equipment	987	867
	4,391	4,505
Accumulated depreciation and amortization:		
Flight equipment	888	1,040
Other property and equipment	554	511
	1,442	1,551
	2,949	2,954
Progress payments	119	289
Property and equipment at net book value	$3,068	$3,243

Interest capitalized during the year amounted to $8 using an average rate of 7.7% (1991 $30 using 8.3%).

Flight equipment includes aircraft retired from active service with a net book value of $72 (1991 $124), including $35 represented by 6 remaining B727-233 aircraft which the Corporation has contracted to sell on a forward basis for delivery in 1993. The estimated aggregate market value of this flight equipment exceeds its net book value.

3. Deferred Charges

December 31	1992	1991
Employer pension plan funding in excess of pension expense	$294	$271
Foreign currency exchange on long-term debt	208	113
Bond issue costs	31	37
Other	58	54
Deferred charges	$591	$475

Amortization of deferred charges for the year amounted to $43 (1991 $27).

4. Investments and Other Assets

Investments and other assets principally include investments and advances to non-subsidiary companies listed in note 1a. The most significant of these investments is the GPA Group plc investment of $80 (10,862,460 shares).

Goodwill, net of amortization, of $20 (1991 $22) is included in other assets.

Other non-operating income includes the Corporation's share of the earnings of companies accounted for on the equity basis totalling $1 in 1992 (1991 losses of $3). Additionally, dividend income included in other non-operating income from companies accounted for on the cost basis was $5 in 1992 (1991 $8).

5. Long-Term Debt

Long-term debt	Final Maturity	Interest Rate (%)	December 31 1992	1991
U.S. dollar debt (a)	1996-2006	various	$1,651	$1,305
Canadian dollar debt (b) (c)	1995-2004	various	329	336
Swiss franc debt (d)	1996-2002	5.125 – 5.625	241	233
Deutsche mark bonds (e)	1993	7.375	48	97
Japanese yen notes (f)	2007	5.8	153	139
U.K. sterling bonds (g)	1994	11.25	70	70
French franc notes	–	9.25	–	3
			2,492	2,183
Current portion			(45)	(47)
Long-term debt (h)			$2,447	$2,136

Principal repayment requirements for the next five years are as follows:

Long-term debt repayment

1993	1994	1995	1996	1997
$45	$117	$50	$748	$305

At December 31, 1992, Air Canada has the following financing facility established on an unsecured basis, against which there were drawings in the amount of U.S. $200:

- up to U.S. $400 or the Canadian dollar equivalent from a group of financial institutions in Canada with a remaining term of four and one-half years, including a 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.

After the above noted drawings, the net amount available at December 31, 1992, was U.S. $200 or the Canadian dollar equivalent. Drawn amounts may be repaid and redrawn subject to the reducing revolving availability period. If the availability period is not extended, funds available under this U.S. $400 facility will be reduced by 10% in June 1993, by 15% in June 1994 and by 25% on each of the three subsequent anniversaries until June 1997.

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

- up to U.S. $100 related to the acquisition of Airbus A320-211 aircraft, for a term of 15 years from drawdown, available on the delivery of certain of the Airbus A320-211 aircraft. This commitment which was U.S. $200 at December 31, 1992, has been reduced to U.S. $100 as part of a financing arrangement related to Continental Airlines (note 16).
- up to U.S. $100 related to the acquisition of Boeing B747-433 aircraft, for a term of up to 20 years from drawdown.

Subsidiaries have financing arrangements totalling $21 (1991 $19) against which there were no drawings as at December 31, 1992 (1991 $1).

Long-Term Debt (cont'd)

a) In March 1989, the Corporation concluded an agreement with a substantial U.S. financial institution where, upon payment by the Corporation, the financial institution assumed liability for scheduled principal and interest payment requirements on principal of $334. This obligation (which amounts to $205 at December 31, 1992) 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.

As at December 31, 1992, U.S. dollar debt totalled U.S. $1,285, the majority of which is at floating interest rates. As at December 31, 1992, approximately three quarters of the interest rate exposure on the floating rate U.S. dollar debt is hedged by short-term forward interest rate agreements. Of the U.S. dollar debt:

- a U.S. $400 borrowing has a final maturity in 1996 and may be called by the Corporation at par prior to maturity.
- a U.S. $200 borrowing has a final maturity in 1997 and may be repaid at par and redrawn subject to a reducing revolving availability period.
- a U.S. $100 borrowing has a final maturity in 1997 and may be repaid at par in whole or in part on any interest payment date.
- a U.S. $300 borrowing has a final maturity in 2005 and may be called by the Corporation with an indemnity until the year 2000 and at par thereafter.
- a U.S. $285 borrowing has a final maturity in 2006 and may be called, at par, by the Corporation with an indemnity.

As at December 31, 1992, approximately three quarters of the U.S. dollar debt is hedged primarily by short-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 $98 in 1990 and $107 in 1989 and interest thereon. These obligations (which amount to $92 and $100 respectively at December 31, 1992) 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) 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 obligations. These obligations, which at December 31, 1992 amounted to $17 (1991 $48), are considered extinguished for financial reporting purposes and, together with the related securities, have been removed from the Corporation's statement of financial position.

d) Swiss franc debt is comprised of 100 Swiss francs maturing in 1996 and 200 Swiss francs maturing in 2002.

The 100 Swiss franc debt may be called by the Corporation at a premium beginning in 1993, declining to par by 1996. The Corporation has entered into a Swiss franc to U.S. dollar swap agreement covering this debt and interest thereon.

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

e) In February 1987, the Corporation concluded an agreement with a German bank pursuant to which it issued to the bank 200 Deutsche mark of 6.375% interest adjustable subordinated perpetual bonds. In consideration, the bank agreed to convert the 9% 100 Deutsche mark bonds maturing in 1992, and the 7.375% 100 Deutsche mark bonds maturing in 1993 into these subordinated perpetual bonds, and to fund the interest payment requirements on these perpetual bonds until conversion.

In August 1992, the 9% 100 Deutsche mark bonds matured and were converted into 100 Deutsche mark subordinated perpetual bonds (note 7) at a value of $49 which reflects the historical exchange rate.

The remaining 7.375% Deutsche mark bonds will be converted into 100 Deutsche mark subordinated perpetual bonds at maturity in 1993 at the carrying value of $48.

f) The interest rate on the 15 billion Japanese yen notes will be reset in 2002 based on an interest rate index. These notes may be called by the Corporation at a premium until 1997 and at par thereafter.

g) 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.

h) All debt is unsecured by the assets of the Corporation with the exception of the subsidiaries' debt totalling $325 (1991 $333) which is secured by certain of their assets.

6. Deferred Credits

December 31	1992	1991
Gain on sale and leaseback of assets	$193	$145
Income taxes	–	38
Other	42	68
Deferred credits	$235	$251

7. Subordinated Perpetual Debt

December 31	1992	1991
60 billion Japanese yen at 6.55% until 1994		
Callable in 1994 and every fifth year thereafter at par	$498	$498
300 Swiss francs at 6.25%		
Callable in 2001 and every fifth year thereafter at 102% of par	202	202
200 Swiss francs at 5.75%		
Callable at 101.5% of par in 1999 and every fifth year thereafter at 102% of par	134	134
100 Deutsche marks at 6.375% until 1994		
Callable in 1994 and every third year thereafter at par	49	–
Subordinated perpetual debt	$883	$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 foreign exchange rates as at December 31, 1992, the Canadian dollar equivalent of 60 billion Japanese yen is $611 (1991 $555), 500 Swiss francs is $434 (1991 $425), and 100 Deutsche marks is $78. The Canadian dollar equivalent of the 100 Deutsche mark bonds, to be converted into subordinated perpetual bonds in 1993, is $78.

The interest rate on the Yen subordinated perpetual debt is 6.55% until 1994 and 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 certain agreements which have the effect of substantially extinguishing future exchange fluctuations of the Japanese yen interest until November 1994.

The interest rate on the Deutsche mark subordinated perpetual bonds is 6.375% until 1994 and will be reset for each subsequent three-year reset period based upon an interest rate index.

8. 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 74,033,677 (1991 74,033,677) common shares, with a stated capital amount of $563 (1991 $563). In 1991, 6,730 common shares were issued under the share option plan at $8.00 per share. No shares were issued in 1992.

The details of the Corporation's share option plan, under which eligible executives are granted options to purchase common shares at a price not less than the market value of the shares at the date of granting, are as follows:

	Options Granted	Options Outstanding December 31/92	Option Price Per Share
1988	723,272	669,130	$8.00
1990	170,720	164,270	$8.25-$10.00
1991	254,518	248,897	$9.125
1992	778,614	771,792	$4.865-$7.875
	1,927,124	1,854,089	

The options granted in 1988 are exercisable in the amount of 33⅓% of the shares per year on a cumulative basis. All other options are exercisable in the amount of 25% of the shares per year on a cumulative basis, beginning after one year and expiring after ten years.

9. Income Taxes

Income taxes differ 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:

	1992	1991
Recovery based on combined federal and provincial tax rates	$181	$144
Increase (decrease) in recovery resulting from:		
The benefit of losses which has not been recognized	(176)	–
Large corporations tax	(5)	(5)
Other	(4)	3
Income tax (provision) recovery	$ (4)	$142

The Corporation has not recognized the potential benefit from losses of $434 which are available to be carried forward and applied against taxable income in future years.

10. Commitments

The Corporation has commitments to purchase aircraft and spare engines for U.S. $555 which are payable as follows:

	U.S.
1993	$204
1994	$ 53
1995	$ 67
1996	$231
1997	–

Excluded from the aircraft commitments is an amount of U.S. $209 for the purchase of six Airbus A320 aircraft which have been forward sold to a third party. Other commitments for property, ground equipment and spare parts, amount to approximately CDN. $29.

Future minimum lease payments under operating leases of aircraft and other property total $2,174 and are payable as follows:

	Operating Leases of Aircraft	Operating Leases of Other Property
1993	$ 206	$ 50
1994	183	40
1995	158	32
1996	152	26
1997	128	21
Remaining years	907	271
	$1,734	$440

11. Pension Plans

Air Canada and its subsidiaries maintain several defined benefit pension plans. Based on the latest actuarial reports prepared as at December 31, 1991, using management's assumptions, the estimated present value of the accrued pension benefits as at December 31, 1992, amounted to $2,941 and the net assets available to provide these benefits were $3,069 calculated on a four-year moving average market value basis.

12. 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.

The Bureau Competition Policy of the Government of Canada is reviewing an application by PWA Corporation to terminate its contractual commitments to The Gemini Group Limited Partnership pursuant to a proposed financial arrangement with a foreign carrier. The outcome of the hearings could affect the future viability of Gemini and the valuation of the Corporation's interest.

Under aircraft sale and leaseback agreements, the Corporation may be required to provide residual value support not exceeding $184. Independent appraisals as at December 31, 1992, 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.

The residual value support described above excludes support on 24 DC-9-32 aircraft as the Corporation intends to purchase these aircraft on termination of the leases in 1994 and 1996.

13. 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.

14. 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.

15. enRoute Card Operations

On July 8, 1992, the Corporation completed the sale of the enRoute business to Citibank Canada. The enRoute Group of Companies has been accounted for as a discontinued operation and there was no significant gain on the sale. The remaining investment in enRoute as at December 31, 1992 is as follows:

Assets at time of sale	$310
Proceeds to December 31, 1992	282
Accounts receivable	$ 28

On December 29, 1992, all the assets and liabilities of enRoute Card Inc. were distributed to the Corporation as the initial step towards the planned dissolution of the Company.

On December 29, 1992, all the assets and liabilities of enRoute Card International Inc. were distributed to the Corporation and the Company was dissolved on December 31, 1992.

16. Continental Airlines

On November 9, 1992, the Corporation announced its intention to invest $300 (U.S. $235) in equity and debt securities of a reorganized Continental Airlines (subject to certain conditions) upon Continental Airlines' emergence from bankruptcy in 1993. Subsequent to December 31, 1992, the Corporation arranged for the commitment by a third party to purchase U.S. $150 of Continental Airlines debt securities in exchange for a U.S. $100 reduction to existing committed financing related to the acquisition of Airbus A320-211 aircraft (note 5). As a result, the Corporation's intended investment in Continental Airlines has been reduced to $109 (U.S. $85).

This investment will provide the Corporation with 27.5% of the common equity (24% of the voting interest) in a reorganized Continental Airlines.

BOARD OF DIRECTORS

W. David Angus, Q.C.
Senior Partner
Stikeman, Elliott
Montréal, Québec

J.V. Raymond Cyr, O.C.
Chairman of the Board
BCE Inc.
Montréal, Québec

John F. Fraser, O.C.
Chairman and Chief Executive Officer
Federal Industries Ltd.
Winnipeg, Manitoba

Rowland C. Frazee, C.C.
Retired Chairman and Chief Executive Officer
Royal Bank of Canada
Town of Mount Royal, Québec

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

Hollis L. Harris
Chairman, President and Chief Executive Officer
Air Canada
Saint-Laurent, Québec

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

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

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

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

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

Claude I. Taylor, O.C.
Chairman Emeritus
Air Canada
Saint-Laurent, Québec

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

The following members retired from the Board of Directors during 1992:

C. David Clark
Chairman and Publisher
The Globe and Mail
Toronto, Ontario

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

OFFICERS OF THE COMPANY

Hollis L. Harris
Chairman, President and Chief Executive Officer

Jean-Jacques Bourgeault
Executive Vice President, Marketing and Sales

Lamar Durrett
Executive Vice President, Technical Operations and Corporate Services

Patrick L. Kelley*
Executive Vice President, Corporate Strategy

John F. Ricketts
Executive Vice President, Finance and Chief Financial Officer

Charles H. Simpson
Executive Vice President, Operations

James C. Tennant
Executive Vice President, Human Resources and TQM

Paul E. Brotto
Vice President, Passenger Marketing

Barry R. Corbett
Vice President, Employee Relations

John Dickie
Vice President, Technical Operations

L. Cameron DesBois
Vice President and General Counsel

Paul R. Garratt
Vice President, Financial Planning and Controller

Allen B. Graham
Vice President, In-Flight Service

Egon Koch
Vice President, International-Europe

Paul Létourneau, Q.C.
Secretary of the Company

G.Ross MacCormack
Vice President, Commercial Strategy

R.A. (Sandy) Morrison
Vice President, Corporate Communications, Government and Industry Relations

M. Robert Peterson
Treasurer

Douglas D. Port
Vice President, Airport Services

H. Alan Thompson
Vice President, Passenger Sales

*It was announced during the year that Mr. Kelley would be leaving the Corporation to pursue other business interests, effective April 1, 1993.

The following Officers retired during 1992:

Claude I. Taylor, O.C.
Chairman of the Board

Leo Desrochers
Executive Vice President and Chief Operating Officer

Bruce R. Aubin
Senior Vice President, Technical Operations

James Whitelaw
Senior Vice President, Human Resources

Geoff C.T. Bridges
Vice President, Cargo

GLOSSARY OF TERMS

Operating Margin
Operating income (loss) as a percentage of total operating revenues.

Cash Generation Margin
The aggregate of: operating cash flow, ehange in net trade balances, and proceeds from sale of assets, as a percentage of total operating revenues.

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

Current Ratio
Current assets divided by current liabilities.

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
P.O. Box 14000,
Saint-Laurent, Québec
Canada H4Y 1H4
(514) 422-5000

Stock Exchange Listings
Montréal, Toronto, Winnipeg, Alberta and Vancouver Stock Exchanges.

Transfer Agent and Registrar
The R-M Trust Company, Agent For The Royal Trust Company: Halifax, Montréal, 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 Shareholder Relations Director.

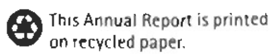
Restraints on Air Canada Shares
The Air Canada Public Participation Act and Air Canada's Articles of Continuance limit ownership of the airline's voting shares by all non-residents of Canada to a maximum of 25 per cent. The National Transportation Act, 1987 (NTA, 1987) requires *inter alia* that at least 75 per cent 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 Shareholder Relations Director
Telephone: (514) 422-5787
Faxcom: (514) 422-5789

Investor Relations:
Manager,
Investor Relations
Telephone: (514) 422-5724
Faxcom: (514) 422-5739

Ce rapport annuel est publié dans les deux langues officielles du Canada. Pour en recevoir un exemplaire en français, écrire à la Secrétaire adjointe et Directrice – Relations avec les actionnaires.



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