AIR CANADA

ANNUAL REPORT

1995

Corporate Profile

Air Canada is a Canadian-based international air carrier, providing scheduled and charter air transportation for passengers and for cargo. The Corporation is Canada's largest air carrier. The airline's route network, including regional airline subsidiaries, provides air transportation services to over 115 cities worldwide.

Air Canada serves 17 cities in Canada with an additional 47 Canadian communities served by its regional airlines. The Corporation provides air transportation services to 27 cities in the United States and to 22 cities in Europe, Asia, the Caribbean and India. Charter passenger services are also offered to six international destinations. The airline's cargo division serves directly over 55 destinations in Canada and internationally.

Air Canada operates a large aircraft and engine maintenance business providing maintenance services to airlines and other customers. Technical, flight attendant and pilot training as well as computer and ground handling services are also offered. The Corporation holds 100% interest in five Canadian regional airlines, AirBC, Air Ontario, Air Alliance, Air Nova and NWT Air; in Galileo Canada, the largest Canadian computer reservations system and in Air Canada Vacations (Touram Inc.), a major Canadian tour operator. The Corporation also holds minority interest in Continental Airlines, Inc. and in other travel and transportation-related businesses.

Shareholder Base

Air Canada's shareholder base is comprised of the following: approximately, 78 per cent, Institutional; 17 per cent, Retail; and five per cent, Employees. Ninety-two per cent of the voting shares are held by Canadian residents and eight per cent by non-residents (as defined in the Air Canada Public Participation Act and Air Canada's Articles of Continuance).

The Annual General Meeting of Shareholders of Air Canada will be held at 10:30 a.m. on Tuesday, May 14, 1996, at the Metro Toronto Convention Centre, (Constitution Hall), 255 Front Street West, Toronto, Ontario.

Cover photo: People like Caroline Bédard, an in-charge flight attendant based in Montréal, and Toronto station attendant Steve Lanno are part of the 19,600 member Air Canada team serving the needs of our growing customer base.

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Year at a Glance

Financial	**1995**	1994	Change
(Millions except per share figures)			
Operating revenues	**$ 4,507**	$ 4,024	12%
Operating expenses	**$ 4,232**	$ 3,780	12%
Operating income	**$ 275**	$ 244	
Income for the year	**$ 52**	$ 129	
Operating margin	**6%**	6%	
Cash flow from operations	**$ 61**	$ 44	
Average common shares outstanding (basic)*	**144.0**	117.9	
Average common shares outstanding (fully diluted)*	**168.7**	143.5	
Income for the year per common share (basic)*	**$ 0.36**	$ 1.09	
Income for the year per common share (fully diluted)*	**$ 0.36**	$ 0.97	
Cash flow from operations per common share (basic and fully diluted)*	**$ 0.42**	$ 0.37	
Return on equity	**8%**	47%	

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

Operating Statistics	**1995**	1994	Change
(Scheduled and Charter – not consolidated)			
Revenue passengers carried (millions)	**10.8**	9.9	9%
Revenue passenger miles (millions)	**16,747**	14,995	12%
Available seat miles (millions)	**26,578**	23,730	12%
Passenger load factor	**63.0%**	63.2%	
Yield per revenue passenger mile (cents)	**18.0**	17.7	2%
Average number of employees	**19,559**	18,422	6%

The Air Canada fleet

	Boeing 747	Boeing 767	L-1011	A340	A320	A319	DC-9	CL 65	Total
Owned	5	11	3*	0	21	0	26	0	66
Op. Lease	4	16	0	2	13	0	9	17	61
In service	9	27	3	2	34	0	35	17	127
Orders	0	2	0	6	6**	35	0	7	56
Options	0	5	0	3	0	0	0	0	8

*Three L-1011 aircraft were retired from service in January 1996 and are available for sale.
**Six A320s are on order and may be cancelled without penalty.

The Regional Airline Fleets – In Service*

	BAe 146	DHC 8-300	DHC-8 100	Boeing 737 combi	Hercules Cargo	Total
Air Nova	5	0	12	0	0	17
Air Alliance	0	0	9	0	0	9
Air Ontario	0	6	17	0	0	23
NWT Air	0	0	0	3	1	4
AirBC	5	6	14	0	0	25
	10	12	52	3	1	78

*Not included are 5 BAe J-31 aircraft for AirBC which are out of service pending disposal.

1995 Highlights

January

Serving Canada's capitals
Fredericton becomes the eighth provincial capital to enjoy year-round nonstop service from Air Canada's Toronto world hub. (With the winter schedule, Charlottetown will become the ninth.) No other airline links as many provincial capitals from a single hub. Air Canada also becomes the first airline to fly non-stop from Toronto to New Brunswick's three largest cities.

February

Canada-US Open Skies
In Ottawa, Prime Minister Chretien and President Clinton sign the historic Canada-US Open Skies agreement, effectively deregulating the Canada-US transborder network. Even before the signing, Air Canada announces plans to launch over 20 new scheduled routes in the first 18 months of Open Skies.

Air Canada Centre
Air Canada strikes a major partnership with the expansion Toronto Raptors of the National Basketball Association. Air Canada becomes the official airline of the Raptors and the team's future home will be named the Air Canada Centre. In June, Air Canada also becomes the official airline of Vancouver's new NBA franchise, the Grizzlies, and the National Hockey League Canucks.

March

Hong Kong go ahead
A new federal policy finally ends years of frustration for Air Canada by establishing clear and consistent criteria whereby a second Canadian carrier can be designated to serve a foreign market. That effectively opens the door for Air Canada to begin serving Hong Kong, one of Canada's largest overseas markets.

US expansion begins
Operation "Due South" takes wing on March 6, as Toronto-Atlanta becomes the first Air Canada route launched under Open Skies. The capital of the Peach State becomes Air Canada's ninth scheduled destination in the US. Air Ontario catches the spirit and launches service to Columbus, Ohio and Indianapolis, Indiana.

April

Issue raises $480 million
Air Canada sells Class A Non-Voting Common Shares and convertible debentures to a syndicate of Canadian underwriters in a bought deal for net proceeds of $480 million. The funds target fleet renewal and capital improvements. Class A shares are the first equity of the Corporation not subject to foreign ownership restrictions.

New Germany route
The same federal policy that opened the way to Hong Kong enables Air Canada to announce the launch of service between Western Canada and Frankfurt for December 21. Three flights a week on a Vancouver/Calgary/Frankfurt routing are planned for the 1995-96 winter schedule.

May

Capital idea
The pace of Open Skies expansion accelerates. On May 1, Ottawa-Washington service begins, making Air Canada the first airline to fly between the capitals of Canada and the United States.

Routes launched in 1995

From March through December, Air Canada launched 32 new scheduled services to the United States and points overseas.

MARCH
Toronto/Atlanta

APRIL
Toronto/Columbus
Toronto/Indianapolis

MAY
Ottawa/Washington (Dulles)

JUNE
Toronto/Tel Aviv
Montreal/Philadelphia
Toronto/Washington (National)
Montreal/Washington (National)
Montreal/Fort Lauderdale*

On the same day, Air Canada converts the Toronto-New York (La Guardia) route into a near hourly shuttle with flights leaving Toronto at five minutes after the hour and New York at 15 minutes past.

Q1 loss rises
The airline's first quarter results show a $7 million operating loss, the smallest for a first quarter since 1987. However, the $88 million net loss is sharply higher than the year before, due largely to the inclusion in 1994 of about $40 million of non-recurring income items in non-operating results.

June

Air Canada in Cyberspace
Air Canada launches onto the Internet and Compuserve, providing users with 24 hour online access to schedules, corporate profiles and news about inflight services, new routes, Aeroplan and cargo. Air Canada's home page address on the World Wide Web is http://www.aircanada.ca and the access command for its CompuServe forum is GO AIRCANADA.

First A340s delivered
The long-range Airbus A340-300 becomes the newest jet in the Air Canada fleet. A pair of the four engine jetliners are delivered and almost immediately go into service on the Toronto-Vancouver-Osaka route. Six more A340s are scheduled for delivery in 1996-97 as replacements for older Boeing 747s.

Launch of Tel Aviv
Tel Aviv becomes Air Canada's 11th scheduled destination overseas, marking the first time the airline has served Israel and the first time it has flown to the Middle East with its own aircraft. Until Hong service is added late in the year, the 12 hour flight from Tel Aviv to Toronto is the longest in the system.

New IAM contract
The airline concludes a new three year contract with its 7,000 mechanics, ramp workers, cargo and baggage handlers represented by the International Association of Machinists.

July

Joint Hong Kong freighter
As a prelude to starting passenger service to Hong Kong, a five month joint freighter venture between Toronto and Hong Kong is launched in conjunction with Cathay Pacific Airways. Air Canada's portion of the twice weekly service raises its cargo capacity in the Canada-Asia market to over 950 tonnes a week, an enormous feat considering that three years earlier, the airline wasn't flying to Asia.

August

Loss sparks cuts
The airline reports a second quarter loss of $23 million versus a 1994 Q2 profit of $27 million, based on a combination of lower operating income and higher non-operating expense. Management responds with a cost cutting program, limiting overtime and accelerating the retirement of older Lockheed 1011s and Boeing 747 aircraft.

September

Sale raises cash
Air Canada sells stock warrants in Continental Airlines for proceeds of $68 million and a net gain of $57 million. The transaction does not affect Air Canada's 18 per cent equity stake in Continental.

October

Western Rapidair
Building on the success of the Rapidair service in the Montréal-Toronto-Ottawa triangle, Air Canada launches a new western Rapidair service between Calgary and Vancouver, offering customers dedicated gates and check-in facilities at both airports as well as standardized schedules with hourly service throughout the day.

15 new routes launched
With the start of the winter schedule, Air Canada introduces 15 new transborder services, including two Vancouver-California routes, flights to Denver from Toronto, Calgary and Vancouver, and a Calgary-Houston service to link the oil capitals of North America.

November

Record Q3 profit
The year takes a turn for the better from a financial perspective with the announcement of a record $179 million third quarter profit. Strong summer results internationally drive the airline's performance, as Asians and Europeans visit Canada in record numbers. Operating profit of $190 million also is a record.

Shares on NASDAQ
Air Canada's Class A Non-Voting Common Shares begin trading on the NASDAQ exchange, the first time Air Canada equity has traded on a foreign stock exchange.

December

Best airline – again!
Once again, Air Canada is chosen the best airline for travel to Canada by the readers of *Business Traveller International* magazine. Air Canada has won the competition every year since BTI began the reader survey in 1992.

Ticketless travel
Air Canada begins implementing electronic ticketing, also known as ticketless travel. Beginning in mid 1996, Air Canada passengers travelling within North America will just need a reservation number to get their boarding pass at the airport and travel. Ticketless travel means no more tickets to pick up or lose or return for a refund.

On to Hong Kong
On December 20, Air Canada inaugurates service to Hong Kong with three flights a week from Vancouver. In Cantonese, the airline will be known as Air Canada – Maple Leaf Airlines. The following day, the same federal policy that opened the way to Hong Kong enables Air Canada to inaugurate service between Western Canada and Frankfurt.

JULY
Ottawa/Chicago

SEPTEMBER
Vancouver/Honolulu*

OCTOBER
Toronto/Denver
Calgary/Denver
Vancouver/Denver
Vancouver/Los Angeles
Vancouver/San Francisco
Calgary/Houston
Toronto/Minneapolis
Toronto/Washington (Dulles)
Vancouver/Maui*
Toronto/Fort Myers*
Toronto/Fort Lauderdale*
Toronto/Las Vegas*
Toronto/Orlando*
Montréal/Orlando*
Toronto/West Palm Beach*

NOVEMBER
Toronto/St. Louis

DECEMBER
Toronto/Vancouver/Hong Kong
Vancouver/Calgary/Frankfurt
Winnipeg/Orlando*
Halifax/Orlando*
Halifax/Tampa*

*previously charter services

Chairman's 1995 Report to Shareholders:

I arrived in Montréal just four years ago with a mission to lead Air Canada in a difficult cultural transition. My assignment from the Board was to transform the company from a national airline that was already engaged in a challenging transition from government ownership, into a vital, profitable, and market-driven commercial enterprise.

I set out with the enthusiastic support of Air Canada management and employees to build a successful business operation. My vision was a new Air Canada with a strong domestic base and an expanding global reach that all Canadians could be proud of. I also wanted an airline that provided good and secure jobs for Air Canada employees, and an airline business that investors would want to have a stake in.

Air Canada already had a fine reputation as a quality carrier with a franchise to operate valuable domestic, transborder and international routes. But the airline was bleeding cash, its costs were too high and its revenues were stagnant. I knew that to survive and prosper, Air Canada would have to take on the best in the world in a new competitive environment of domestic deregulation and international airline consolidation.

My Air Canada management team soon developed a strategic vision for the future of the airline and a plan to make it happen. But first we had to cut the cloth to fit the suit. Five years ago, Air Canada simply had too many employees for the revenues of our existing network to support. We had an aging fleet, limited access to the US transborder market and no direct access to the high growth international markets of Asia across the Pacific. At the same time, the whole airline industry in Canada was in desperate shape with our main competitor in a struggle for survival and all of us engaged in cut-throat competition for too few customers.

Our first priority was a painful restructuring that reduced the airline headcount by over 10 per cent and substantially reduced other costs as well. We also took bold decisions in difficult times to renew the Air Canada fleet. We ordered new fuel efficient aircraft like the Canadian built Canadair CL-65 Regional Jet, Airbus A319s to replace our DC-9 fleet, and wide-body Airbus A340s for international operations. And we got excellenr, cost effective deals on these aircraft because we ordered them when business was slow for the manufacturers.

Air Canada employees responded magnificently during those difficult times. They told me at every opportunity that they shared our vision for the future. Air Canada people knew that their personal success and their future security depended on all of us working together to build a successful airline. Most important, working together we created a new corporate culture. Today at Air Canada, every employee constantly strives to do things better for our customers, more efficiently and at lower cost than the competition every day.

But you can't build a successful enterprise just by cutting costs. Having reduced our operating costs to competitive levels, we set out to restore growth by generating new revenues while keeping costs under control. This required aggressive expansion of profitable international routes, increasing our stake in the transborder market, and moving quickly to shift our resources when routes were unprofitable.

Posterity will have the final say, but 1995 had all the makings of a watershed year for Air Canada. Most of the essential building blocks for success were already in place. The productivity of Air Canada workers was the best it has ever been, and our fleet, now one of the most modern and fuel efficient in the world, was working harder than ever before. Then an unexpected but welcome combination of the new Open Skies agreement with the United States and expanded international route opportunities under a new and more flexible international air policy gave Air Canada the opportunities it needed to put its growth strategy into high gear.

In the ten months following signature of Open Skies in February 1995, Air Canada and its regional airline subsidiaries launched 29 new scheduled services to the United States. That momentum will continue in 1996. At the same time, Air Canada embarked on new international services from Toronto to Tel Aviv and from Western Canada to Frankfurt. In December, we were permitted by the government to inaugurate our long awaited service to Hong Kong, which, together with our other new Asian services to Osaka, Japan and to Seoul, Korea, finally established Air Canada as a truly global airline.

Air Canada also fiercely defended its dominant 56 per cent market share position in the Canadian domestic market. We sent a clear message to our competitors, including any potential new start-ups, by matching the competition at all times and by introducing new innovations like our Rapidair service between Vancouver and Calgary to take Air Canada competition into their back yard.

The results of all this hard work generated a welcome turn-around in our financial performance. 1995 operating profits of $275 million were the best ever for Air Canada despite heavy discounting to meet competition in the domestic market. Capacity in terms of available seat miles increased by 11 per cent. Revenues from passenger services grew by 13 per cent, and we served nine per cent more passengers. Net earnings at $52 million were, however, below what we had hoped for and lower than the year before, mainly because of reduced contributions from one-time items compared to the previous year.

I came to Air Canada on February 20, 1992 with a five year mandate as Chief Executive Officer. With the completion of four years, I am satisfied that my initial mandate and mission has been largely accomplished and our strategy for renewal of the Air Canada enterprise is a success. I am, therefore, extremely pleased that at its regular meeting on February 22, 1996, the Air Canada Board appointed my colleague R. Lamar Durrett to succeed me as President and Chief Executive Officer. His appointment will take effect on May 14, 1996 following the Annual General Meeting of Shareholders. At the Board's request, I agreed to continue as Executive Chairman of Air Canada over the coming months to complete my mission and to help Mr. Durrett in the transition.

Looking ahead, I am confident that 1996 will be another successful year of significant growth, continued emphasis on controlling costs, and steady year over year improvements in financial results. Much of the expected capacity growth of about 11 per cent will come automatically from full year operation of the new services added in 1995. The contribution of these new operations should increase substantially over the coming year. Air Canada will also continue to work closely with foreign partner airlines to deepen our commercial relationships and to extend our global network. And, we will continue our aggressive transborder thrust to add new American destinations before US carriers gain full access to the market under Open Skies. At the same time, new European destinations will be introduced as well as increased frequencies on many of our existing international operations, including our new Asian markets in Hong Kong, Osaka and Seoul.

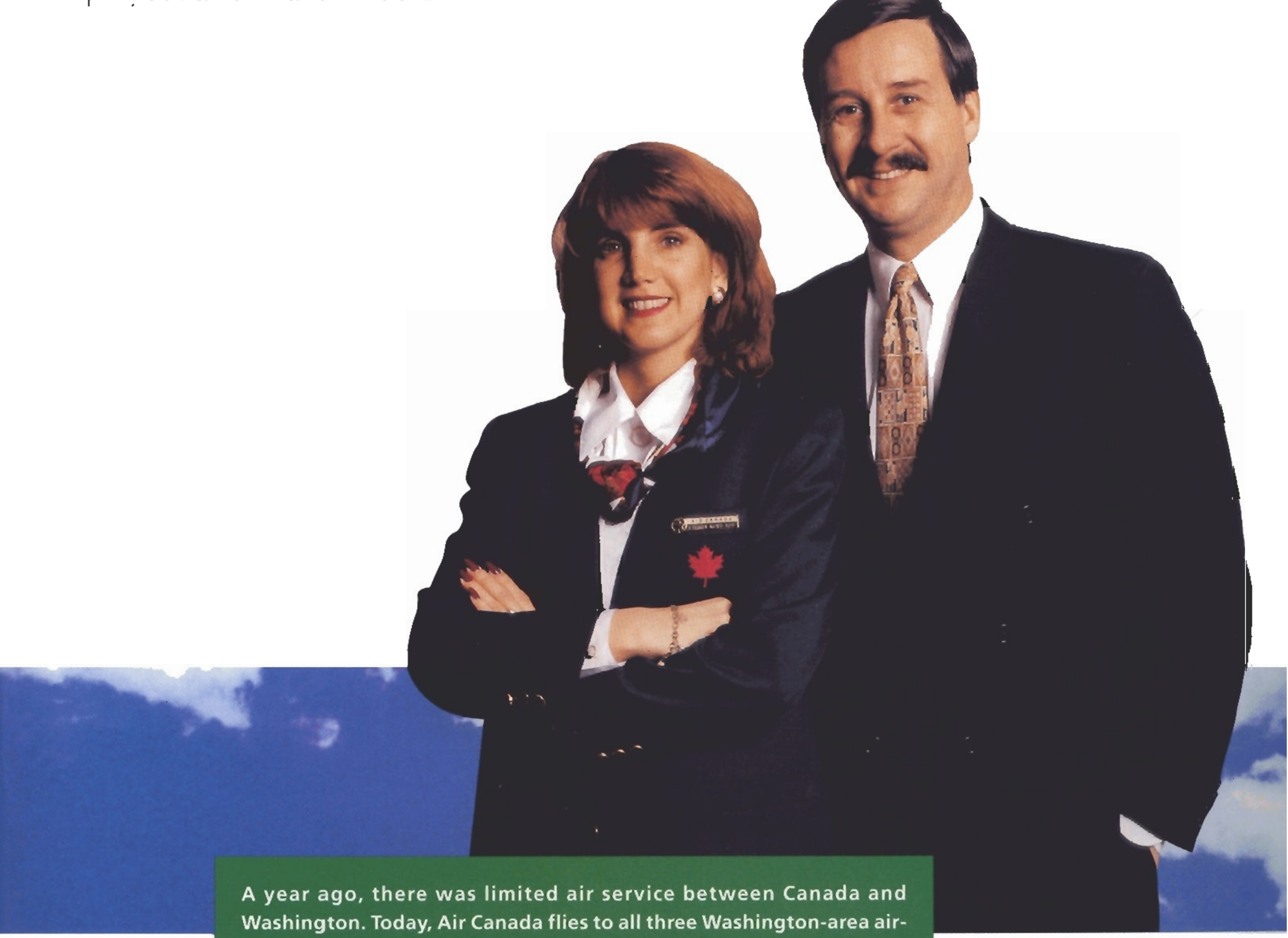
As I head into my last full year with Air Canada, my priority is to work with the new Chief Executive Officer to enhance shareholder value. A key and achievable goal will be to increase net earnings substantially. We will also be looking at opportunities to reduce corporate debt.

Finally, I take pride in the past four years as a period of tremendous accomplishment for all the people of Air Canada. It was a rare privilege for me to work in this wonderful country and to make so many new friends. The considerable difficulties we have tackled together will also help Air Canada meet the important challenges ahead. Air Canada will be in good and solid hands under the leadership of Lamar Durrett.

Hollis L. Harris

Hollis L. Harris
Chairman, President and
Chief Executive Officer

Before Air Canada began serving Hong Kong in December, it had to adopt a name that would strike a chord in Cantonese. Various ideas were run by focus groups. The winner was Air Canada – Maple Leaf Airlines. Therein lies the inspiration for the airline's growth strategy: "We're leveraging up this franchise... The Air Canada Maple Leaf is one of the most powerful marketing symbols there is. Wherever it shows up in the world, people want to fly it." This is not about growth for the sake of it, but a strategic drive calculated to optimize resources, establish Air Canada in the markets of tomorrow, and build a greater network and product for customers, thereby delivering superior value and security for employees and shareholders...



A year ago, there was limited air service between Canada and Washington. Today, Air Canada flies to all three Washington-area airports. Our team at Washington National Airport includes customer service manager Dick Dubois and Carmen Mont-Ros, lead customer service agent.

Our network strategy stresses international growth...

A quarter century ago, there was no Pacific Rim, only the Orient – a world away to many of us. Other worlds, like Africa, and even the Old World – Europe – often seemed far away. Then, the first Boeing 747s crossed the oceans, and the world was never the same.

Jumbo jets changed the economics of air travel and extended our horizons.

Our worlds keep on changing, the airline world more than most. For Air Canada, the need to seek new markets has never been greater. It is a statistical fact: Canadians are flying less within Canada than they used to – and venturing more outside the country. While the domestic market remains profitable and our share of it constant, the pie isn't getting larger.

Air Canada always had a keen eye for potential markets abroad, but one just couldn't point at the map and say, Let's fly here! Often, the rules said, No, you can't!

Last winter, that changed abruptly. Canada-US Open Skies and a new Canadian international air policy made it possible to serve any US city and many more overseas destinations.

Air Canada was free to pursue the optimum network and revenue strategy, with one caveat: that we act decisively, pre-empting the competition. Open Skies granted Canada's airlines a limited head start to develop new services from three major markets: Montréal, Toronto and Vancouver.

Besides the overriding objective of boosting profitability, expansion has to achieve these strategic objectives:

- build a more balanced and diversified network;
- expand our hubs and gateways, especially Toronto and Vancouver;
- strengthen Air Canada's presence in Western Canada through a combination of new transborder and international services and domestic product enhancements;
- find business travel markets with solid year round potential, to lessen Air Canada's dependence on the peak summer market;
- position Air Canada to make expanded use of global alliances and code-sharing;
- develop critical mass in major markets like the US, Germany and Asia.

Air Canada's Open Skies expansion last year – 17 new transborder routes launched in 10 months – was paralleled by new forays overseas.

Hong Kong was added to the Pacific network in December. Osaka was upgraded to a daily service. Three years ago, Air Canada didn't even fly to Asia. Now, in Seoul, Osaka and Hong Kong, the airline serves three of the hubs likely to dominate Pacific air travel in the 21st century.

Building up a strong Pacific Rim presence adds balance to a network once heavily dependent on Europe. So is serving Tel Aviv, another successful addition in 1995.

Reactivating Western Canada-Frankfurt service on December 21 boosted Air Canada's presence in Germany – one of Canada's leading sources of foreign tourism. This summer, Air Canada will offer daily service to Frankfurt from Vancouver and Calgary as well as Toronto. That's diversification! So is this summer's launch of service to Brussels, Europe's capital.

In recent years, Air Canada has earned as much as 62 per cent of its passenger and cargo revenues on domestic routes. Through Open Skies, and a strong overseas performance, that fell to 51 per cent last year and is poised to dip below 50 per cent for the first time in 1996.

WASHINGTON

LAS VEGAS

ST. LOUIS

Seizing on the opportunities created by Canada-US Open Skies, Air Canada is changing the airline map of North America with its aggressive transborder expansion. Since February 1995, the airline has added 29 scheduled transborder routes and now operates over 1,040 flights a week between the two countries.

...with special emphasis on US expansion under Open Skies.

Canada-US Open Skies was 30 years in the making. It took just 10 days for Air Canada to begin using it. D-Day was March 6, 1995. At Atlanta's Hartsfield International Airport, touchdown of Flight 562 from Toronto made it official: Operation "Due South" was under way.

"Due South" is Air Canada's Open Skies expansion. Soon, Atlanta was joined by Washington, Minneapolis, Denver, St. Louis, Philadelphia, Columbus and Indianapolis.

Through the course of the year, the number of US cities served by Air Canada and the regional airlines grew from 20 to 27.

Open Skies made another dream come true: Air Canada was able to launch a near hourly shuttle between Toronto and New York.

Air Canada's strategy places the most emphasis on adding nonstop flights using our own aircraft to maximize the potential returns.

For the must-go business traveller, the time saved flying nonstop is like money in the bank.

Air Canada introduced the first nonstops between the federal capitals – Ottawa and Washington – and the first between the oil capitals of Calgary and Houston.

Before Open Skies, there were relatively few transborder routes; most traffic was force-fed through US hubs. Now, new Air Canada nonstops are overflying those hubs and taking away market share from US carriers.

On routes like Ottawa-Washington, where there is sufficient local traffic to support nonstop flights, Air Canada even overflies its own hub.

For the most part, new route development is occurring at our hubs. From Toronto, Air Canada is flying smaller aircraft like the Canadair CL-65 jet and the DC-9 to major markets like Washington and Atlanta against a US competitor and making money.

Flying to the hubs of our US partners – like Houston and Denver – enables the airline to draw on both local and connecting traffic to fill the aircraft.

Through a combination of nonstops and codesharing with our partners, Air Canada is building a North American network second to none, with the goal of doubling transborder revenues by 1998. So far, we're right on target.

If that isn't challenge enough, many millions of Americans travelling abroad have to make connections to get there. Why not at Toronto or Vancouver or Calgary? Why not fly Air Canada all the way? For example, US passengers were a big factor in the successful launch of Tel Aviv.

DENVER

ATLANTA

We are also building up the network with stronger alliances...

On the topic of partners, the need to network is a defining trend among international airlines. Even the largest US and European carriers dare not go it alone.

Soon, a handful of major world alliances will span the air travel world, catering to the public's preference for one stop shopping.

Some will be dominated by a megacarrier and its subsidiaries. Others will be true joint ventures of independent airlines. The latter is Air Canada's choice. The need to expand our alliances is paramount.

Through the course of 1996, our extended network will become more clearly defined. For Asia, this includes enhancing our alliance with All Nippon Airways. For Europe, a major new partner waits in the wings.

Other partnerships are market specific. Air Canada has worked hand in hand with Korean Air to develop the Canada-Korea market. Starting in April, Air Canada and Swissair will jointly operate additional Canada-Switzerland services, including a new Vancouver-Calgary-Zurich route.

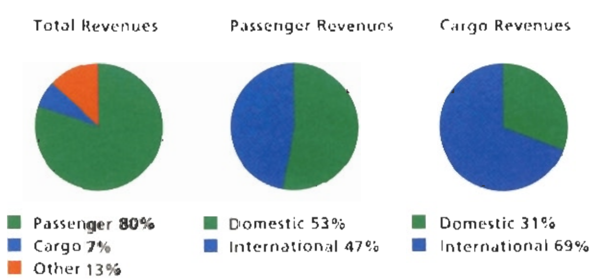
For the airline, such risk-sharing is an effective means of leveraging expansion. For customers, it means ready access to over 500 destinations worldwide and all that entails: frequent service, one stop check-in, coordinated connections and extended frequent flyer benefits.

With the advent of Open Skies, our alliances with United Airlines and Continental Airlines were broadened to include code-sharing.

Broadly speaking, code-sharing is the practice of selling space on another carrier's flights as if they were your own, thereby broadening your network appeal. Code-sharing with our US partners provides additional revenue support for Air Canada, and is an inexpensive way to extend our network to secondary US markets with insufficient traffic to support nonstop service from Canada.

Last year, Air Canada added four US destinations by code-sharing on United flights from Chicago. Now, passengers can fly "AC" from select points in Canada to Phoenix, Kansas City, Cincinnati and Nashville via the Windy City. This is the practice known as starburst code-sharing, and it will enable Air Canada to add dozens – even hundreds – of additional US destinations via hubs like Chicago and Denver.

Our US partners bring enormous assets to the table. United's Mileage Plus and Continental's OnePass frequent flyer programs represent tens of millions of loyal customers who can earn their miles on Air Canada flights.



Montréal mainstays: Janet Wallace, customer sales and service representative, Liz Graham, senior director customer service support and Serge Guérin, area sales manager, are part of Air Canada's Montréal team.

...and making use of all of our resources to grow.

HONG KONG

JERUSALEM

Air Canada's network is more farflung than ever. Across the Atlantic, Air Canada flies to Israel and India as well as seven cities in Europe. Across the Pacific, the airline serves three leading destinations in eastern Asia: Seoul, Osaka and Hong Kong.

Like our regional airline companies...

Regional airlines may seem all about little propeller planes serving the hinterland.

In fact, Air Canada's major regionals aren't little at all and their missions are many; Air Canada's regional system is the sixth largest in the world based on total passengers carried. AirBC carries over 1.4 million passengers a year and Air Ontario carried one million for the first time in 1995.

Besides linking major airports with smaller centres, the major regionals – AirBC, Air Nova, Air Ontario and Air Alliance – are partners in expansion, developing transborder markets of their own and exchanging traffic with Continental at Newark and Cleveland.

Last year, Air Canada and AirBC combined to inaugurate Rapidair in the West, the first hourly service between Vancouver and Calgary. And with their BAe 146 regional jets, AirBC and Air Nova are flying big city routes like Edmonton-Vancouver and Ottawa-Halifax that parallel Air Canada's trunk system.

By buying out a minority interest in AirBC, Air Canada now owns the four major regional airlines outright. A number of synergies are being pursued to improve the financial performance of the regional airline group, but each regional carrier retains its separate headquarters, management and identity. Being closer to their markets makes them more aware of customer needs and the strengths and weaknesses of competitors. Above all, it recognizes that employees and customers have a mountain of pride in their local carrier.

...and Cargo.

The layman's view of cargo usually is out of sight, out of mind. But wherever Air Canada goes, Cargo goes along – paying its way and playing a key role in global expansion.

Air Canada's shift to more international flying suits Cargo fine. World air freight markets are growing by an average of seven per cent a year, and the transpacific market is growing by over eight per cent.

Cargo has benefited from the deployment of Boeing 747 combis – with their 40 tonne cargo lift – on new Asian routes over the last two years.

Since 1993, the last full year it operated a money-losing domesric freighter network, Cargo's profit margin has more than doubled. Revenues, excluding subsidiaries, rose a further 11 per cent to $306 million last year, fueled by a jump of over 20 per cent in international sales. While domestic yields were down, international yields rose six per cent.

Last year's gains reflected a full year of flying to Seoul and Osaka and Cargo's debut in the huge Hong Kong market.

To prepare for Air Canada's own 747 combi flights to Hong Kong, Cargo operated a profitable joint freighter venture with Cathay Pacific Airways for five months, pushing Cargo's weekly Asian capacity to almost 950 tonnes, equivalent to nine full 747 freighters.

Open Skies is presenting Cargo with new opportunities – first and foremost, to drum up business in the States for Air Canada's international operations.

And for courier companies in the fast growing market for same day express shipments, what better carrier to move their transborder shipments than the one with the biggest transborder network by far?

Air Canada's winning team in Winnipeg includes David Procak, mechanic, and Debi Leblanc, finance agent.

We are expanding our capability on the ground...

Air Canada has what could be called an infrastructure overhang – hangar and maintenance capacity worthy of a much larger airline, the legacy of once having been a Crown corporation. Here, growth can lead to better asset utilization.

It's quite another story with airports, where Air Canada leases, rather than owns facilities. There, growth is taxing facilities to the extreme, compromising our ability to expand further.

By December, Air Canada was operating over 580 flights a day – one third more than a year before. Even before the Christmas rush, 45,000 passengers a day were moving through the system. That was a peak summer day only two years ago. And that doesn't include the 10,000 passengers carried daily by the regional airlines.

The good news is, fixes are being implemented to relieve the worst of the congestion.

At Vancouver, relief will come shortly with the opening of YVR's international terminal. A dramatic expansion and face lift is preparing Montréal-Dorval for the 21st century. Air Canada is investing in baggage hall improvements in Calgary.

At Toronto, Air Canada's global hub, the situation is more acute and the fix only temporary. Terminal 2 was never designed for current passenger levels, let alone the further expansion Air Canada plans.

Air Canada needs a bigger terminal at Toronto to support long term expansion. Construction is expected to start this year on a new super terminal – Air Canada's future home – for completion by the turn of the century.

Air Canada can't wait. To permit further expansion in the interim, the airline is literally knocking down walls at Terminal 2 – part of a $35 million investment – so it can handle more aircraft and passengers. More gates and check-in positions are being added, much of it for transborder routes. A second baggage room is being built. Security is being enlarged, as are US Customs and Immigration facilities.

Passengers will feel a difference. This upgrade will enable the airline to keep on-time performance and other measures of operational efficiency at the demanding levels expected by our customers.

Expanding Terminal 2 will satisfy Air Canada's growing space requirements for the next 2-3 years, allowing the airline to add up to 20 US destinations and boost transborder passenger capacity fivefold. Beyond that, our ability to expand in Toronto will be constrained by gate and space limitations until the new terminal opens.

...and in the air...

The striking thing about Air Canada's fleet of tomorrow is how much more it will do to support an expanded network. And how much more efficiently it will do it.

The future fleet – actually, some of it is flying already – will be more streamlined, with fewer models for substantial maintenance and operational savings.

Most importantly, the fleet will have a number of unique competitive advantages which will help conquer new US and overseas markets.

Take the 50 passenger Canadair CL-65 jet. The CL-65 allows Air Canada to compete head to head with major US airlines on just about any flight under two hours and make money. By the end of 1996, the airline will have a full complement of 24.

Before Air Canada acquired the Boeing 767-300, it lacked a midsized airliner with the 12 hour plus range to reach, say, the Middle East. A Boeing 747 may be the right aircraft for large markets like Hong Kong, but it is too large for smaller markets like Tel Aviv. The 203 passenger 767-300, with half the capacity and less than half the operating costs of a 747, is just right. It even doubles domestically as a replacement for the retired L-1011s.

Globetrotting business travelers prefer nonstops. The A340-300 model due to replace older 747s as of this fall is the longest range aircraft Air Canada has ever flown. This A340 has a range of 11,840 kilometres and will be able to fly Toronto-Asia nonstops, making that city a Pacific gateway for eastern North America. Two shorter range A340s joined the fleet in 1995 on short term leases.

Last but not least is another Airbus product, the A319. The 319, which joins the fleet in December of 1996, will have 20 more seats and twice the range of the 92 seat DC-9 it replaces. Besides handling short hauls, it will do some longer hauls – even transcontinental flights – freeing up larger aircraft for other missions.

The various aircraft joining the fleet will burn 16-40 per cent less fuel than the planes they replace, a considerable plus for an airline with a $527 million fuel bill.

At the end of 1995, the active fleet stood at a record 127. This year, seven aircraft – the three L-1011s and four older Boeing 747s – are being retired and 12 added: seven CL-65s, two A340s, two Boeing 767-300s, and the first of 35 A319s.

By scheduling the fleet to fly an additional 18 minutes per plane, Air Canada's daily utilization rate reached 10.6 hours last year. If that sounds like chasing nickels, 18 minutes per plane means 33 hours per day of extra duty by the fleet – enough to launch a few transborder routes without the expense of adding aircraft. In just two years, Air Canada has generated an extra 113 hours a day through enhanced scheduling, dramatically boosting fleet productivity without compromising safety.

The Airbus A340-300 is Air Canada's ultra long haul aircraft of the future, capable of flying nonstop from Toronto to Seoul or Osaka.

...while employing new technology...

Time for a reality check: Air Canada's growth strategy has a great deal of built-in flexibility – to pause or accelerate as economic conditions warrant. There are no deadlines to meet, no magic number of additional destinations. If a new route doesn't perform to expectations, it will be canceled or scaled back.

The goal of expansion is to increase shareholder value. Air Canada's way is to build revenues while exercising great cost discipline. Realizing economies through new technology will help do that.

For example, automation is about to change how passenger and cargo customers interface with the carrier.

ET – electronic ticketing or "ticketless travel" – was launched by the airline on a limited trial basis in December and will spread across North America this year. ET is similar to booking hotel rooms or rental cars – it simplifies travel by providing customers with an electronic ticket, which is stored in Air Canada's computer. Customers don't get a printed ticket. That eliminates the risk of losing or misplacing tickets while providing the option to purchase, change and refund travel by phone. ET tickets are paid by credit card. That card, or suitable photo ID, is used by customers as identification to get a boarding pass at the airport.

Not only is the customer a winner with ET, but travel agencies will have less paperwork to do in serving customers. For Air Canada, it means a savings in distribution costs as well as a reduced paper trail and simplified revenue accounting. Air Canada was the first domestic carrier to introduce ET and our system is adapted from United Airlines' technology, so it will be compatible with our partner's system.

Cargo's customers are already communicating electronically with the airline. As of January, freight forwarders have been able to send in their waybills electronically, which cuts down enormously on manual data entry by the airline. This EDI capability – including shipment status updates – is being introduced across the system in 1996.

Twenty eight per cent of Canadian homes have a computer, and more and more people are surfing the internet and commercial information services. To serve the global online audience, Air Canada is now on the World Wide Web (at http://www.aircanada.ca) and CompuServe (type GO AIRCANADA) with regular updates on schedules, Aeroplan, new products and the fleet.

Air Canada's Year End Fleet

	1995	1998
CL-65	17	24
DC-9	35	0
A319	0	35
A320	34	34
A340	2	6
L-1011	3	0
B-767	27	27
B-747	9	3

...and innovative marketing so that bigger really is better.

Besides network building, Air Canada's strategy has a parallel goal of building brand recognition, particularly in the US. This is not a pipe dream. In those US markets where Air Canada is well established, it has a positive profile with travel agents and discerning travelers. Many Americans perceive Air Canada as a premium import – just a little bit exotic.

Expansion is also being supported by unique products. For the business traveler who has everything – except reasons to take time off – Air Canada Vacations came up with the answer: short stay packages for every major Air Canada destination in North America, designed for stretching a business trip to include a little leisure time.

More than ever, Aeroplan is the airline's marketing tool par excellence, helping build and motivate the customer base. Aeroplan membership grew by 21 per cent last year, reaching 2.5 million.

Today, even the armchair traveler has plenty of ways to earn Aeroplan rewards, thanks to the growing participation by non-travel partners like credit card and telephone companies. Aeroplan is the only consumer incentive program in Canada that allows customers of two phone companies to earn free travel for their long distance calls.

By sponsoring entertainment, cultural and sports events, like the 1996 Greater Vancouver Open pro golf tournament in August, Air Canada is reaching out to the customers of tomorrow. This is especially true of our affiliation with Canada's two new National Basketball Association teams. The marketing gurus would say that the Toronto Raptors and Vancouver Grizzlies have great demographics. Professional basketball appeals to a wide cross section of the population, making the Raptors and Grizzlies an ideal promotional vehicle for a growing international airline.

Yes, growth is challenging, but it's nothing our people can't handle.

For Air Canada people, expansion has had both its trials and jubilation, though 1995 will be hard to top on both scores.

Part of the cost discipline for expansion is to add a lot more capacity than staff. While Air Canada, excluding subsidiaries, did 12 per cent more flying last year, the number of people employed in continuing operations barely rose four per cent, and employee productivity jumped seven per cent.

How does today's Air Canada compare with the one that began the decade? No comparison: Today's Air Canada is doing 14 per cent more flying with 15 per cent less staff. Those kinds of gains have been realized by stressing teamwork and reinventing how we do our jobs.

Teamwork launched Open Skies. Teamwork on the ramp is making more efficient use of glycol in de-icing of aircraft, a boost for the budget and the environment. Teamwork is the experimental High Performance Work Organization Initiative. In Phase 1 of this joint labour management program, whole processes at the Dorval maintenance base in Montréal are being revamped for greater productivity.

As Air Canada grows, so does the irrepressible Air Canada spirit. There are larger airlines, but ours is the one with the big heart – The Maple Leaf spirit.

For a big finish, let's introduce the A-Team. It is February 28, 1995 – D-Day minus six days. At Atlanta, the A-Team – composed of staff from Canada and the US – has six days to do what normally takes 6-8 weeks: prepare a new Air Canada station from scratch, so that Operation "Due South" can begin.

There are times in life when one is just too busy to panic – such were the first days of March. There were landing slots to secure, ground handling to arrange, also catering, fuel, security, cleaning and crew accommodations. There was more: install the computers, ready a Maple Leaf lounge and, last but not least, hang up our sign. For good measure, let's invite hundreds of Atlanta travel agents to a get acquainted luncheon.

Needless to say, the A-Team did it.

That's the way Air Canada people pull together for the airline and for customers.

By putting Air Canada's name on the Raptors' future stadium and adjacent office tower in Toronto, the airline is reinforcing its status as that city's premier carrier. Once the doors of the Air Canada Centre swing open during the winter of 1998-99, the airline's name will be a prominent part of the Toronto skyline and receive frequent mentions on sportscasts throughout North America

Three of the people who make Air Canada's Toronto hub hum: Bob Elliott, systems operations control manager, Glenys Robison, the airline's first female captain, and Rizwan Dewji, flight attendant.

Management Discussion and Analysis of Results

Air Canada recorded a consolidated operating income of $275 million, the best in the Corporation's 58 year history and an improvement of $31 million from the previous year.

Net income was $52 million or $0.36 per share in 1995. This compared to a net income of $129 million or $1.09 per share ($0.97 per share on a fully diluted basis) in 1994.

The year was highlighted by the signing of a new air services agreement between Canada and the US in February 1995 and by the implementation of a new Canadian international air transportation policy, applicable to non-US destinations. Air Canada responded to these new opportunities by expanding operations in selected transborder, international and domestic markets. In the year, the Corporation started service on 20 new routes (mainly to the US), converted 12 US charter routes to scheduled services and added a total of 20 jet aircraft to its operating fleet.

The Corporation generated improved operating results primarily through growth in Atlantic and new Pacific markets. These new services, increased passenger demand and the effect of stronger foreign currencies on expanded sales outside Canada contributed to a significant revenue growth. The transborder service underwent a major expansion following the introduction of the US "Open Skies" agreement. The domestic service, while experiencing growth, was adversely affected by increased price discounting. Capacity increases were achieved through the addition of two Airbus A340 aircraft, two Boeing 767-200 aircraft, 13 Canadair Jets and three Boeing 767-300 aircraft.

Operating revenues grew by $483 million or 12 per cent while operating expenses rose $452 million or 12 per cent. System capacity increased 11 per cent as measured by available seat miles (ASMs). Operating margin of 6.1 per cent was the same as in 1994. Earnings before interest, taxes, depreciation, amortization and aircraft rent (EBITDAR), a measure of earnings performance, improved $103 million to $783 million or 17.4 per cent of operating revenues.

Non-operating expense was $203 million, an increase of $116 million from 1994. Net interest expense increased $26 million. The 1995 results included a gain of $57 million related to the sale of warrants for the purchase of Continental Airlines shares, while the 1994 results contained a favourable non-operating credit of $66 million relating to the Gemini Group Limited Partnership ("Gemini Group") asset realization. Gains on sale of assets were $50 million lower than in 1994. In the prior year, gains on sale of assets included $31 million relating to the sale of DC-8 freighter aircraft and $13 million relating to the outsourcing of the Corporation's computer and network services function as part of the Gemini restructuring. "Other" non-operating income was $29 million lower than in 1994. In the prior year, "Other" non-operating income was favourably affected by gains on prepayment of debt and higher earnings from investments.

Operating Revenues
(in millions)

Year ended December 31	**1995**	1994	1993	1992	1991	1990	1989	1988
Domestic Routes								
Passenger	**$ 1,898**	$ 1,814	$ 1,691	$ 1,677	$ 1,711	$ 1,793	$ 1,699	$ 1,512
Cargo	**101**	151	191	205	216	229	231	317
Total	**1,999**	1,965	1,882	1,882	1,927	2,022	1,930	1,829
International Routes								
Passenger	**1,683**	1,358	1,158	1,136	1,104	1,310	1,185	1,090
Cargo	**222**	183	144	137	138	184	167	186
Total	**1,905**	1,541	1,302	1,273	1,242	1,494	1,352	1,276
Other	**603**	518	414	346	316	383	336	299
Total	**$ 4,507**	$ 4,024	$ 3,598	$ 3,501	$ 3,485	$ 3,899	$ 3,618	$ 3,404

1995 Income Results

Passenger Revenue

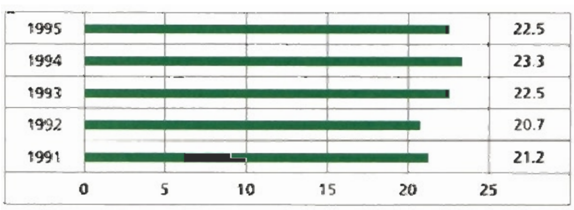
Passenger revenues experienced strong growth in the year. Consolidated passenger revenue increased $409 million or 13 per cent to $3,581 million. System traffic, as measured by revenue passenger miles (RPMs), increased 11 per cent while yields improved two per cent to 20.0 cents per RPM mainly on the basis of strong international yields. Consolidated passenger load factor (a measure of capacity utilization) declined 0.3 percentage points to 64.8 per cent reflecting a lower domestic load factor and the start-up of new transborder services.

Air Canada's Regional Airlines are included in the consolidated revenues and statistics. As a group, the Regional Airlines recorded a five per cent increase in passenger revenues on the basis of higher yields and traffic.

Domestic Services

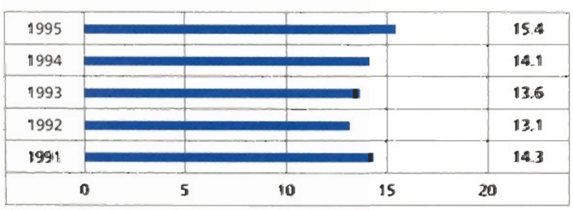
The Corporation's passenger revenue on domestic routes grew five per cent to $1,898 million. Domestic traffic rose six per cent to 7.3 billion RPMs while capacity was increased eight per cent to 12.3 billion ASMs. The Corporation's share of the domestic market, as measured by tickets sold by Canadian travel agents for travel within Canada, was 56.2 per cent, essentially unchanged from 1994.

Domestic Yield per Revenue Passenger Mile* (cents)



*Not consolidated.

International Yield per Revenue Passenger Mile* (cents)



*Not consolidated.

Consolidated domestic yield per RPM declined one per cent. Air Canada's domestic yield fell three per cent, excluding subsidiaries. In 1995, increased domestic capacity was offered by scheduled and charter competitors along with reduced fares. The combination of increased industry capacity and a weaker Canadian economy contributed to widespread fare discounting by competitors. Air Canada essentially matched competitor discounting in order to protect market share.

Revenue on Canadian **transcontinental** routes, which accounted for close to 40 per cent of domestic revenues, increased eight per cent primarily as a result of a 12 per cent traffic growth with yields declining four per cent. On these routes, capacity was expanded 13 per cent. The full year effect of new Pacific services operating from Toronto via Vancouver and the operation of two Lockheed L-1011 aircraft, which started service on transcontinental routes in mid 1994, made up over one half of the capacity increase.

Representing approximately one quarter of domestic revenues, the Corporation's **commuter** service revenues increased five per cent. (The commuter service includes flights within Ontario and Quebec and the Rapidair routes on the Montréal, Toronto and Ottawa corridor.) Traffic was three per cent higher and yield improved two per cent. Improved Regional Airlines performance and higher usage of premium services on Rapidair routes contributed to the growth in revenues.

The **regional** routes, which include services within Western Canada and Atlantic Canada flights, recorded a one per cent revenue improvement on the basis of higher traffic.

International Services

With the major expansion to markets outside of Canada, revenues from international routes recorded a 24 per cent growth to $1,683 million. International passenger traffic increased 15 per cent to 10.6 billion RPMs while yields rose eight per cent. International capacity was increased 14 per cent to 16.7 billion ASMs. Two Airbus A340 aircraft were introduced to expand Pacific services and five Boeing 767 aircraft were added mainly for Atlantic services. Most of the new Canadair Jets were deployed on transborder services.

Following the implementation of the new Canada-US air services agreement in February 1995, the Corporation initiated a major growth strategy between Canada and the US. New services were introduced progressively throughout 1995 on 17 city pairs including operations to Atlanta, Washington DC, Chicago, Minneapolis, Houston, Denver, Los Angeles, San Francisco, St. Louis, Columbus, Indianapolis and Philadelphia. Increased services were also offered between Toronto and La Guardia airport in New York. In addition, transborder charter operations were converted to scheduled service on 12 routes.

Transborder revenues, excluding Florida, rose 18 per cent and accounted for over one third of international passenger revenues in 1995. Traffic grew by 10 per cent and yields improved eight per cent. Transborder capacity was increased 16 per cent through redeploying capacity from other markets and the introduction of new Canadair Jets. Yield rose primarily due to an improved traffic mix with stronger growth in higher yielding business markets. Florida revenues declined four per cent mainly due to an 11 per cent reduction in capacity, reflecting reduced charter operations. This charter capacity was redeployed from Florida and Caribbean markets to expand operations on higher yielding transborder and international services.

Representing over 40 per cent of international passenger revenues, the **transatlantic** routes, including routes to India and new service to Israel, recorded a 27 per cent increase in revenue compared to 1994. Premium revenues from Executive First service rose 26 per cent over 1994. Overall passenger traffic grew by 16 per cent on a capacity growth of 11 per cent. Yields were nine per cent higher than in 1994 reflecting high travel demand originating from Europe, the favourable effect of stronger European currencies and an improved traffic mix towards higher yielding fares.

In the United Kingdom, Air Canada's largest transatlantic market, revenues increased 24 per cent mainly as a result of strong traffic growth with improved yields. Revenues from passenger services between France and Canada recorded a 30 per cent growth due primarily to improved yield, while Switzerland revenues were 38 per cent higher on the basis of higher traffic. Germany recorded a 16 per cent revenue growth over 1994, almost entirely related to increased yields.

Pacific routes, which include services from Vancouver to Osaka, Japan (commenced September 1994) and to Seoul, South Korea (commenced May 1994) generated incremental passenger revenues of $77 million over 1994. Contributing to this growth was the new daily Airbus A340 service to Japan which started in mid 1995. Premium revenues from the Executive First product represented an increasing component of the Pacific revenues.

Cargo Revenue

Consolidated cargo revenue of $323 million declined $11 million. However, cargo revenues, excluding subsidiaries, rose 11 per cent over 1994. Cargo traffic increased 12 per cent while cargo yields declined one per cent.

In 1995, as part of a continuing strategy to divest of non-core businesses, Air Canada sold Dynamex Express Inc. ("Dynamex"), a messenger, distribution and delivery business. In 1994, Dynamex was a consolidated subsidiary. Elimination of Dynamex from the consolidated accounts had the effect of reducing year-over-year consolidated cargo revenues by $41 million.

International cargo revenues increased 21 per cent to $222 million. Atlantic and Pacific air cargo services experienced significant growth as a result of new services, high cargo demand and the favourable effect of stronger foreign currencies on foreign originating sales. Domestic cargo revenues declined $50 million due primarily to the sale of Dynamex and, to a lesser extent, the sale of DC-8 freighter aircraft, which were operated until the end of the first quarter of 1994.

Cargo earnings, excluding subsidiaries, improved in 1995 and in 1994, due to strong international revenue growth combined with cost savings due to the elimination of freighter aircraft.

Other Revenue

Other revenue of $603 million rose $85 million or 16 per cent. Additional third party aircraft maintenance revenues, including work for Northwest Airlines, accounted for $51 million of this increase.

Higher Aeroplan partner revenues and revenues from the full year operation of Galileo Canada Distributions Systems Inc. ("Galileo Canada") were the other main factors.

Operating Expenses

Consolidated operating expenses of $4,232 million rose $452 million or 12 per cent compared to 1994. Operating expenses increased primarily as a result of the 11 per cent growth in ASM capacity, increased aircraft rent and the introduction and ongoing operation of new services. Higher labour and material costs for the third party aircraft maintenance business also contributed to the increase.

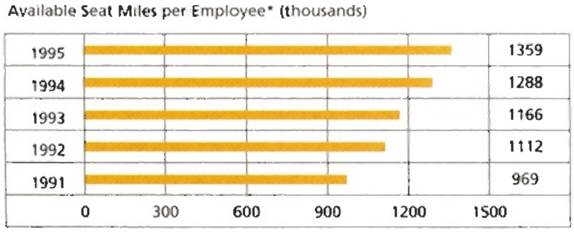
Salaries and wages expense increased $79 million or eight per cent. Modest manpower increases were required to support the additional capacity and to provide expanded maintenance services to other airline customers. The discontinuation of the Gemini Group and the sale of Dynamex had the effect of lowering salary and wages expense by approximately $17 million in 1995.

Average number of employees during the year increased by 1,137 or six per cent, excluding subsidiaries. Average salaries increased three per cent, mainly as a result of contractual and other wage increases, including wage snapbacks. Employee productivity as measured by available seat miles per employee, improved five per cent over 1994.

Average Number of Employees* (thousands)

*Not consolidated.

Available Seat Miles per Employee* (thousands)



*Not consolidated.

This employee productivity improvement was seven per cent after removing the effect of the additional non-ASM producing maintenance personnel deployed in 1995 for increased third party maintenance services. Operating revenue per employee increased nine per cent and pilot productivity, as measured by average hours flown, improved seven per cent in 1995.

Benefits expense increased by $6 million to $166 million. Major factors were greater pension costs and higher employee levels.

Fuel expense rose $53 million or 11 per cent. This reflected the increase in flying partially offset by a two per cent decline in average fuel prices due mainly to the favourable effect of fuel hedging.

Depreciation, amortization and obsolescence expense increased by $10 million or five per cent in 1995. This was primarily due to amortization of reservations and operations system (RESIII) start-up costs as well as aircraft introductory costs.

The growth in passenger revenue and international cargo revenue was the key element in the $46 million or 15 per cent increase in commission expense.

Food, beverages and supplies expense increased $24 million or 15 per cent over 1994. Increases essentially were due to higher traffic and enhanced in-flight entertainment.

Aircraft maintenance materials and supplies expense rose by $19 million or 12 per cent. This was due to greater flying and higher repair costs for older aircraft types, including Lockheed L-1011 and DC-9 aircraft.

Increased flight frequencies and higher passenger volumes, throughout the Air Canada route system, as well as the effect of stronger foreign currencies accounted for most of the $22 million or 14 per cent increase in airport user fees.

Aircraft rent expense rose $62 million or 27 per cent due to the addition, under operating leases, of 20 aircraft. Of these aircraft, three Boeing 767-300s and five Canadair Jets were added in the last quarter. The full year impact of aircraft operating leases completed in 1994 also contributed to the increase.

Customer maintenance materials expense, incurred to produce additional revenues from maintenance services to third party airlines, was $97 million, an increase of $35 million over 1994.

Other operating expense of $940 million was $96 million or 11 per cent higher than in 1994. The expense growth was mainly volume related and included increases in airport terminal handling costs, computer reservations charges, credit card fees, flight/cabin crew lodging expenses, advertising and training expenses. In addition, expenses related to computer and network services, outsourced in mid 1994, were higher due to the full year impact of these costs being reported in other expenses. Fluctuations in foreign currencies also had an unfavourable effect on this expense category. Increases due to the full year impact of the consolidation of Galileo Canada were essentially offset by lower expenses as a result of the sale of Dynamex.

Operating expense per available seat mile, excluding subsidiaries, increased two per cent compared to 1994. Major components of the unit cost increase were additional labour and material costs for third party maintenance services and higher aircraft rent. As well, unit cost growth was recorded for commissions, advertising and for the introduction of new routes and services.

The Corporation's operating expense includes those of a number of non-passenger transportation businesses which do not produce available seat miles. These businesses include cargo operations, third party maintenance, ground handling services, Galileo Canada and Air Canada Vacations' packages. In 1995, non-ASM producing businesses generated consolidated revenues of $926 million.

Excluding subsidiaries, the 1995 net operating cost per ASM of the passenger transportation business, after deducting the revenue impact of non-ASM generating businesses, was 10.5 cents per ASM, unchanged from 1994.

Non-operating Expense

Consolidated non-operating expense was $203 million, an increase of $116 million from 1994.

Net interest expense increased $26 million to $211 million. Interest income rose $7 million due mainly to higher average interest rates in 1995. Interest expense increased $46 million due to higher US interest rates, a weaker average Canadian dollar against Swiss, German and Japanese currencies and interest costs on the convertible debentures issued in April 1995. Capitalized interest of $24 million was related to future aircraft deliveries.

The amortization of deferred foreign exchange losses on long-term debt amounted to $69 million, an increase of $2 million from 1994. The largest component of this expense reflects amortization of deferred losses on US dollar and Swiss franc debt.

The gain on sale of warrants to purchase Continental Airlines shares amounted to $57 million. In September 1995, 6.2 million warrants were sold back to Continental Airlines, representing all warrants held by Air Canada. The one-time Gemini Group asset realization of $66 million recorded in 1994 was due to the reorganization of the Gemini Group and realization on the distribution of Gemini Group assets.

Gain on sale of assets of $17 million was $50 million lower than in the prior year. The 1994 gain on sale of assets included $31 million from the sale of three DC-8 freighter aircraft and $13 million from the outsourcing of computer and network services, as well as other miscellaneous gains.

Other non-operating income of $3 million decreased $29 million from 1994. This related mainly to non-recurring gains, recorded in the prior year, on prepayment of debt and higher income from investments.

Income Taxes

In 1995, Air Canada recorded a $36 million income tax provision in relation to the current year's earnings. This was reduced by $16 million by applying a portion of unrecognized income tax benefits from losses in 1992 and 1993. Management considered it inappropriate to record potential tax recoveries as generally accepted accounting principles restrict the recording of tax recoveries to circumstances in which there is virtual certainty that future profitability will absorb accumulated losses within the period as prescribed by the tax regulations. As at December 31, 1995, the remaining unrecognized potential benefit of future income tax savings amounted to $65 million.

Cash Position

At year-end 1995, Air Canada maintained a strong cash position with cash and short-term investments at $775 million, an increase of $176 million from 1994.

In 1995, cash from operations generated inflows of $61 million, an increase of $17 million from the prior year. Included in cash from operations was an $85 million cash outflow pertaining to scheduled

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new operations, an initial period is often required to build traffic and revenues while full expenses are incurred on each operation from the start-up date. To date, many new transborder services are showing improving financial results and a number of routes are generating a positive contribution after direct operating costs. Revenues are expected to increase in 1996 as the routes mature and traffic levels build. For routes which do not perform to financial expectations, actions have and will be taken to redeploy capacity to other markets with appropriate financial returns.

Competitive pressure will be heightened on transborder services as a result of this agreement. In the first year, a number of new routes were operated by US carriers including a limited number of routes to Toronto, Montréal and Vancouver. Air Canada's main domestic competitor was granted unrestricted access to the US market, however, this carrier only operated, directly, a limited number of new routes with most new activity being completed under code-share arrangements with its US alliance partner. In year two, further expansion by US carriers is occurring at Toronto, Montréal and Vancouver. Air Canada plans to continue to expand its transborder operations in 1996.

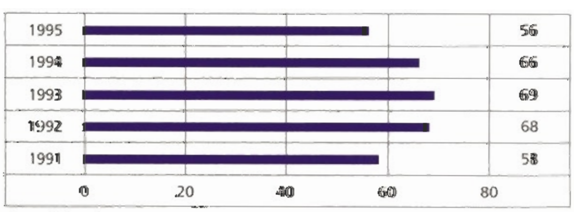
In the past year, the Government of Canada implemented a new international air transportation policy applicable to Canadian air carriers (but excluding US services). The new policy established a threshold of 300,000 passenger trips a year for second carrier designation from Canada and a "Use It or Lose It" allocation process for underutilized route designations. Under the policy, Air Canada has been awarded designations to initiate services on certain routes which are currently not served by the Corporation. While the new international air policy is expected to heighten competition on international routes, it also provides Air Canada with opportunities for expansion. Air Canada is reviewing the route designations and plans to expand to new routes which are projected to generate positive financial returns. Service to Hong Kong and Tel Aviv are such examples.

For 1996, the Corporation is projecting modest traffic growth within Canada. Accordingly, Air Canada plans to limit domestic capacity increases in 1996. International traffic, particularly on US and Pacific routes, is projected to expand significantly as a result of new transborder operations, Hong Kong service and Western Canada-Germany services. Capacity to international destinations is expected to increase by approximately 20 per cent in 1996 with planned transborder and Pacific expansion being the main components. Overall 1996 system capacity is planned to increase by approximately 11 per cent.

Air Canada is proceeding with a series of measures in 1996 relating to retirement of older aircraft and reductions to employee levels. Three Lockheed L-1011 aircraft have been withdrawn from service and are available for sale. Two Boeing 747 aircraft are temporarily parked for the winter period with one of these aircraft being operated periodically as a back-up aircraft. By the end of 1996, four Boeing 747 aircraft are planned to be retired. With the completion of the Northwest aircraft maintenance contract by the spring of 1996, maintenance and related personnel are planned to be reduced by over 500 employees.

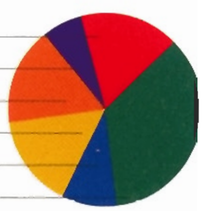
Three major Canadian labour agreements covering pilots, customer sales and service employees and flight attendants are scheduled for renegotiation in 1996. Negotiations are currently underway with the pilot group. Negotiations with the other union groups are scheduled for the fall of 1996. Air Canada expects that, through the collective bargaining process, new labour agreements will be concluded with these employee groups.

Percentage of Debt to Debt Plus Fixed Capital* (%)



*Consolidated.

The Work Force*



3,050	Management & Support
1,378	Pilots
3,182	Flight Attendants
2,902	Airport & Reservation Agents
1,903	Other
7,144	Maintenance & Ramp Service

* Not consolidated.
* Average full-time equivalents.

In 1996 and subsequent years, aircraft rent expense will increase significantly as Air Canada takes delivery of new Boeing 767-300, Airbus A340 and A319 aircraft under operating leases. Aircraft rent expense for 1996 is projected to increase by approximately $75 million over 1995 due to new aircraft deliveries and the full year impact of aircraft leases entered into this year. New generation aircraft have improved operating efficiencies in the form of reduced fuel consumption, lower maintenance expense and savings in other expense areas. The growing Airbus fleet is projected to provide savings compared to alternative fleet types through improved aircraft commonality which lowers pilot, maintenance, inventory and other costs. Operational and other savings from the replacement of older generation aircraft are expected to mitigate, to a large extent, aircraft rent expense on the new generation aircraft.

One of the Corporation's major priorities is to improve unit cost performance to a level competitive with major US air carriers. While aircraft rent is expected to rise significantly in 1996, Air Canada will focus on expense reduction initiatives and measures to improve productivity. As a result, Air Canada expects to constrain the growth in average unit costs in 1996.

The global airline industry is expected to remain highly competitive in 1996. Passenger traffic and yields will continue to be under pressure as a result of consumers demanding greater value for money and the impact of low-cost carriers. Air Canada completed major structural changes over the past several years in order to improve its market position, operational efficiency and cost profile for sustained profitability. The Corporation will continue to review all aspects of its business including operational processes, labour policies, network, products and fleet composition as well as investments, with the objective of improving operating profitability and cash flows, and enhancing shareholder value in 1996 and subsequent years.

Accounting Policy Changes

Effective January 1996, new accounting standards will be adopted under the CICA Handbook Section 3860 for financial instruments. The new standards distinguish between liabilities and equity instruments and could change the classification of certain instruments that combine the features of both debt and equity. The standards also prescribe circumstances where a financial asset and liability may be offset and set rules for disclosure of financial instruments. Under the standards, greater disclosure will be required in 1996 as to the fair value of financial instruments, hedging policies and counter party credit risk.

Under the new standards, the $250 million convertible subordinated unsecured debentures, previously classified under the Convertible Debentures and Shareholders' Equity category, will be segregated into a debt component and an equity component effective with 1996 financial reporting. The CICA is currently in the process of reviewing the application of this standard and its recommendations may influence the calculation of the debt and equity amounts to be segregated. Also under the new standards, the extinguishment transactions referred to in Note 5 b) to the financial statements may be reported on-balance sheet with long-term debt obligations of $178 million added to long-term debt and with corresponding long-term assets of $178 million established, consisting of the obligation of a substantial US financial institution to make scheduled payments on these debt obligations.

The CICA is also reviewing potential changes to accounting standards covering foreign exchange translation. Currently, generally accepted accounting principles ("GAAP") in Canada require the deferral and amortization of gains and losses on long-term debt over the remaining term of the debt. These emerging standards may require immediate recognition in income of foreign exchange adjustments from the revaluation of long-term debt, similar to US GAAP. An effective date for implementation of the proposed foreign exchange policy has not been established. However, had this policy been applied in 1995 to long-term debt (excluding subordinated perpetual debt), the effects on income and retained earnings would be similar to those described under Note 14 "United States Generally Accepted Accounting Principles" to the financial statements, relating to translation of long-term debt and adjustments for foreign currency exchange on long-term debt.

Management Report

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

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

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which is composed 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.

R Peterson

M. Robert Peterson
Senior Vice President, Finance
and Chief Financial Officer

Hollis L. Harris

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, 1995 and 1994 and the consolidated statements of operations and deficit 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, 1995 and 1994 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants
Montréal, Québec
February 22, 1996

Consolidated Statement of Operations and Deficit

(in millions except per share figures)

Year ended December 31	1995	1994
Operating revenues		
Passenger	$ 3,581	$ 3,172
Cargo	323	334
Other	603	518
	4,507	4,024
Operating expenses		
Salaries and wages	1,086	1,007
Benefits	166	160
Aircraft fuel (note 10)	527	474
Depreciation, amortization and obsolescence	216	206
Commissions	359	313
Food, beverages and supplies	182	158
Aircraft maintenance, materials and supplies	184	165
Airport user fees	183	161
Aircraft rent	292	230
Customer maintenance materials	97	62
Other (note 1i)	940	844
	4,232	3,780
Operating income	275	244
Non-operating income (expense)		
Interest income	60	53
Interest expense	(295)	(249)
Interest capitalized	24	11
Amortization of deferred foreign exchange on long-term debt	(69)	(67)
Gain on sale of assets	17	67
Gain on sale of Continental Airlines, Inc. warrants (note 4)	57	–
Gemini Group asset realization	–	66
Other	3	32
	(203)	(87)
Income before income taxes and minority interest	72	157
Income tax provision (note 10)	(36)	(67)
Recovery of prior years income taxes previously not recorded	16	42
Minority interest	-	(3)
Income for the year	52	129
Deficit, beginning of year	(444)	(573)
Deficit, end of year	$ (392)	$ (444)
Earnings per share		
Basic	$ 0.36	$ 1.09
Fully Diluted	$ 0.36	$ 0.97

See accompanying notes.

Consolidated Statement of Financial Position
(in millions)

December 31	1995	1994
Assets		
Current		
Cash and short-term investments (note 1c)	$ 775	$ 599
Accounts receivable	408	424
Spare parts, materials and supplies	176	159
Prepaid expenses	24	24
	1,383	1,206
Property and equipment (note 2)	2,751	2,617
Deferred charges (note 3)	912	863
Investments and other assets (note 4)	358	311
	$ 5,404	$ 4,997
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 631	$ 640
Advance ticket sales	215	202
Current portion of long-term debt	710	55
	1,556	897
Long-term debt (note 5)	1,637	2,409
Other long-term liabilities	76	85
Deferred credits (note 6)	292	306
	3,561	3,697
Minority interest	–	4
Subordinated perpetual debt (note 7)	931	931
Convertible Debentures & Shareholders' Equity		
Convertible debentures (note 8)	250	–
Share capital (note 9)	1,054	809
Deficit	(392)	(444)
	912	365
	$ 5,404	$ 4,997

See accompanying notes.

On behalf of the Board:

Hollis L. Harris
Chairman, President and Chief Executive Officer

J.V. Raymond Cyr, O.C.
Chairman, Audit Committee

Consolidated Statement of Changes in Cash Position
(in millions except per share figures)

Year ended December 31	1995	1994
Cash provided by (used for)		
Operating		
Income for the year	$ 52	$ 129
Adjustments to reconcile to net cash provided by operations		
Depreciation, amortization and obsolescence	216	206
Gain on sale of assets	(74)	(67)
Deferred income taxes	(3)	(22)
Deferred pension expense	(21)	(25)
Amortization of deferred foreign exchange on long-term debt	69	67
Amortization of deferred gains	(30)	(31)
(Increase) decrease in accounts receivable	16	(75)
Increase in spare parts, materials and supplies	(24)	(16)
Decrease in accounts payable and accrued liabilities	(9)	(22)
Increase (decrease) in advance ticket sales	13	(7)
Scheduled lease payments in excess of aircraft rent expense	(85)	(13)
Other	(59)	(80)
	61	44
Financing		
Issue of common shares	5	6
Issue of equity units (note 8)	480	–
Long-term borrowings	–	7
Reduction of long-term debt	(91)	(355)
Other	(36)	(17)
	358	(359)
Investing		
Proceeds from sale and leaseback of assets	4	259
Proceeds from sale of assets	95	145
Additions to property and equipment	(326)	(410)
Cash from consolidation of Gemini Group Limited Partnership	–	43
Investment in and advances to other companies	(16)	32
	(243)	69
Increase (decrease) in cash position	176	(246)
Cash position, beginning of year	599	845
Cash position, end of year	$ 775	$ 599
Cash flow per share from operations		
Basic and fully diluted	$ 0.42	$ 0.37

See accompanying notes.

Notes to Consolidated Financial Statements
(currencies in millions)

1. Significant Accounting Policies

Nature of Operations

Air Canada is a Canadian-based international air carrier providing scheduled and charter air transportation for passengers and cargo. The Corporation's airline route network, together with its regional airline subsidiaries, offer air transportation services over routes authorized by the Government of Canada and the foreign governments concerned. Those routes serve 91 communities in North America and 28 cities in Europe, Asia and the Caribbean. Air transportation and related revenues represent over 90% of consolidated operating revenues.

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

a) Principles of Consolidation

The consolidated financial statements are expressed in Canadian dollars and are prepared in accordance with accounting principles generally accepted in Canada. They include the accounts of Air Canada as well as regional airlines (AirBC Ltd., Air Ontario Inc., Air Alliance Inc., Air Nova Inc., and Northwest Territorial Airways Ltd.), a computerized reservation system, Galileo Canada Distribution Systems Inc., and a tour operator, Air Canada Vacations (Touram Inc.), all of which are wholly-owned operating subsidiaries.

The excess of the acquisition costs of investment in subsidiaries over the Corporation's proportionate share of the underlying value of the net assets at the date of acquisition represents goodwill, and is amortized over periods not exceeding 20 years (note 4). The value of goodwill, and any impairment of that value, is assessed by reference to cash flows, operating income and estimation of fair value.

In 1995, the Corporation acquired the 15% minority interest in AirBC Ltd. for consideration of $18 of which $15 is goodwill. The Corporation sold its 100% interest in Dynamex Express Inc. for consideration of cash and promissory notes of $10.

In 1994, the Corporation acquired the 25% minority interest in Air Ontario Inc. and Air Alliance Inc. for a cash consideration of $25 of which $20 is goodwill. It also increased its ownership of the Gemini Group Limited Partnership from 33% to 100% for a nominal cash consideration. The net assets of Gemini were sold to third parties or transferred at book value to Air Canada and Galileo Canada in 1994.

Investments in companies in which Air Canada does not have significant influence over management are carried at cost.

b) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies, with the exception of subordinated perpetual debt (note 7), 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.

1. Significant Accounting Policies (Cont'd)

c) Cash and Short-Term Investments

Cash and short-term investments include bank overdraft of $33 (1994 cash of $22) and short-term investments of $808 (1994 $577). All short-term investments may be liquidated promptly and have maturities of less than one year.

d) 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.

e) Airline Revenue

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

f) Post-Employment 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-employment health care and life insurance benefits are recognized as incurred.

g) 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 4 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			
Boeing 747-133/233B	15%	10%	16 years
Boeing 767-233	15%	15%	20 years
Boeing 737-200C	10%	10%	8 years
A320-211	15%	15%	20 years
L-1011-100	15%	10%	Depreciated to residual value
DC-9-32	15%	10%	4 years
The Boeing 737-200C is leased to a subsidiary.			
Subsidiaries			
Various	15-20%	15-20%	12-20 years

Significant aircraft reconfiguration costs are amortized over 3 years. Aircraft introduction costs are amortized over 4 years. Betterments to aircraft on operating leases are amortized over the term of the lease.

1. Significant Accounting Policies (Cont'd)

h) 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.

i) 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, computer network and information technology costs, insurance costs and other expenses.

j) Aeroplan

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

k) 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.

l) 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.

m) Comparative Figures

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

2. Property and Equipment

	1995	1994
Cost:		
Flight equipment	**$ 2,759**	$ 2,759
Other property and equipment	**1,110**	1,035
	3,869	3,794
Accumulated depreciation and amortization:		
Flight equipment	**927**	872
Other property and equipment	**667**	601
	1,594	1,473
	2,275	2,321
Progress payments	**476**	296
Property and equipment at net book value	**$ 2,751**	$ 2,617

In 1994, flight equipment includes aircraft retired from active service with a net book value of $5. Flight equipment with a net book value of $12 was retired from active service in January 1996.

Interest capitalized during the year amounted to $24 using an average interest rate of 8.0% (1994 $11 at 7.5%).

3. Deferred Charges

	1995	1994
Employer pension plan funding in excess of pension expense	**$ 360**	$ 338
Foreign currency exchange on long-term debt	**290**	384
Scheduled lease payments in excess of aircraft rent expense	**165**	75
Financing costs	**71**	45
Aircraft introduction costs	**15**	12
Other	**11**	9
Deferred charges	**$ 912**	$ 863

4. Investments and Other Assets

	1995	1994
Investments in companies accounted for on the cost basis	**$ 219**	$ 199
Goodwill, net of amortization	**46**	37
Notes receivable	**45**	33
Security and other deposits	**20**	16
Partnership interests in international computer reservation systems	**16**	15
Other	**12**	11
Investments and other assets	**$ 358**	$ 311

Investments in companies accounted for on the cost basis include the Corporation's investment in Continental Airlines, Inc. common shares of $63 (1994 common shares and warrants $73) and mandatorily redeemable preferred shares of $52 (1994 $47). In 1995, the Corporation sold the warrants for proceeds of $67 at a gain over cost of $57. The cost of mandatorily redeemable preferred shares includes dividends accrued in 1995 of $5 (1994 $9).

In December 1993, the Corporation's economic interest in the common shares of Continental was diluted from 28.7% to 19.6% as a result of the Continental Initial Public Offering. Arising from this change in circumstances and considering the Corporation's inability to exercise significant influence over the operating, investing and financing activities of Continental, the investment is accounted for on the cost basis with effect from January 1, 1994. Further dilution of the Corporation's economic interest occurs quarterly as Continental issues treasury shares to employees under share purchase and equity incentive plans.

As at December 31, 1995, the Corporation's economic interest in the common shares of Continental was 18.0% (1994 18.7%), 12.4% on a fully diluted basis, and voting interest was 23.6% (1994 23.9%). The estimated realizable value of the Corporation's common share investment, taking into account certain trading restrictions, was U.S. $180.

Continental's income applicable to common shareholders for the year ended December 31, 1995 was U.S. $224 (1994 loss of U.S. $613 including a non-recurring charge of U.S. $447) on revenues of U.S. $5,825 (1994 U.S. $5,670).

Also included in investments in companies accounted for on the cost basis are portfolio investments of $58 (1994 $52) with an estimated market value of $71 and the Corporation's 10.2% (1.0% on a fully diluted basis) investment in the common shares of GPA Group plc which is carried at a nominal amount.

Other non-operating income includes the Corporation's share of earnings of partnership interests totalling $5 (1994 $4).

5. Long-Term Debt

	Final Maturity	Interest Rate (%)	1995	1994
U.S. dollar debt (a)	1996-2008	5.8 – 8.7	**$ 1,566**	$ 1,674
Canadian dollar debt (b)	1996-2004	8.3 – 12.1	**248**	276
Swiss franc debt (c)	1996-2002	5.1 – 5.6	**335**	303
Japanese yen notes (d)	2007	5.8	**198**	211
			2,347	2,464
Current portion			**(710)**	(55)
Long-term debt			**$ 1,637**	$ 2,409

All debt is unsecured by the assets of the Corporation with the exception of the subsidiaries' debt totalling $251 (1994 $281) which is secured by certain of their assets.

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

1996	1997	1998	1999	2000
$ 710	$ 192	$ 70	$ 72	$ 102

a) As at December 31, 1995, U.S. dollar debt totalled U.S. $1,146, of which U.S. $946 is at floating interest rates based on U.S. dollar LIBOR. Approximately 50% of the 1996 interest rate exposure on the floating rate U.S. dollar debt is hedged by short-term interest rate contracts. Of the U.S. dollar debt:

- a U.S. $400 borrowing has a final maturity in 1996 and may be repaid at par in whole or in part on any interest payment date.
- a U.S. $100 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. $300 borrowing has a final maturity in 2005 and may be repaid at par any time until the year 2000 and on any interest payment date thereafter.
- a U.S. $255 borrowing has a final maturity in 2006 and may be repaid at par in whole or in part on any interest payment date, with an indemnity.
- a U.S. $91 borrowing has a final maturity in 2008 and may be repaid at par in whole or in part any time prior to maturity, with an indemnity.

In 1995, the Corporation discharged a U.S. $31 obligation related to a conditional sale agreement for twelve DC-9-32 aircraft.

b) In 1990 and 1989, the Corporation concluded agreements with a substantial U.S. financial institution whereby, 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 $85 and $93 respectively at December 31, 1995) 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 in the remote event that the counter party fails to perform.

5. Long-Term Debt (Cont'd)

c) Swiss franc debt is comprised of 100 Swiss francs maturing in 1996 and 200 Swiss francs maturing in 2002. The 200 Swiss franc debt may be called by the Corporation at a premium until 1997 and at par thereafter.

The Corporation has repurchased but not cancelled 17 of the Swiss franc debt.

d) The interest rate on the 15,000 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.

The following hedges with credit worthy counterparties are related to the long-term debt above:

- an interest rate swap to convert U.S. dollar floating interest rates to Canadian dollar floating interest rates on a quarterly basis on U.S. $100 until November 1996.
- interest rate swaps on a notional amount of U.S. $267 settled on a semi-annual basis until May 1996.
- a swap whereby the Corporation owes a fixed rate of interest on a notional amount of U.S. $100 compounded on a semi-annual basis until 2012. This swap is completely offset until 1997 by an equal and offsetting swap whereby the Corporation owes a floating rate of interest. The counterparty has the right to cancel the first swap in October 1997. If it does not exercise its cancellation option, then the swap will continue to be compounded until settlement no later than October 2000.

At December 31, 1995, the Corporation has the following financing facilities:

- up to U.S. $200 or the Canadian dollar equivalent on an unsecured basis from a group of financial institutions in Canada with a remaining term of one and one-half years with a reducing revolving availability period. After drawings of U.S. $100, the net amount available at December 31, 1995 was U.S. $100 or the Canadian dollar equivalent. Drawn amounts may be repaid and redrawn subject to the reducing revolving availability period. Funds available under this facility will be reduced by U.S. $100 in June 1996 and will mature in June 1997.
- a U.S. $207 credit facility, to be available in December 1996, designed to partially fund the 1996 U.S. $400 debt repayment also due in December 1996. Debt repayments under this facility would be repaid over the subsequent six years and are not included in the aforementioned repayment schedule.

Subsidiaries have financing arrangements totalling $20 against which there were no drawings as at December 31, 1995.

6. Deferred Credits

	1995	1994
Gain on sale and leaseback of assets	$ 173	$ 205
Aircraft rent expense in excess of scheduled lease payments	65	60
Income taxes	33	20
Other	21	21
Deferred credits	**$ 292**	$ 306

7. Subordinated Perpetual Debt

	1995	1994
60,000 Japanese yen at 5.30% until 1999 Callable in 1999 and every fifth year thereafter at par (a)	**$ 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
200 Deutsche marks at 6.25% until 1997 Callable in 1997 and every third year thereafter at par (b)	**97**	97
Subordinated perpetual debt	**$ 931**	$ 931

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, excluding convertible debentures (note 8). 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, the debt 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, 1995, the Canadian dollar equivalent of 60,000 Japanese yen is $793 (1994 $845), 500 Swiss francs is $592 (1994 $536), and 200 Deutsche marks is $190 (1994 $181).

a) The interest rate on the yen subordinated perpetual debt is 5.30% until 1999 and will be reset for each subsequent five-year reset period based upon a capped spread over the Japanese long-term prime lending rate.

b) The interest rate on the Deutsche mark subordinated perpetual bonds is 6.25% until 1997 and will be reset for each subsequent three-year reset period based upon an interest rate index.

8. Convertible Debentures

In 1995, the Corporation concluded a public offering of 178,572 units for net proceeds of $480. Each unit consisted of 200 Class A non-voting shares at a price of $7.00 per share (note 9) and $1,400.00 principal amount of 8% convertible unsecured subordinated debentures maturing April 2005. The units were split and commenced trading separately June 1, 1995.

The convertible debentures are convertible at the holder's option at anytime up to and including the close of business on the business day immediately preceding maturity in April 2005 at a conversion price of $8.00 per Class A non-voting common share being a rate of 12.5 Class A non-voting common shares per $100 principal amount of convertible debentures.

The convertible debentures are redeemable, for cash or Class A non-voting common shares, at the option of the Corporation beginning April 1998 and thereafter until April 2000 at par plus accrued and unpaid interest provided that the weighted average closing price of the Class A non-voting shares on the Montréal Exchange and on the Toronto Stock Exchange exceeds 125% of the conversion price. From April 2000, the convertible debentures will be redeemable at the option of the Corporation either for cash or for Class A non-voting shares based upon 95% of the weighted average closing price of the Class A non-voting shares in a specified time period prior to redemption.

As the Corporation has the ability to repay the principal amount of the convertible debentures on redemption or at maturity by the issue of Class A non-voting common shares, the Corporation views these securities as substantially permanent capital and accordingly the convertible debentures are recorded under the heading "Convertible Debentures & Shareholders' Equity".

9. Share Capital

The authorized capital of the Corporation consists of an unlimited number of common shares, Class A non-voting common shares, Class A preferred shares issuable in series and Class B preferred shares issuable in series. The Corporation's Articles of Continuance under provisions of the Canada Business Corporations Act include limits on individual and aggregate non-resident public ownership of common shares of 10 per cent and 25 per cent respectively, including associates of such shareholders.

The issued capital consists of common shares and Class A non-voting common shares, and the changes during 1994 and 1995 in the outstanding number of shares and their aggregate stated value during those years are as follows:

	Common Shares Number	Amount	Class A Non-Voting Shares Number	Amount
December 31, 1993	117,533,677	$ 803	–	$ –
Share purchase options exercised	101,585	–	–	–
Share Appreciation Rights Plan	833,211	6	–	–
Share purchase warrants exercised	500	–	–	–
December 31, 1994	118,468,973	$ 809	–	–
Share purchase options exercised	106,348	–	–	–
Share Appreciation Rights Plan	792,742	5	–	–
Share purchase warrants exercised	7,550	–	–	–
Public offering (note 8)	–	–	35,714,400	240
December 31, 1995	119,375,613	$ 814	35,714,400	$ 240

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

	Options Outstanding Common Shares	Option Price Per Common Share	Options Outstanding Class A Non-Voting Shares	Option Price Per Class A Non-Voting Share
1988	284,470	$ 8.00	–	–
1990	7,191	$ 9.75	–	–
1991	9,255	$ 9.125	–	–
1992	5,833	$ 5.55	–	–
1993	201,011	$ 2.79	149,112	$ 2.79
1994	187,081	$6.42-$6.70	282,285	$6.42-$6.70
1995	200,197	$5.05-$7.89	400,068	$ 7.89
	895,038		831,465	

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 on the basis of 25% of the options per year on a cumulative basis, beginning after one year and expiring after ten years.

9. Share Capital (Cont'd)

On May 10, 1995, the Board of Directors approved a resolution providing for an amendment to the Corporation's share option plan pursuant to which the holders of common share options were offered an opportunity to convert such options to Class A non-voting common share options on a one-for-one basis with the same vesting schedule and subject to the same terms and conditions governing the common share options.

On February 19, 1993, the Board of Directors approved a Share Appreciation Plan, effective May 1, 1993, which authorizes the granting of Share Appreciation Rights (SARs) to employees affected by a salary reduction. Payment of the share appreciation shall be in the form of treasury shares and be distributed over a three year cycle commencing one year after the initial salary reduction. The number of treasury shares issued will be based on the common share market value at the end of each period of the three year cycle. During the year, the appreciation on 2,601,215 SARs was converted to 792,742 common shares. As at December 31, 1995, there are 2,121,491 SARs outstanding with appreciation equal to 413,010 common shares based on the share price at that date. Share appreciation related to the outstanding SARs will be paid in the form of treasury shares during 1996.

There are no share purchase warrants outstanding.

10. 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:

	1995	1994
Provision (recovery) based on combined federal and provincial tax rates	**$ 29**	$ 63
Non-taxable portion of capital gains	**(2)**	(9)
Tax exempt earnings	**–**	(9)
Non-deductible expenses	**7**	21
Large corporations tax	**7**	5
Other	**(5)**	(4)
	$ 36	$ 67
Current	**$ 23**	$ 47
Deferred	**13**	20
Income tax provision	**$ 36**	$ 67

In 1993, the Corporation received a Federal excise tax rebate of $46 (applied to reduce fuel expense) in exchange for a reduction of unrecorded income tax benefits of $175. In 1994, the Corporation repaid $2 of the Federal excise tax rebate which resulted in the reinstatement of unrecorded income tax benefits of $7.

As at December 31, 1995, accumulated unrecognized income tax benefits amount to $65.

11. Commitments

The Corporation has commitments to purchase aircraft and spare engines for U.S. $1,597 and CDN $33 which are payable as follows:

	U.S.	CDN
1996	$ 414	$ 33
1997	$ 904	$ –
1998	$ 279	$ –

Included in the aircraft commitments are the following:

- an amount of U.S. $1,488 for the balance of the purchase of six Airbus A340 and thirty-five A319 aircraft to be delivered in 1996 through 1998 for which the Corporation has received a financing commitment of a maximum of U.S. $1,466 for all Airbus A340 and twenty-five Airbus A319 aircraft.
- an amount of U.S. $102 for the balance of the purchase of two Boeing 767-300ER aircraft to be delivered in early 1996.

Other commitments for property, ground equipment and spare parts, amount to approximately $115.

Future minimum lease payments under operating leases of aircraft and other property total $3,552 and are payable as follows:

	Operating Leases of Aircraft	Operating Leases of Other Property
1996	$ 364	$ 50
1997	338	42
1998	312	38
1999	303	31
2000	303	25
Remaining years	1,495	251
	$ 3,115	$ 437

Operating lease commitments include the following hedges with credit worthy counterparties:

- a currency swap to convert a significant portion of U.S. dollar lease rentals into Canadian dollar lease rentals for five Canadair Jet operating leases until lease termination in 2007.
- two interest rate swaps to convert the floating rate U.S. dollar rental payments on a Boeing 767-300ER aircraft to fixed rate U.S. dollar rental payments for the life of the operating lease which terminates in 2003.

12. Pension Plans

Air Canada and its subsidiaries maintain several defined benefit pension plans. Based on the latest actuarial reports prepared as at December 31, 1994 using management's assumptions, the estimated present value of the accrued pension benefits as at December 31, 1995 amounted to $3,473 and the net assets available to provide these benefits were $3,670 calculated on a four year moving average market value basis.

13. Contingencies

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

Under aircraft sale and leaseback agreements, the Corporation may be required to provide residual value support not exceeding $117. Independent appraisals as at December 31, 1995 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 nine DC-9-32 aircraft as the Corporation intends to purchase these aircraft on termination of leases in 1996.

14. United States Generally Accepted Accounting Principles

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) which conform in all material respects with generally accepted accounting principles in the United States (U.S. GAAP) except as set forth below.

	1995	1994
Income Adjustments		
Income for the year in accordance with Canadian GAAP	$ 52	$ 129
Unrealized exchange (loss) gain on translation of long-term debt (1)	94	(114)
Pension costs (2)	30	3
Post-retirement benefit costs other than pension (3)	(17)	(19)
Post-employment benefit costs (3)	4	(4)
Income (loss) for the year in accordance with U.S. GAAP	$ 163	$ (5)
Income (loss) per common share in accordance with U.S. GAAP	$ 1.04	$ (0.04)
Financial Position Adjustments		
Cash & Short-term investments:		
Balance under Canadian GAAP	$ 775	$ 599
Reclassification of short-term investments with maturities greater than three months	(355)	(165)
Cash and cash equivalents under U.S. GAAP	$ 420	$ 434
Short-term investments:		
Balance under Canadian GAAP	$ –	$ –
Reclassification of short-term investments with maturities greater than three months	355	165
Balance under U.S. GAAP	$ 355	$ 165
Deferred charges:		
Balance under Canadian GAAP	$ 912	$ 863
Adjustment for foreign currency exchange on long-term debt	(290)	(384)
Adjustment for pension costs	39	(11)
Balance under U.S. GAAP	$ 661	$ 468

14. United States Generally Accepted Accounting Principles (Cont'd)

	1995	1994
Other long-term liabilities:		
Balance under Canadian GAAP	$ 76	$ 85
Adjustment for pension costs	49	30
Adjustment for post-retirement benefit costs	236	219
Adjustment for post-employment benefit costs	–	4
Balance under U.S. GAAP	$ 361	$ 338
Convertible debentures:		
Balance under Canadian GAAP	$ –	$ –
Reclassification of convertible debentures	250	–
Balance under U.S. GAAP	$ 250	$ –
Convertible debentures and Shareholders' equity:		
Balance under Canadian GAAP	$ 912	$ 365
Reclassification of convertible debentures	(250)	–
Current year income adjustments for:		
Foreign currency exchange	94	(114)
Pension costs	30	3
Post-retirement costs	(17)	(19)
Post-employment costs	4	(4)
Current year retained earnings adjustments for:		
Pension costs	–	(2)
Cumulative pre-1995 adjustments for:		
Foreign currency exchange	(384)	–
Pension costs	(39)	–
Post-retirement costs	(219)	–
Post-employment costs	(4)	–
Cumulative pre-1994 adjustments for:		
Foreign currency exchange	–	(270)
Pension costs	–	(42)
Post-retirement costs	–	(200)
Balance under U.S. GAAP	$ 127	$ (283)

(1) Under Canadian GAAP, unrealized exchange gains and losses arising on the translation, at exchange rates prevailing on the balance sheet date, of long-term debt repayable in a foreign currency are deferred and amortized over the remaining life of the related debt. Under U.S. GAAP, such exchange gains and losses are included in income.

(2) The determination of net pension costs in accordance with Canadian and U.S. GAAP differs with respect to the valuation of assets at January 1, 1987, the basis used to determine the benefit obligation and the expected return on plan assets, and the amortization of changes in assumptions and experience gains and losses. Under U.S. GAAP changes in assumptions and experience gains and losses may remain unamortized until they exceed ten per cent of the projected benefit obligation or market related value of plan assets. For Canadian GAAP all changes in assumptions and experience gains and losses are amortized.

(3) Under Canadian GAAP, the cost of providing post-retirement and post-employment benefits other than pensions can either be charged against income as funding payments are made or provided for on an accrual basis. As allowed by Canadian GAAP, the Corporation is accounting for post-retirement and post-employment benefir costs other than pensions on a cash basis. Under U.S. GAAP, post-retirement and post-employment benefits other than pensions are charged against income on an accrual basis.

Eight Year Comparative Review

	1995	1994
Financial Data – consolidated ($ millions)		
Operating revenues:		
Passenger	3,581	3,172
Cargo	323	334
Other	603	518
	4,507	4,024
Operating expenses:		
Salaries, wages and benefits	1,252	1,167
Aircraft fuel [1]	527	474
Depreciation, amortization and obsolescence	216	206
Aircraft rent	292	230
Other	1,945	1,703
	4,232	3,780
Operating income (loss) before the undernoted item	275	244
Staff reduction and retirement costs	–	–
Operating income (loss)	275	244
Non-operating income (expense):		
Net interest expense	(211)	(185)
Amortization of deferred foreign exchange	(69)	(67)
Gain (loss) on sale of assets	17	67
Gain on sale of Continental Airlines, Inc. warrants	57	–
Gemini Group asset realization	–	66
Provision for investments and writedown of goodwill	–	–
Other	3	32
Total non-operating income (expense)	(203)	(87)
Income (loss) before income taxes and minority interest	72	157
(Provision for) recovery of income taxes	(20)	(25)
Minority interest	–	(3)
Income (loss) from continuing operations	52	129
enRoute Card discontinued operations	–	–
Income (loss) for the year	52	129
Cash provided by (used for):		
Operating	61	44
Financing	358	(359)
Investing	(243)	69
Increase (decrease) in cash position	176	(246)
Cash position, end of year	775	599
Operating margin before provision for staff reduction and retirement costs	6.1%	6.1%
EBITDAR [1][2]	783	680
EBITDAR margin	17.4%	16.9%
Current ratio	0.89	1.34
Total assets	5,404	4,997
Long-term debt and capital leases (including current portion)	2,347	2,464
Subordinated perpetual debt	931	931
Shareholders' equity	912	365
Percentage of debt to debt plus fixed capital	56%	66%
Earnings (loss) per share [3]	$ 0.36	$ 0.97
Cash flow from operations per share [3]	$ 0.42	$ 0.37
Book value per share	$ 5.88	$ 3.08
Average common shares outstanding (millions) [3]	168.7	143.5
Return on equity	8.1%	46.7%

[1] Includes a fuel excise tax rebate in 1993 of $46 million (consolidated).
[2] Earnings before interest, taxes, depreciation, amortization and aircraft rent; a measure of earning performance.
[3] Fully diluted.

1993	1992	1991	1990	1989	1988
2,849	2,813	2,815	3,103	2,884	2,602
335	342	354	413	398	503
414	346	316	383	336	299
3,598	3,501	3,485	3,899	3,618	3,404
1,122	1,188	1,199	1,230	1,131	1,096
397	472	515	637	539	494
219	206	190	170	150	148
214	164	156	136	120	63
1,569	1,616	1,589	1,676	1,559	1,499
3,521	3,646	3,649	3,849	3,499	3,300
77	(145)	(164)	50	119	104
(76)	(52)	(36)	(61)	(16)	(6)
1	(197)	(200)	(11)	103	98
(191)	(190)	(126)	(49)	(52)	(87)
(34)	(17)	(5)	(6)	(3)	(7)
33	(29)	(5)	22	220	79
–	–	–	–	–	–
–	–	–	–	–	–
(111)	(15)	(17)	(11)	(57)	–
(14)	–	(1)	12	27	32
(317)	(251)	(154)	(32)	135	17
(316)	(448)	(354)	(43)	238	115
(9)	(4)	142	18	(85)	(29)
(1)	(2)	1	(1)	–	1
(326)	(454)	(211)	(26)	153	87
–	–	(7)	(48)	(4)	2
(326)	(454)	(218)	(74)	149	89
(34)	(243)	(221)	60	149	6
335	246	742	402	427	133
126	287	(829)	(583)	(375)	(6)
427	290	(308)	(121)	201	133
845	418	128	436	557	356
2.1%	(4.1)%	(4.7)%	1.3%	3.3%	3.1%
510	225	182	356	389	315
14.2%	6.4%	5.2%	9.1%	10.8%	9.3%
1.36	1.09	1.15	1.47	1.79	1.56
5,039	4,810	4,921	4,579	4,121	3,437
2,640	2,492	2,183	1,384	973	1,100
931	883	834	834	834	336
230	316	770	988	1,062	913
69%	68%	58%	43%	34%	47%
$ (4.23)	$ (6.13)	$ (2.94)	$ (1.01)	$ 1.99	$ 1.64
$ (0.44)	$ (3.28)	$ (2.99)	$ 0.80	$ 1.99	$ 0.12
$ 1.96	$ 4.27	$ 10.40	$ 13.35	$ 14.55	$ 12.70
80.7	75.9	75.1	74.9	74.8	48.5
(237.6)%	(86.2)%	(25.0)%	(7.0)%	15.4%	13.5%

Eight Year Comparative Review (cont'd)	1995	1994
Operating statistics – not consolidated		
Passenger – scheduled and charter:		
Revenue passengers carried (millions)	**10.8**	9.9
Revenue passenger miles (millions)	**16,747**	14,995
Available seat miles (millions)	**26,578**	23,730
Passenger load factor	**63.0%**	63.2%
Yield per revenue passenger mile (cents)	**18.0**	17.7
Yield per available seat mile (cents)	**11.4**	11.2
Cargo – scheduled and charter:		
Revenue ton miles (millions)	**707**	633
Yield per revenue ton mile (cents)	**43.3**	43.5
All operations:		
Operating expense per available seat mile (cents) [1]	**13.4**	13.2
Operating expense (net of non-ASM producing revenue) per available seat mile (cents) [1][2]	**10.5**	10.5
Average number of employees (thousands)	**19.6**	18.4
Available seat miles per employee (thousands)	**1,359**	1,288
Revenue per employee ($ thousands)	**194**	178
Average aircraft utilization (hours per day) [3]	**10.6**	10.3
Average aircraft flight length (miles)	**958**	946
Fuel price per litre (cents) [4]	**23.5**	23.8
Fuel litres (millions)	**1,910**	1,707
Operating statistics – consolidated		
Revenue passenger miles (millions)	**17,905**	16,143
Available seat miles (millions)	**28,968**	25,991
Yield per revenue passenger mile (cents)	**20.0**	19.6

Quarterly Financial and Operating Data

(unaudited)	1995				
	Year	Q4	Q3	Q2	Q1
Financial data – consolidated ($ millions)					
Operating revenues	**4,507**	1,086	1,315	1,090	1,016
Operating income (loss)	**275**	46	190	46	(7)
Income (loss) for the period	**52**	(16)	179	(23)	(88)
Cash flow from operations [5]	**61**	(18)	128	(27)	(22)
Operating statistics – not consolidated					
Revenue passenger miles (millions)	**16,747**	3,830	5,466	3,999	3,452
Domestic	**6,250**	1,468	1,953	1,587	1,242
International	**10,497**	2,362	3,513	2,412	2,210
Available seat miles (millions)	**26,578**	6,492	7,784	6,316	5,986
Domestic	**10,180**	2,447	2,877	2,604	2,252
International	**16,398**	4,045	4,907	3,712	3,734
Passenger load factor	**63.0%**	59.0%	70.2%	63.3%	57.7%
Domestic	**61.4%**	60.0%	67.9%	60.9%	55.1%
International	**64.0%**	58.4%	71.6%	65.0%	59.2%
Yield per revenue passenger mile (cents)	**18.0**	18.7	17.1	18.5	18.2

[1] Excludes a fuel excise tax rebate in 1993 of $45 million (not consolidated).
[2] Represents the net cost of the passenger transportation business, after deducting the revenue impact of non-ASM producing businesses.
[3] Excludes maintenance down-time.
[4] If fuel excise tax rebate were included, fuel price per litre would be 21.5 cents in 1993.
[5] 1995 Q1 and Q2 are restated.

1993	1992	1991	1990	1989	1988
9.5	9.9	9.9	11.8	12.0	11.9
13,768	14,391	13,658	16,577	16,278	15,553
21,157	21,628	19,953	23,233	23,348	21,778
65.1%	66.5%	68.4%	71.4%	69.7%	71.4%
17.1	16.3	17.3	16.7	16.3	15.7
11.1	10.8	11.9	11.9	11.4	11.2
586	532	549	645	595	605
47.6	53.1	53.1	53.2	53.5	56.6
14.0	14.2	15.6	14.8	13.4	13.3
11.3	11.7	12.9	12.1	10.9	10.7
18.2	19.4	20.6	23.1	23.2	22.6
1,166	1,112	969	1,005	1,005	962
161	148	141	148	139	134
9.6	9.6	9.8	9.5	9.3	9.7
907	925	898	900	850	814
24.4	24.6	26.6	28.9	24.3	23.6
1,529	1,609	1,627	1,965	1,991	1,905
14,820	15,519	14,642	17,271	16,868	15,938
23,341	23,886	22,031	24,630	24,562	22,525
19.2	18.1	19.2	18.0	17.1	16.3

1994				
Year	Q4	Q3	Q2	Q1
4,024	991	1,165	966	902
244	29	166	61	(12)
129	4	130	27	(32)
44	(21)	55	47	(37)
14,995	3,398	4,827	3,509	3,261
5,753	1,353	1,784	1,445	1,171
9,242	2,045	3,043	2,064	2,090
23,730	5,931	7,025	5,529	5,245
9,218	2,370	2,636	2,197	2,015
14,512	3,561	4,389	3,332	3,230
63.2%	57.3%	68.7%	63.5%	62.2%
62.4%	57.1%	67.7%	65.8%	58.1%
63.7%	57.4%	69.3%	61.9%	64.7%
17.7	18.7	16.8	18.3	17.2

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Senior Partner
Stikeman, Elliott
Montréal, Québec

J.V. Raymond Cyr, O.C.
Chairman of the Board
Bell Canada
Montréal, Québec

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Vice Chairman of the Board
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Winnipeg, Manitoba

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

Hollis L. Harris
Chairman, President and
Chief Executive Officer
Air Canada
Montréal, Québec

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Executive Officer
Denison Mines Limited
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Fernand Lalonde, Q.C.
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Claude I. Taylor, O.C.
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Louise Brais Vaillancourt, C.M.
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Outremont, Québec

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Hollis L. Harris*
Chairman, President and
Chief Executive Officer

Jean-Jacques Bourgeault
Executive Vice President and
Chief Operating Officer

R. Lamar Durrett**
Executive Vice President,
Corporate Services and
Chief Administrative Officer

Geoffrey Elliot
Senior Vice President,
Corporate Affairs and
Government Relations

Robert A. Milton
Senior Vice President,
Marketing and In-Flight
Service

Terry F. Nord
Senior Vice President,
Operations and
Chief Technical Officer

M. Robert Peterson
Senior Vice President,
Finance and
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Product Distribution

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Financial Planning and
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General Counsel

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Vice President,
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Vice President,
Human Resources

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Treasurer

Egon Koch
Vice President,
Europe

Paul Létourneau, Q.C.
Secretary of the Company

G. Ross MacCormack
Vice President,
Corporate Strategy

B. Wayne MacLellan
Vice President,
Flight Operations

Chris W. Nassenstein
Vice President,
Technical Operations

Donna Price
Vice President,
Airports

H. Alan Thompson
Vice President,
Corporate Affairs
Western Canada

* Hollis L. Harris has been appointed Executive Chairman, effective May 14, 1996, the date of the Annual General Meeting.

** R. Lamar Durrett has been appointed President and Chief Executive Officer, effective May 14, 1996, the date of the Annual General Meeting.

John Dickie, Vice President,
Technical Operations,
retired February 1, 1996

Glossary of Terms

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

Current Ratio
Current assets divided by current liabilities.

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

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

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
Total number of cargo tons carried multiplied by the miles they are carried.

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

Investor and Shareholder Information

Head Office
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Saint-Laurent, Québec
Canada H4Y 1H4
(514) 422-5000

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

Transfer Agents and Registrar
The R-M Trust Company, Halifax, Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

Chemical Mellon Shareholder Services, L.L.C.
New Jersey.

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
Shareholder Relations:
Assistant Secretary and
Shareholder Relations Director
Telephone: (514) 422-5787
Canada/USA
1 800 282-SHARE
Faxcom: (514) 422-5789

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

Price Range and Trading Volume of Air Canada Common Shares

1995	High	Low	Volume
1st Quarter	$8.88	$6.50	31,917,822
2nd Quarter	$6.63	$5.13	97,490,579
3rd Quarter	$6.63	$4.65	47,038,242
4th Quarter	$5.38	$4.30	24,578,434

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

Price Range and Trading Volume of Air Canada Class A Non-Voting Common Shares

1995	High	Low	Volume
2nd Quarter (from May 25)	$6.13	$4.80	12,708,487
3rd Quarter	$6.13	$4.25	14,780,490
4th Quarter	$4.80	$3.85	10,712,551

Price ranges and combined trading volumes on the Montréal and Toronto Stock Exchanges.

1995	High	Low	Volume
4th Quarter (from Nov 16)	$3.03*	$2.98*	294,500

*Price ranges quoted in U.S. dollars

Prices ranges and trading volumes on the NASDAQ Stock Market.

Air Canada complies with the guidelines adopted by the Toronto Stock Exchange. A report on governance matters is included in the February 22, 1996 Management Proxy Circular.

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