

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31

(Canadian dollars in millions except per share figures)

		2012	2011
Operating revenues			
Passenger	Note 20	\$ 10,737	\$ 10,208
Cargo	Note 20	488	481
Other		895	923
Total revenues		12,120	11,612
Operating expenses			
Aircraft fuel		3,561	3,375
Wages, salaries and benefits		2,109	1,991
Benefit plan amendments	Note 9	(124)	–
Capacity purchase agreements	Note 21	1,072	1,003
Airport and navigation fees		992	1,007
Depreciation, amortization and impairment		678	728
Aircraft maintenance		672	681
Sales and distribution costs		603	612
Aircraft rent		336	335
Food, beverages and supplies		291	278
Communications and information technology		188	193
Other		1,305	1,230
Total operating expenses		11,683	11,433
Operating income		437	179
Non-operating income (expense)			
Foreign exchange gain (loss)		106	(54)
Interest income		37	36
Interest expense		(304)	(320)
Interest capitalized		18	4
Net financing expense relating to employee benefits	Note 9	(16)	(16)
Loss on financial instruments recorded at fair value	Note 17	(20)	(63)
Loss on investments in Aveos	Note 19	(65)	–
Other		(6)	(16)
Total non-operating expense		(250)	(429)
Income (loss) before income taxes and discontinued operations		187	(250)
Income taxes	Note 12	(1)	1
Net income (loss) from continuing operations		\$ 186	\$ (249)
Net loss from discontinued operations – Aveos	Note 19	(55)	–
Net income (loss)		\$ 131	\$ (249)
Net income (loss) attributable to:			
Shareholders of Air Canada		127	(255)
Non-controlling interests		4	6
		\$ 131	\$ (249)
Net income (loss) per share attributable to shareholders of Air Canada			
Basic earnings (loss) per share from continuing operations	Note 15	\$ 0.66	\$ (0.92)
Diluted earnings (loss) per share from continuing operations		\$ 0.65	\$ (0.92)
Basic and diluted loss per share from discontinued operations		\$ (0.20)	\$ –
Diluted earnings (loss) per share		\$ 0.45	\$ (0.92)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the year ended December 31 (Canadian dollars in millions)		2012	2011
Comprehensive income (loss)			
Net income (loss)		\$ 131	\$ (249)
Other comprehensive income, net of taxes of nil:			
Net gain (loss) on employee benefit liabilities	Note 9	553	(2,394)
Total comprehensive income (loss)		\$ 684	\$ (2,643)
Comprehensive income (loss) attributable to:			
Shareholders of Air Canada		\$ 680	\$ (2,649)
Non-controlling interests		4	6
		\$ 684	\$ (2,643)
Comprehensive income (loss) attributable to shareholders of Air Canada from:			
Continuing operations		\$ 735	\$ (2,649)
Discontinued operations		(55)	–
		\$ 680	\$ (2,649)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Canadian dollars in millions)	Share capital	Contributed surplus	Deficit	Total shareholders' equity	Non-controlling interests	Total equity
January 1, 2011	\$ 846	\$ 54	\$ (2,334)	\$ (1,434)	\$ 146	\$ (1,288)
Net income (loss)	–	–	(255)	(255)	6	(249)
Net loss on employee benefit liabilities	–	–	(2,394)	(2,394)	–	(2,394)
Total comprehensive income (loss)	–	–	(2,649)	(2,649)	6	(2,643)
Share-based compensation	–	4	–	4	–	4
Shares purchased in trust for employee recognition award	(11)	–	–	(11)	–	(11)
Shares issued for employee recognition award	5	–	–	5	–	5
Distributions	–	–	–	–	(73)	(73)
December 31, 2011	\$ 840	\$ 58	\$ (4,983)	\$ (4,085)	\$ 79	\$ (4,006)
Net income	–	–	127	127	4	131
Net gain on employee benefit liabilities	–	–	553	553	–	553
Total comprehensive income	–	–	680	680	4	684
Share-based compensation	–	4	–	4	–	4
Expiration of warrants	(18)	–	18	–	–	–
Shares purchased and cancelled under issuer bid	(9)	–	4	(5)	–	(5)
Distributions	–	–	–	–	(19)	(19)
December 31, 2012	\$ 813	\$ 62	\$ (4,281)	\$ (3,406)	\$ 64	\$ (3,342)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended December 31

(Canadian dollars in millions)

	2012	2011
Cash flows from (used for)		
Operating		
Net income (loss)	\$ 131	\$ (249)
Adjustments to reconcile to net cash from operations		
Depreciation, amortization and impairment	678	728
Foreign exchange (gain) loss	(96)	72
Excess of employee benefit funding over expense	(197)	(153)
Benefit plan amendments	(124)	–
Fuel and other derivatives	Note 17 (36)	36
Loss on investments in Aveos	Note 19 65	–
Discontinued operations – Aveos	Note 19 29	–
Change in maintenance provisions	(2)	94
Changes in non-cash working capital balances	220	60
Provision for cargo investigations	Note 18 (8)	(29)
Other	(11)	17
Net cash flows from operating activities	649	576
Financing		
Proceeds from borrowings	Note 8 126	232
Reduction of long-term debt and finance lease obligations	(442)	(608)
Shares purchased for cancellation	(5)	–
Distributions related to aircraft special purpose leasing entities	(16)	(52)
Net cash flows used in financing activities	(337)	(428)
Investing		
Short-term investments	(22)	(139)
Additions to property, equipment and intangible assets	(462)	(220)
Proceeds from sale of assets	Note 4 & 17 50	6
Other	32	(37)
Net cash flows used in investing activities	(402)	(390)
Decrease in cash and cash equivalents	(90)	(242)
Cash and cash equivalents, beginning of year	848	1,090
Cash and cash equivalents, end of year	\$ 758	\$ 848

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